

the Freeman

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the Freeman

A MONTHLY JOURNAL OF IDEAS ON LIBERTY

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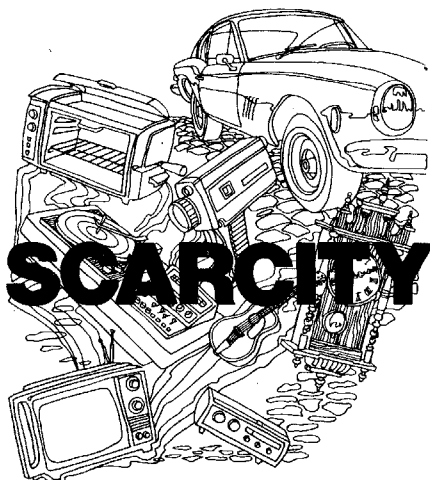
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OUR economics professor enters the classroom. Walking over to the lectern, he opens his notes, smiles at the students and utters a single word: "Scarcity."

No, it is not the name of a disco hit sung by the Bee Gees. No, it is not engraved on his childhood sled. No, it is not the secret word, so a duck will not descend and deliver one hundred dollars—as it used to do on Groucho Marx's TV program, "You Bet Your Life." Our professor simply calls attention to the core of his course.

Scarcity confronts people from Maine to Miami, from Connecticut to California. In fact, Canadians,

Cubans, Colombians, Czechoslovaks, Cambodians, and Chinese all share the same fate. Such different peoples may choose to deal with scarcity in different ways. But scarcity is a pervasive, universal problem that no one can duck. Just like air, scarcity is everywhere.

What is scarcity all about? "I'm glad you asked," our professor replies, "because I plan to tell you anyway." As he points out, scarcity comprises two integral and conflicting aspects—unlimited human wants and limited resources. "From those facts," he says, "we must conclude that happiness is elusive. We cannot satisfy all our desires. We all are always forced to choose. That's why we call economics 'dismal.'"

What should we choose? How

should we go about making choices? First we must understand the underlying essence of scarcity. Then the answers to those questions simply leap out at us.

Consider your own wants. What would appear on a list of all the things you'd really like to have? Probably food, clothes, books, travel; perhaps football, flowers, furniture, friends. But the list will go on and on, and if tomorrow or on another day you're told to make a list again, it very likely will be longer still.

Remember when you were a child—20, 30, 40 or more years ago—and someone asked about your Christmas wish? Probably you sought a doll or a watch, perhaps a new suit, a train, or a bike. Yet for many modern children, no single sleigh can convey all they say they seek. Now, only a plethora will please!

Recall reacting to your first big paycheck? Your income had suddenly risen—from a measly weekly allowance to several thousand dollars a year. You may have wondered, How will I ever spend it all? Yet by now—oh, how you wish you could earn more! George Stigler once wrote in reference to Thomas Malthus that "he did not deny categorically the insatiability of human wants, nor has any married economist since his time . . ."

Our list of wants is unlimited indeed—and always expanding. But

there's more to such lists than length. There's also variety. Each individual's wants are different.

Suppose you ask each member of a group for a list of wants. Compare their lists when they're done. There may be many common items—hamburgers, shirts, movie tickets, books. But each person's list will be unique. Some will want mayonnaise, button-downs, "Alien," and *Overload*. Others prefer ketchup, tee-shirts, "Hair," and *Zen and the Art of Motorcycle Maintenance*. Certain items may appear but once. Just like fingerprints and snowflakes, no two lists of human wants are ever apt to be alike.

Roger J. Williams on Individual Variations

The basis of this incredible diversity of wants was explored not long ago by Roger J. Williams, a chemist at the University of Texas. His article is reprinted in a book called *Essays on Individuality*; edited by Felix Morley, it was recently republished by the Liberty Press of Indianapolis.

Williams notes, for example, that in normal people the length of the small intestine may vary from 11 feet to almost 30 feet. Thyroid glands range from 9 to 50 grams in weight. Our bones and even our digestive juices are enormously varied. An orange may not always be sweet, and there is no such thing,

Williams maintains, as an "average" anatomy.

Shakespeare said it in *Hamlet*: "What a piece of work is a man! . . . how infinite in faculty!" He knew, too, that our human and material wants are both infinite and infinitely varied. We can admire the bard for both his rhymes and his ability to reason.

But our economics professor makes us pause. "In the face of all these diverse wants," he says again, "we are confronted with a sad, stark fact. We simply cannot do or have everything. Our workers, our land, our factories, and our equipment are insufficient. Our transportation and communication systems now span the globe, but still they are inadequate. Our days are too short and too few. Andrew Marvell laments, 'Had we but world enough, and time!' But we have not. So we must choose."

But *who* should choose? What is the most efficient way of deciding what is best? Should we let our choices be made primarily on an individual basis, in the "market," as we are inclined to do here? Or should we have instead a centralized coordinating committee of some sort to make our crucial choices?

Surely a committee could not comprehend the vast variety of human wants. It would inevitably ignore individual idiosyncrasies. Would it be better if we all ate and

dressed alike and if all our homes looked just the same? What if all our clothes were brown, if houses all were brick, and if the only vegetable allowed were broccoli?

Some people might like it that way, but they ignore certain crucial matters. For one, in those countries where centralized choice prevails—such as Russia and China—the general standards of living are much lower than ours. Opportunities are fewer. Environmental problems arise. Life is more apt to be drab.

The Results of Choice

Why does permitting more scope for individual choice produce better results? Reconsider our resources. Although they truly are limited, they too are varied. More importantly, like our wants they can expand!

Roger Williams also notes the range of human options. Muscular differences such as those in the thumb, he says, permit, promote, or prevent a wide range of activity from brain surgery to watch making to pocket picking. Someone with excellent potential for developing a great voice may end up singing grand opera—or yodeling! Talk about resource variety!

But also notice resource expansion. For one example, our farmers have become so productive that now one farmer in America feeds about 60 people. Only 4 per cent of our

population directly works at raising crops. It surely hasn't always been that way. In fact, in most parts of the world, it isn't that way even now. In many places, a majority of people work at farming, because one farmer feeds far fewer people. In some places, the Malthusian specter of starvation still stalks the land.

The Expansion of Resources

Wilfred Beckerman, an Oxford economist, offers a similarly dramatic example of resource expansion in his book, *Two Cheers for the Affluent Society*. Once upon a time, Beckerman says, aluminum articles were produced only for the very rich. Now we use aluminum to make common wrappers and throw-away articles. Aluminum has gone from treasure to trash.

"Or," says our own economics professor, "take natural gas. In 1955 our gas reserves were reported to be 22.5 trillion cubic feet. In the same year, we used up 9 trillion cubic feet. Simple arithmetic tells us that, at that rate, there won't be any left at all to heat our homes this winter. And yet, despite that frigid forecast, in 1976 we used 20 trillion cubic feet, and our remaining supplies were 216 trillion cubic feet. Where on earth did we get all that gas?"

Of course, no dinosaurs have died recently. The gas has been there all along. But gas as an economic resource is not only a physical but also

a mental matter. It is a function of man's mind. For example, we discover unknown supplies underground—such as in Alaska. We also develop new methods of extraction—such as by forcing steam into the ground. And we devise better methods of resource utilization—such as the new automobile engines which greatly improve gasoline mileage. "Knowledge," Erich Zimmerman once wrote, "is truly the mother of all other resources." It is in the fertile womb of his mind that man creates resources.

"Perhaps this may seem to be a bit out of line for an economist," our professor says, "but let me remind you of the first great act of Creation. It is reported to us in Genesis, and you surely recall the ultimate achievement of that act—the creation of man himself.

"What is the nature of man? We are given a clue by the writer of Genesis, who tells us God created man 'in his own image.' Of course, we are surely not the same as God; we have merely a 'likeness.' Man cannot create a whole universe. But just as God spun one with his great power and inordinate abilities, so too with this 'likeness' man can create and expand his resources. When he does, he can better satisfy his diverse and growing wants."

Jacob Bronowski approaches the same matter from a different but equally striking perspective in *The*

Ascent of Man. Like nature herself, Bronowski says, "Man has become an architect of his environment . . . His method has been selective and probing: an intellectual approach in which action depends on understanding." The wonder and magnificence of man's creative abilities can thus emerge from the views of theology and science as well as economics.

The Market Mechanism

What, then, is the social mechanism most conducive to the development of man's abilities and resources? Certainly an open and free market has much to recommend it. After all, no government guidance was needed when timber ran out in the late Middle Ages and man switched to coal for power. Similarly, when we pursued the prospects of petroleum a century ago as whale oil became increasingly scarce, no representative of a Department of Energy hovered over Edwin Drake at Titusville.

"Far too much of what our government does," the economics professor says, "is simply restrictive. Too often governmental policies discourage competition, hamper change, fix prices, limit imports, require licenses, stipulate procedures, and reduce options. The minds and motives of men are too often cramped, encumbered, and confined. Look at what has happened as a

result: our rate of economic growth is now so slow we envy the snail."

We should remember, our economist might well add, that man can not only create; he can also deploy. Given the resource capabilities man now has, he must decide how best to utilize them. But no single man can perceive all the available options. Though admirably well-intentioned, in his limited individual knowledge, he's bound at times to err.

Our former Energy Secretary, James Schlesinger, clearly demonstrates that fact. By all accounts the man is well-educated, highly informed, and hard-working. Yet, while Energy Secretary, he prevented oil companies from buying oil on the spot market. Then he required them to devote more refinery capacity to assuring adequate fuel supplies for the winter several months away.

Left alone, what would the giant petroleum companies have done? For them, the secret word is profit. For us, the tragedy is that they have not been allowed to pursue it. For some of these giants, there would have been ample incentive to provide more winter fuel. But others might have seen better prospect for profit in producing motor fuel. With the decision makers both numerous and dispersed, last summer's gas pains would surely have been less severe.

The problems inherent in government guidance emerge even more starkly in the government efforts to distribute diesel fuel. At first, farmers were given priority. That seems to be a sensible decision, since food is essential for all, regardless of race, creed, sex, or financial status. Without adequate fuel for farmers, what would we eat?

Yet, Meg Cox reported in the *Wall Street Journal* for May 25, 1979, a remarkable but largely unremarked development in farming. Some farmers now simply skip plowing and plant "right on top of the previous year's crop." There are some difficulties involved in this technique, but those farmers who can manage it require only about one gallon of fuel per acre—instead of the 5 to 7 gallons needed for ordinary tillage. That's a fuel saving of at least 80 per cent!

Quite obviously, then, the demand for fuel by at least some farmers *can* respond to rising prices and limited availability. Given such an incentive, some farmers surely would have gotten by with less. What then? More diesel fuel would have been available for truckers. Its price would not have been so high. The truckers' strike might not have occurred. We might have been spared the terror of snipers aiming at our highways. And the food that farmers grew might not have been left to decay in the fields. We paid a high

price, indeed, for permitting economic decisions to become more centralized.

Competing to Serve

Allowing for free and open competition seems to be both a surer and a safer way to satisfy the diverse wants of man. In fact, many of our farmers' crops were saved—because the railroads came to their rescue. In the nick of time, removal of regulations by the Interstate Commerce Commission allowed trains to transport produce across the land on the "Salad Bowl Express." Here is a striking testimony to the marvels of the free market.

Man's capacity to consume may be infinite. Given time, his capabilities to produce may be similarly boundless. But the knowledge of one man has limits. It was the presumption that he knew everything—eating the fruit of the tree of knowledge—that deprived man of the bounty of Eden. Even now, our arrogant belief that all knowledge and wisdom can reside in a single individual—or in a handful of government officials—is denying us the bounty we might well create.

"What should we do?" our economics professor asks. "First of all, let's recognize the enormous range and diversity of our individual wants. Then recall the tremendous innovative achievements of the people in our past—our Franklins, our Edi-

sons, our Wright brothers, our Bordens, our Swifts, our Sears, our Woolworths, and our Walgreens. Then restore and renew the system that evoked their efforts so that once again we might emulate their achievements.

"If we are determined to approach the energy crisis and the other problems of scarcity in the most creative and constructive way, then we will cut back the constraints imposed by government. We will grant people

the power to pursue their own preferences. We will allow an open system of free markets. If we will only do that, then scarcity will be less oppressive, our horizons will expand with a multitude of new opportunities, and our future will be much brighter."

And saying that, our professor again smiles warmly at the class, picks up his scattered notes, and walks slowly out through the open door. 

Jayne B. Ball

WHY NO BEEF LINES?

OVERALL supplies of gasoline have been about 5%-7% below year-ago levels on a monthly basis. Beef supplies on the other hand, have been running approximately 15% below a year ago. So why are there no beef lines?

Jayne Ball is vice president and director of research at the New York Mercantile Exchange where petroleum product futures are traded.

This article is reprinted by permission from the September 1979 issue of *Commodities* magazine, Cedar Falls, Iowa.

The answer is simple:

1. Beef prices are not controlled by the government and were able to rise to a level which effectively reduced demand for beef to balance with the smaller supply.

2. The government does not allocate supplies of beef so members of the trade in the many states and localities individually were able to secure supplies by raising their bids when necessary to draw beef to even

the most inaccessible corner of America.

Higher prices contributed to reduce beef consumption. Some people could not afford beef cuts, while others judged that eating beef was not worth the extra cost relative to alternative meats and poultry. But for those willing to pay the price, beef was and is available. In fact, the only times that beef is difficult to obtain is when supermarkets feature it as a sale item, drawing customers to pick up bargains.

There is a joke about a woman complaining to a grocer that he charges 10 cents more for his bananas than a competitor down the street.

"So why don't you buy your bananas there?" asks the grocer.

"He doesn't have any," answers the woman.

To which the grocer replies, "When I don't have any, I'll sell them for 10 cents less than he will."

The point of this rather unfunny story is that a low price is meaningless if you can't get the goods.

Of course, beef is only one kind of meat and some will argue that alternatives to petroleum are neither so varied nor so quickly generated as extra broilers or hogs. But that is just a time factor and not a contradiction to the law of supply and demand.

It's a very elementary fact that

low prices stimulate consumption and high prices encourage conservation. This is true for every commodity, both essential and luxury items.

Very few Americans are in the envious position of not having to ask the price of goods or services before making a purchase. Most of us have to budget our money to obtain necessities of life and to, hopefully, have something left for luxuries. As a result of higher gas prices, lower income families may not be able to buy as much, but those that must have gas will budget their resources to get it. If prices rise to a point that makes it difficult for the shopper to justify an extra trip to the supermarket to buy one or two items forgotten, the trip won't be made.

Carpooling will increase substantially for business, shopping and pleasure. Use of mass transportation, where available, will also be greater. In short, conservation would be promoted without coercive government measures, such as odd/even gas sales, rationing or other equally ineffective actions.

No Instant Solutions

Decontrol of oil prices and the abolition of the government allocation system will obviously not bring an overnight increase in available supplies of petroleum. There is considerable lead time necessary to find and develop new sources of energy.

The near-term benefits of allow-

ing prices to rise to levels which reflect the balance of supply and demand are the end of gas lines, the voluntary cutbacks in consumption for non-essential purposes and the assurance that gasoline will be available for those who must have it, albeit at a higher price.

Long-term, decontrol will enhance investment in energy. Downside risks in this industry are great and limits on prices or profits can only discourage the inflow of capital into this vital area.

The answer to our energy problems may not be oil. The profit motive has been responsible for discovery of many new sources and the better application of known resources. Some presently known sources of energy could become economically feasible in a free market, and competition would likely

result in improved and cheaper means of refining.

Higher prices for beef increased cattle ranchers' profits. As a result, ranchers are once again building herds, and the outlook for supplies for 1980 is improving.

Likewise, the potential for profit can draw capital into the quest to produce more energy in America. But whether the source is oil or some alternative, the answer to our energy problem does not lie in increased government involvement nor in confiscatory taxation of oil companies.

Just as the market adjusts to changing supplies of beef—higher prices in times of scarcity and lower prices in periods of heavier production—so, too, can the free market assure the orderly distribution of energy supplies. 

Efficient and Voluntary

THE price system has two outstanding features. First, it is by all odds the most efficient system of social organization ever conceived. It makes it possible for huge multitudes to cooperate effectively, multitudes who may hardly know of each other's existence, or whose personal attitudes toward one another may be indifference or hostility. Second, it affords a maximum of individual freedom and a minimum of coercion. And since people can cooperate effectively in production even when their attitudes on other issues are hostile, there is no need for unity and conformity in religion, politics, recreation, and language—or even in patriotism and good will except in the very broadest sense.

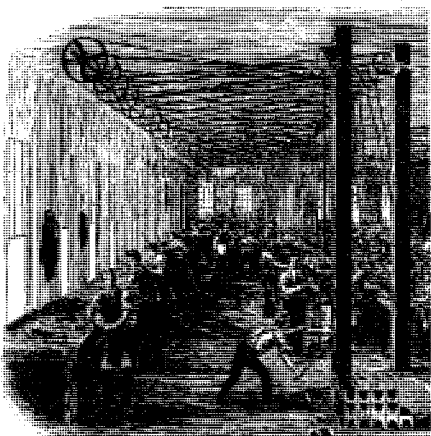
IDEAS ON



LIBERTY

Clarence B. Carson

The Origins of American Unions



It is widely believed that labor unions are organized to counter the weight of and contest with employers. In the common parlance, the contestants are unions and management or, according to the older ideological formulation, "labor and capital." Most textbooks which deal with the subject simply assume that this is the nature of the contest and do not regard it as a question worthy of exploration. For example, one history text accounts for the rise of labor unions this way:

Individual workers were powerless to battle singlehandedly against giant industry. Forced to organize and fight for

basic rights, they found the dice heavily loaded against them. The corporation could dispense with the individual worker much more easily than the worker could dispense with the corporation. The employer could pool vast wealth through thousands of stockholders. . . . He could import strike-breakers ("scabs") and employ thugs to beat up labor organizers. . . .¹

Another history textbook puts it this way: "As the factory became the only important producing unit, the individuals connected with it were demeaned. An employee could no longer hope to have his grievances heard, for he could not compete with the power of capital and management."² That this is the nature of the conflict is simply affirmed by this statement in yet another history book: "Repeated efforts by trade union lawyers to persuade judges that trade societies had a legal right to carry on collective action against

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. It is scheduled for release by early January 1980, and also may be ordered from The Foundation for Economic Education, Irvington-on-Hudson, N.Y. 10533 at \$14.95.

employers were finally rewarded in 1842. . . ."³ Another says, "Organized labor passed through phases of bewildering complexity before it won the power to meet organized capital on equal terms."⁴ In short, so far as the present writer's investigation goes, there seems to be near unanimity in the view that labor unions exist for and engage in contests with management or capital.

Undoubtedly, some portion of the contest or conflict is between unions and management. They are the formally designated contenders. The rhetoric of union leaders is frequently filled with charges against management, and employers have often been at the forefront in contending with unions. If an agreement is reached, it is usually between unions and management. (Unions have often contended with one another also, but agreements do not so commonly arise from these.) Moreover, there is at least one economic basis for the contest to be between unions and management. In their pursuit of self-interest, employers will ordinarily seek to employ the most effective workers

for the lowest price (or wage) they can attain. And, on the other hand, workers may be expected to seek the highest price possible for the least amount of their work.

Cooperation with Employers

Even so, the basic conflict of labor unions is not with management (or employers or capital, or whatever it should be called). Belief to the contrary is based on appearances buttressed by propaganda drawn from ideology, a point to be taken up elsewhere. Furthermore, permanent labor union organizations could not have arisen from or been sustained by contentions between employers and employees. The underlying reason for this is that the employers and employees are not competitors. Their basic relationship to one another is one of mutual benefit and cooperation. The employer provides the job, and the employee does the work. To accomplish their common purpose, they must work together, so to speak. An enduring contention which could sustain an organization is practically out of the question.

Of course, employers and employees do sometimes contend. Employees have grievances, and employers have dissatisfactions. On rare occasions, employee grievances may be so general that they will walk out. There have been a goodly number of instances of this throughout American history, usually provoked by the

There seems to be near unanimity in the view that labor unions exist for and engage in contests with management or capital.

attempt of the employer to lower wages. But this is not the stuff of permanent labor union organization. (Indeed, nowadays such a walkout, if it were to occur among unionized employees, would be called a "wildcat strike," i. e., an improper and unsanctioned union activity.) Such a walkout could only fail in its object or succeed; in either case, the occasion for collective action would be past, and no permanent organization would be called for. Grievances are usually limited in scope and rarely arouse collective action. True, labor unions may establish procedures for dealing with grievances, but that is an auxiliary service, not the basis of their permanence.

Excluding the Competition

What, then, is the basis of the permanent labor union organization? It is this, that the union can and will obtain for its members a larger return for their efforts, when employed, than they could obtain on the open market. There is but one way this could be accomplished on anything like a permanent basis: *By reducing the supply of labor available in a craft, profession, or industry.* There are many artifices, of course, by which this can be done.

This should tell us, too, who labor is organized against, who the basic and underlying contest is with. And it does. Organized labor unions are

organized to exclude from a craft, profession, or industry all competing workmen who are unorganized or not under the discipline of that particular union. The enduring contest on which permanent labor unions subsist is not unions versus management but union worker versus non-union workers or those who are competitors belonging to a different union.

The union contest with management is sporadic, temporary, and, even when it is in progress, usually secondary. The enduring contest is with workers not members of the dominant or struggling union. Such union contest with management as there is has as its primary aim the formation of an alliance. The purpose of the alliance is to align management with the union in its reduction of the supply of labor available to employers. The seal of the alliance is the agreement or pact between union and management, or, since management or "capital" is inessential to labor unions, a pact binding those who perform the labor for whatever employer constitutes the seal.

Reexamining the Premises

Each of these propositions runs contrary to what is widely believed about labor unions. Since they do, it may be helpful to restate them serially. When that has been done, we can proceed to the reason and evi-

dence on which they are based. These are the propositions:

1. The premise of the labor union is that it can and will obtain a larger return for its members than they would receive in the open market.

2. The means of accomplishing this on anything like a permanent basis is by reducing the supply of labor available in a craft, profession, or industry.

3. The union acts to reduce the supply of labor by excluding non-members from a craft, profession, or industry.

4. When there is an agreement between union and management, it consists mainly of an alliance by which management undertakes to enforce the union terms.

The price of labor in the market is determined by supply and demand. "Labor is not a commodity," according to a formulation which became a part of the Clayton Antitrust Act, and therefore its price ought not to be determined in the manner of commodities. But that is a semantic irrelevance, for whether labor is a commodity or not, it is offered for sale in the market, either in goods or services or directly to employers. The argument amounts to this, that the price of labor ought not to be determined in the market. That amounts to the position, however, that labor ought not to be offered for sale in the market.

How, then, is labor to be obtained? There are only two possibilities, though there are some variations as to extent. Labor must either be freely offered (and accepted) or it must be compelled. There is no evidence, to my knowledge, that labor unions are animated by the desire to have workers compelled to work, although some labor union leaders have been attracted by totalitarian systems. Their animus runs in the opposite direction, to have less work rather than more performed, less than would be freely done.

The enduring contest on which permanent labor unions subsist is not unions versus management but union worker versus non-union workers or competitors belonging to a different union.

Labor unions, then, still rely on labor being offered for sale and bought in the market. It follows, then, that the price must still be determined largely by supply and demand. (There may be elements of extortion involved in union activity, but the means of satisfying human wants are too numerous and varied for outright extortion to succeed for long in any other than a totalitarian system.) The thrust of labor unions, then, is to reduce the supply of labor available in order to raise the price

for their members. The thrust is to exclude from availability competing workers.

Discrimination

On rare occasions, union men have stated candidly the nature of their undertaking. For example, when Local 35 of the International Brotherhood of Electrical Workers was hailed before the Connecticut Civil Rights Commission to answer charges that it discriminated against blacks, it attempted to avoid the charge in this way. "Local 35 argued that it had not violated the law because it discriminated against all races!"⁵ Young John L. Lewis put the matter forthrightly when he spoke to a conference of union men and coal operators in the Midwest in 1901. He was explaining why they were conferring with one another:

As I understand it, it is for the purpose of wiping out competition between us miners first, viewing it from our side of the question; next for the purpose of wiping out competition as between the operators in these four states. When we have succeeded in that and we have perfected an organization on both sides of the question, then as I understand the real purpose of this movement, it is that we will jointly declare war upon every man outside of this competitive field. . . .⁶

That is the best statement, too, the present writer has ever encountered of the idea of an alliance between unions and management.

Sometimes there is a confronta-

tion between workers which reveals clearly the animus behind unionism. One such took place between Irishmen wanting work on the Chesapeake and Ohio Canal which was under construction in the 1830s. Workers from County Cork organized into a secret society which attempted to keep workers from Longford from working. Pitched battles ensued, and President Andrew Jackson eventually sent in troops to restore order. The ultimate object of the contending parties, according to an engineer who was present, was "to expel from the canal all except those that belong to the strongest party and thus secure for the remainder higher wages." According to an historian, "Laborers from Cork . . . sought to keep interloping Irishmen from competing with them for jobs on the canal."⁷

Why Force Is Used

It should be emphasized, however, that violence is not essential to unionism. It is sporadic and temporary, like the contentions between union and management. What is essential to unionism is the limitation on the supply of labor available and some means to induce employers not to avail themselves of the general supply. Some sort of coercion or intimidation is necessary to the union enterprise, however, for two reasons. In the first place, some means must be available to keep jobs from

those who would seek the higher paying union jobs. And, secondly, some means must be used to get employers to accede to acting against their best interest, i. e., to pay more than they would otherwise have to do to get workers. Both experience and reason teach that these conditions are unlikely to prevail without coercion or intimidation.

Be that as it may, the American labor union originated as a means of excluding competing workers from jobs. A brief history of the beginnings will show that.

The thrust of labor unions is to reduce the supply of labor available in order to raise the price for their members . . . to exclude competing workers.

The notion that labor unions involve primarily a conflict between themselves and management—a contest between employer and employee—introduces confusion from the outset in recounting the history of American labor unions. One history gives this account of what happened at Boston around 1760:

The masters themselves sometimes joined forces to protect their interests. . . . Thirty-two master barbers "assembled at the Golden Ball, with a Trumpeter attending them," and jointly agreed to raise their rates for shaving from 8s. to 10s. per quarter, and "to advance 5s. on

the Price of making common Wiggs and 10s. on their Tye ones." It was also proposed that "no one of their Faculty should shave or dress Wiggs on Sunday morning. . . ."⁸

The writer implies by the phrase, "the masters themselves," that this did not quite qualify as union behavior. On the contrary, it was the quintessence of union behavior. A labor union is an organization of those who perform the work in a trade, profession, or industry to gain a monopoly of such employment in order to establish conditions under which they will work. Whether they work for hire for one employer or serve the general public is irrelevant. There have been, and are, unions throughout the history of them made up largely of self-employed persons—such as barbers, plumbers, electricians, and so forth—who serve the general public. They function, as do all unions, to increase the rewards of their members by reducing the number who may so serve. (They may do so by intimidating non-members, by getting exacting qualifications passed into law, by charging high membership fees, or whatever.)

Unions were of little importance in the United States until well into the nineteenth century. Only in the 1830s did union membership constitute a significant portion of the population. For one thing, most Americans were farmers, and there

the situation did not lend itself to unionization. For another, the courts were indisposed to tolerate disruptive tactics which they often described as the product of conspiracy.

Craftsmen Against Unskilled

There were, however, some efforts at organization, and it is important to understand what was involved. At the time of the founding of the United States, most manufacturing done for the public was done by skilled tradesmen. There were shoemakers, cordwainers, ironworkers, sailmakers, hatters, and such like. There were generally three ranks of such tradesmen: apprentices, journeymen, and masters. Apprentices had to and journeymen usually did work for a master craftsman. Masters sometimes formed trade associations, as already noted, and journeymen sometimes organized to effect conditions of employment. These relationships were traditional, however, and did not lend themselves much to what we think of as union activity.

It was the break-up of this mode of manufacturing by the use of machinery and the accompanying specialization that led to many attempts at organization. If I may generalize so broadly, what happened was that craftsmen organized in an effort to prevent the more specialized—and less skilled—

workers from being employed. To put the matter somewhat grossly, it was the skilled craftsmen against the industrial workers. One historian has described these early conflicts this way:

The biggest problem faced by skilled laborers was the competition they met from inferior workmen . . . whom employers hired in order to reduce their costs. The locals [organizations of skilled workmen], accordingly, sought to create strict rules concerning the number of apprentices to be employed in a shop and to establish a minimum wage; adoption of such a wage would force the employer to pay the same rates for both good and bad workmanship and, it was hoped, would eliminate the poor worker.⁹

Class Warfare

An account by another historian shows also that these unions were organized against other workers:

. . . The attempts on the part of employers to lower standards by hiring untrained workers—foreigners and boys, eventually women—also led to vigorous efforts to enforce what today would be called a closed shop. The New York Typographical Society complained bitterly that the superabundance of learners, runaway apprentices and half-way journeymen undermine the wage rates of "full-fledged workers. . . ." There were many turnouts in this and later periods against employers who tried to take on artisans or mechanics who were not union members in good standing. . . .¹⁰

In the course of the nineteenth

century, workers other than craftsmen were sometimes organized. That did not change the fact, however, that they were most directly organized against other workers. Workers against whom they were organized were frequently classified, and it is not unfair to assert that union people thought of them as classes. The broadest and most basic category of workers against whom unions were organized were categorized as "scabs"—those who would take a union man's job if he vacated it by walking out or going on strike. The first category in point of time was that of unskilled or lesser skilled workers, as already pointed out. Women were another class against which they were organized. One historian points out that the "natural tendency was to regard women solely as competition; accordingly, men alternately deplored, condemned, and bitterly opposed their use by employers."¹¹ Negroes constituted another class who encountered opposition. Unions were much less than enthusiastic about the abolition of slavery,¹² and once they were freed "violent clashes between white and Negro laborers became frequent in the northern industrial centers."¹³

Opposition to Immigrants

But the one class that excited the most determined opposition was immigrants. And, among immi-

grants, Orientals, particularly the Chinese, were the ones most opposed.¹⁴ The union ire was focused at first on contract labor brought in from abroad. The nature of the union effort is illustrated by the following story. North Adams, Massachusetts had several prosperous shoe factories after the Civil War. Machines were introduced which greatly increased the number of shoes a workman could produce and reduced the skill required in doing it. The Knights of St. Crispin succeeded in organizing many of the craftsmen who were fearful of losing their jobs or having their pay reduced by bringing in less skilled workers. One employer hired an inexperienced workman, and the other workers went on strike. He sent to the West Coast and contracted for and brought in 75 Chinese to run his factory.¹⁵ The unions were able to mount such strenuous opposition that the contract labor law was repealed and a Chinese Exclusion Act was passed. At about the same time, immigrants began to come, in ever increasing numbers, from southern

In opposing unskilled workers, women, Negroes, Chinese, and Europeans they were trying to exclude competing workers so as to get higher rewards for themselves.

and eastern Europe. This aroused fervor for more and broader immigration restriction. An historian described the impetus behind it this way: "While middle-class critics of laissez-faire lent dignity, organized labor put pressure behind it. Indeed, the first concentrated attack on the new immigrants came from labor leaders."¹⁶

My point is *not* that union members were guilty of craft status, gender, racial, or ethnic prejudices. They may or may not have been, but that is incidental. My point is rather that in opposing unskilled workers, women, Negroes, Chinese, and Europeans they were doing what they are organized to do. Namely, they were trying to exclude competing workers from their undertaking so as to get higher rewards for themselves.

The most dramatic evidence of this occurs when unions resort to overt intimidation and violence. Most of this is visited upon other workers, though the fact is too seldom remarked, or is discussed as if it derived from some norm of human behavior. There have been instances, of course, when supervisory personnel, managers, and owners have been physically assaulted. One organization—the Molly Maguires—even concentrated on mayhem against foremen and managers.¹⁷ But it was exceptional and short lived. Moreover, the general

practice is that in labor disputes owners, managers, and supervisory personnel can go about their affairs unharmed. If the general public are the employers (in the case of plumbers, and such like) they are rarely molested in labor disputes.

Attacking Competing Workers

It is quite otherwise with competing workmen. The whole wrath—at least on the physical side—is usually focused on them. This has been so from the early days to the present. In the early nineteenth century, shoemakers walked out in Philadelphia. Six journeymen stayed on the job. "The strikers kept up a sharp eye for them and when they briefly emerged one Sunday night to visit a near-by tavern, beat them up severely." Moreover, there "was deep resentment against non-union workers who would take the place of strikers and attacks were not unusual upon persons already being called 'scabs.'"¹⁸

In 1880, when the Leadville Miner's Union struck in Leadville, Colorado, some of the mines tried to stay in operation. These events transpired:

The managers employed every available man who could handle pick or shovel, hold a drill or swing a sledge. The strikers used every means at their command to keep men from going to work and to pull out those who were at work. . . . Every day, and sometimes twice each day, a "Committee," composed of several

hundred strikers, made the rounds of the mines that were working. . . . Fists, clubs, and sometimes pistols, were used, but without fatal results.¹⁹

Violence at the Herrin Mines

Indeed, for something near to warfare to occur between contending groups of workers, when some workmen persist in working during a strike is not that unusual.²⁰ Perhaps the most horrendous example in American history occurred at Herrin, Illinois in 1922. A national coal strike had been called by the United Mine Workers. The Southern Illinois Coal Company decided to operate a strip mine near Herrin. The steam shovel operators they employed were members of a union, but their union had been suspended by the American Federation of Labor. John L. Lewis sent out a notice that theirs was an "outlaw organization" and that the operators should be treated the same as any other "strikebreakers."

Striking union men armed themselves and surrounded the strip mine. Shooting broke out, and three of the strikers were killed. Finally, a parley was held across the lines, and the workers were offered safe passage if they would throw down their arms and surrender. This they did. They were then lined up and marched toward Herrin under armed guard. The leader who had promised safety to those who would

surrender was deposed and another took his place. What then occurred may best be related in the words of the grand jury:

The surrendered men were then marched some 200 yards . . . to the vicinity of a barbed wire fence, where they were told they would be given a chance to run for their lives under fire.

The firing began immediately, and thirteen of the forty-five were killed and most of the others were severely wounded.

The mob pursued those who had escaped and two were hung to trees, six were tied together with a rope about their necks and marched through the streets of Herrin to an adjacent cemetery, where they were shot by the mob and the throats of three were cut. One of the six survived.²¹

It is only fair to note that the superintendent of the mine was also killed. He had been with the workers at the mine and had been instrumental in the surrender. He was crippled and could not keep up with the marchers. When he fell out, he was shot to death.

Even so, most of the violence and direct intimidation in strikes falls upon those who attempt to continue working or accept employment at a struck plant. Nor is this intimidation of workers simply a tactic for getting at employers. It is that, of course, but it is more. It is of a piece with virtually the whole of the union effort, which is to limit the supply of labor. When there is an

attempt to operate a struck plant this attempt to reduce the labor supply takes on flesh and blood and force is often directly applied. At other times, the impact of unions on other workers has to be established by analysis, since it expresses itself in unemployment, employment at low wages, higher prices, decline in production, and underemployment.

Employers have often resisted unionization. Over two centuries, virtually every conceivable device has been used to discourage unions. Above all, most employers resisted the kind of recognition of the union which makes it the bargaining agent for all employees. But once an employer recognized a union, what was in his interest then changed in a significant way. He enters into an alliance with the union, however reluctantly, and the expansion of the union to include his competitors becomes his interest as well as that of the union.

The union aim generally is to organize all competing workmen in a trade, profession, or industry. If only

"As I understand the real purpose of this movement, it is that we will jointly declare war upon every man outside of this competitive field."

some such workers are organized, their effort will likely come to naught, for the employer whose workers are organized will probably be driven out of business, or tradesmen will lose their clientele to others. It should be noted, however, that the employer's interest even in this respect diverges somewhat from that of the union he has recognized. Whether his competitors unionize or not is no particular concern of his. His main concern is that non-union competitors be removed from the field so that their products not compete with his. In so far as this is accomplished with the proclaimed goal of unionization, the aims of the union and the unionized employer may become as one.

The Boycott

The most direct device for eliminating non-union competitors is the boycott. Sometimes boycotts have been carried out by open agreements between unionized employers and unions. A flamboyant case of a combination between building contractors and union to keep out competition occurred in New York City in the 1930s. In fact, local

Once an employer recognizes—enters into an alliance with the union—the expansion of the union to include his competitors becomes his interest as well as that of the union.

manufacturers of equipment were also in on it.

. . . One of the three parties to this combination, Local 3 of the International Brotherhood of Electrical Workers, was interested in broadening the work opportunities of its members, who were employed by the local contractors and the local manufacturers. The local manufacturers were interested in monopolizing the metropolitan market for their products. . . . The local union contractors were interested in having more equipment built on the job . . . and also in the protection afforded them as dealers by the union agreement to handle only manufactured products that were purchased by the contractor.²²

Suit was eventually brought against this combination under the anti-trust acts. When the case was appealed to the Supreme Court that body affirmed that it was in violation of the anti-trust acts, but only because unions had acted in conjunction with business.²³ In the 1940s, when William L. Hutcheson, longtime head of the United Brotherhood of Carpenters and Joiners of America, was brought to court by the government for repeated boycotts in jurisdictional disputes with other unions, the suit failed. The Supreme Court held that he was not culpable because only unions were involved.²⁴

In any case boycotts have usually been conducted by unions without overt aid from employers. The Knights of Labor had employed the

boycott extensively in the latter part of the nineteenth century.²⁵ But the most aggressive use of the boycott was by the American Federation of Labor in the 1920s, 1930s and 1940s. They used it, of course, in jurisdictional disputes with other unions, but also extensively to try to exclude non-union made products from commerce. No unions were more effective in this than the Longshoremen's, for they operated at pivotal points for blocking the transport of goods. One such boycott was undertaken in San Francisco in 1916. Here is a brief account of it:

In total disregard of federal laws the union boldly proposed to interfere with the shipping of commodities which were classed as nonunion or unfair, in order to fasten closed-shop conditions not only upon the port of San Francisco but upon the entire Pacific Coast. Sugar landed on the docks was refused unloading because somewhere on its journey it had been handled by nonunion men. A shipment of shingles was embargoed because the shingles had been made in an open shop. . . .²⁶

And so it went.

Conclusion

Masses of evidence could be compiled to support the conclusion that labor unions are organized, basically, against other workers. The evidence that they engage in open conflict mainly with other workers can hardly be disputed. Reason clearly supports the conclusion that unions

can only succeed in getting higher rewards for their members by reducing the available supply of labor. That when a union is recognized by a company an alliance has been formed is largely an inference, albeit a logical one. Of course, unions have done many things which do not fit closely into this pattern, but when the matter is surveyed broadly the conclusion emerges that unions are organized against other workers primarily.

It is greatly to be doubted that labor unions would have gained much of a following had they flown those colors. In any case, they did not. In fact, unions made little headway for most of the nineteenth century. It was only after they had adopted an ideology which helped to conceal what they were about that they began to gain anything like widespread adherence. ☉

—FOOTNOTES—

¹Thomas A. Bailey and David M. Kennedy, *The American Pageant* (Lexington, Mass.: D. C. Heath, 1979), p. 501.

²Charles S. Miller and Natalie Joy Ward, *History of America* (New York: John Wylie and Sons, 1971), p. 432.

³Henry W. Bragdon and Samuel P. McCutchen, *History of a Free People* (New York: Macmillan, 1978), p. 289.

⁴Samuel E. Morison, *The Oxford History of the American People* (New York: Oxford University Press, 1965), p. 768.

⁵Ray Marshall, *The Negro Worker* (New York: Random House, 1967), p. 75.

⁶Walter G. Merritt, *Destination Unknown* (New York: Prentice-Hall, 1951), p. 151.

⁷Richard B. Morris, "Andrew Jackson, Strikebreaker," *American Historical Review*, vol. 55, p. 55.

⁸Foster R. Dulles, *Labor in America* (New York: Thomas Y. Crowell, 1960, 2nd rev. ed.), p. 21.

⁹Joseph G. Rayback, *A History of American Labor* (New York: Macmillan, 1959), p. 55.

¹⁰Dulles, *op. cit.*, p. 27.

¹¹Rayback, *op. cit.*, p. 121.

¹²See *ibid.*, p. 100.

¹³*Ibid.*, p. 122.

¹⁴See, for example, Joseph R. Buchanan, *The Story of a Labor Agitator* (Freeport, N.Y.: Books for Libraries Press, 1971), p. 66.

¹⁵Frederick Rudolph, "Chinamen in Yankeeedom: Anti-Unionism in Massachusetts in 1870," *American Historical Review*, vol. 53, pp. 1-29.

¹⁶John Higham, "Origins of Immigration Restriction, 1882-1897: A Social Analysis," *Mississippi Valley Historical Review*, vol. 39, p. 81.

¹⁷See James F. Rhodes, "The Molly Maguires in the Anthracite Region of Pennsylvania," *American Historical Review*, vol. 15, pp. 547-61.

¹⁸Dulles, *op. cit.*, p. 28.

¹⁹Buchanan, *op. cit.*, p. 14.

²⁰For recent examples, see Sylvester Petro, *The Kohler Strike* (Chicago: Henry Regnery, 1961), p. 45 *et. passim*; *The Kingsport Strike* (New Rochelle, N.Y.: Arlington House, 1967), pp. 154-57.

²¹Merritt, *op. cit.*, p. 154.

²²*Ibid.*, p. 103.

²³*Ibid.*, p. 109.

²⁴Maxwell C. Raddock, *Portrait of an American Labor Leader: William L. Hutcherson* (New York: American Institute of Social Science, 1955), p. 249.

²⁵See Norman J. Ware, *The Labor Movement in the United States* (Gloucester, Mass.: Peter Smith, 1959), pp. 334-45.

²⁶Merritt, *op. cit.*, p. 160.

How to Live Well

WE HEAR and read so much about money that it is a good thing occasionally to put things back in perspective. In the final analysis, money is a *means*, not an end in itself. Money is a medium of exchange. What we really need and want are the things for which we can exchange money—the goods and services that we must obtain from other people.

In order to get those goods and services, we must produce some goods or services ourselves because ultimately, people exchange goods and services for goods and services.

To be sure, some people are not required to produce but are supported by the rest of us. For example, small children, some of the elderly, and the helpless members of society live by our productivity. But somebody must produce, in order to support such people. We don't eat or wear money; we eat food and wear clothing, and those things must be produced.

Through the years people here and in certain other countries have been able to live better because of improving productivity. In 1770, we are told, a laborer had to work five days to buy a bushel of wheat, but his grandson could get a bushel for two and a half days' wages in 1870. And in 1970, the typical American worker could purchase two or three bushels of wheat with one *hour's* pay.

A few years ago the president of an insurance company at Rock Island, Illinois, made a telling point. He said that some people are "beginning to conclude that our present standards of living, production and accomplishment have been reached as a result of . . . Social Security, unemployment insurance, public housing, price controls, poverty and welfare programs, farm price supports, and aid programs to this and that. . . . One is reminded of the rooster who noticed that every morning when he crowed the sun arose in the east. Before long he concluded that the sun arose because he crowed."

No, it is not government programs that improve human well-being; nor is it money. Rather, it is human effort, intelligence, and productivity. What is needed is more of these elements if people are to live well. 

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 August 1, 1979 as a volunteer commentator, radio WSOY, Decatur, Illinois.

Henry Hazlitt

The Sphere of Government



Nineteenth Century Theories:

1. John Stuart Mill

I remarked in "The Case for the Minimal State" (*The Freeman*, November 1979) that we might get some help in dealing with the central problems of government power by examining the answers offered over the years by the great political thinkers. But I suggested it might be more interesting to do this rather in the reverse of their chronological order, and begin with the latest answers first. We accordingly began with the recent book by Robert Nozick, *Anarchy, State, and Utopia*. I should like now to turn to some of the answers offered in the nineteenth century.

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*.

To try to present the whole of nineteenth century thought on this subject would in itself require at least a full-length book and probably a repetitious one. So I shall confine myself to the answers offered by three or four outstanding writers who seem to me to offer representative approaches—John Stuart Mill, Herbert Spencer, Thomas Huxley, and Auberon Herbert.

Mill's main discussion of the problem occurs in Volume II (Book V, Chapters I and IX) of his *Principles of Political Economy*, first published in 1848. When one recalls that Mill was brought up in the laissez-faire tradition, some of his conclusions may seem surprising.

He begins by distinguishing between the "necessary" and the "optional" functions of government. The first are those which "are either

inseparable from the idea of government, or are exercised habitually and without objection by all governments." The second are those functions of which the "expediency of its exercising them does not amount to necessity" and "on which diversity of opinion does or may exist."

Mill's Extended List of Necessary Functions of Government

The necessary functions of government, he insists, are "considerably more multifarious than most people are at first aware of." The contention, for example, that "governments ought to confine themselves to affording protection against force and fraud," and "that, these two things apart, people should be free agents," is much too narrow. What about, for example, the laws of inheritance? Not only is the government obliged to decide what happens to an estate when there is no will; it must pass on the validity of a will; it must decide among litigants.

Again, the government must enforce contracts. It must decide what contracts are fit to be enforced. (A contract to do something contrary to law? A contract to sell oneself into slavery?) The state must also establish civil tribunals to settle disputes. It must keep a registry of facts, such as births, deaths, marriages, wills and contracts, and judi-

cial proceedings. It must decide on the legal competency of children, or alleged lunatics, and provide for guardians. It may undertake the function of coining money, and of prescribing a set of standard weights and measures. It may make or improve harbors, build light-houses, make surveys for accurate maps and charts, raise dykes to keep the sea out, or embankments to keep rivers in. National governments may build roads, and municipal governments may pave, light, and clean the streets. "Examples might be indefinitely multiplied without intruding on any disputed ground."

In a later chapter, Mill considers some of the reasons for limiting government power. "There is a part of the life of every person who has come to years of discretion, within which the individuality of that person ought to reign uncontrolled either by any other individual or by the public collectively. . . . A second general objection to government agency is that every increase of the functions devolving on the government is an increase in its power"—which may soon become "arbitrary." . . . "A third general objection to governmental agency rests on the principle of the division of labor. Every additional function undertaken by the government is a fresh occupation imposed upon a body already overcharged with duties. A natural consequence is that most

things are ill done; much not done at all."

There follows a long description of the reasons why, in general, private enterprise and initiative are more efficient than government in carrying on any enterprise. In every instance these reasons are more than sufficient, Mill concludes, to throw "the burden of making out a strong case, not on those who resist, but on those who recommend, government interference. *Laissez-faire*, in short, should be the general practice: every departure from it, unless required by some great good, is a certain evil." He supplements this with a recital of the incredible restraints on business imposed historically in seventeenth-century France and elsewhere.

But then Mill turns to what he regards as the "exceptions" to the generally beneficent rule of *laissez-faire*. "The proposition that the consumer is a competent judge of the commodity, can be admitted only with numerous abatements and exceptions. . . . The uncultivated cannot be competent judges of cultivation. Those who need most to be made wiser and better, usually desire it least, and if they desired it, would be incapable of finding the way to it by their own lights. . . . Education, therefore, is one of those things which it is admissible in principle that a government should provide for the people. . . .

"With regard to elementary education, the exception to ordinary rules may, I conceive, justifiably be carried still further. . . . It is therefore an allowable exercise of the powers of government, to impose on parents the legal obligation of giving elementary instruction to children. This, however, cannot fairly be done, without taking measures to insure that such instruction shall be always accessible to them, either gratuitously or at a trifling expense." The one safeguard Mill insists on is that "the government must claim no monopoly for its education."

More Exceptions

Mill continues with his "exceptions" to the principle of *laissez-faire*. "Insane persons are everywhere regarded as proper objects of the care of the state." "It is right that children and young persons . . . should be protected, as far as the eye and hand of the state can reach, from being over-worked." "Cruelty to animals" should be forbidden. "The law should be extremely jealous" of all "engagements for life"—including marriage. If it grants a monopoly for a private road, canal, or railway, the state "should retain, and freely exercise, the right of fixing a maximum of fares and charges."

The state should have the right to diminish the hours of adult labor.

Mill approves the Poor Laws, and endorses the principles of the Poor Law of 1834. "The claim to help, created by destitution, is one of the strongest that can exist." But the problem is "how to give the greatest amount of needful help, with the smallest encouragement to undue reliance on it." For "if the condition of a person receiving relief is made as eligible as that of the laborer who supports himself by his own exertions, the system strikes at the root of all individual industry and self-government." Yet we cannot depend on "voluntary charity." "In the first place, charity almost always does too much or too little: it lavishes its bounty in one place, and leaves people to starve in another. Secondly, since the state must necessarily provide subsistence for the criminal poor while undergoing punishment, not to do the same for the poor who have not offended is to give a premium on crime."

Mill goes on to recommend government subsidies for colonization, for "scientific researches," and for other modes "of insuring to the public the services of scientific discoverers."

And as a final argument for extending government power still further, he adds: "The intervention of government cannot always practically stop short at the limit which defines the cases intrinsically suitable for it. In the particular circum-

stances of a given age or nation, there is scarcely anything really important to the general interest, which it may not be desirable, or even necessary, that the government should take upon itself, not because private individuals cannot effectually perform it, but because they will not."

An Open-Ended Formula

This last argument is capable of serving as an excuse for almost any arbitrary government intervention whatever. Mill ends by granting most of the contentions of the present-day statist. As he keeps adding to his list of "exceptions" to the general rule of *laissez-faire*, he gradually seems to forget all his earlier warnings against piling an unmanageable number of functions on the state and building excessive powers that can more easily be abused. In many of his exceptions he unconsciously takes it for granted that the state will necessarily do better than private initiative. He overlooks the possibility that scientists may be subsidized on the basis of favoritism or that the subsidized projects will be selected on the basis of political rather than scientific appeal.

After having warned us that the state may carry out its delegated powers very badly, he assumes in particular instances that they will carry out these powers very well. He

rightly approved the restrictive principles of the Poor Law of 1834, which required from the applicant for relief, as Nassau Senior put it, "monotonous and uninteresting" toil in a workhouse, so that he would retain an incentive to become again as soon as possible an independent laborer. What Mill did not foresee was the immense political difficulty of retaining such a disciplinary system once relief was embarked upon. He did not foresee that this disciplinary system would soon come to be regarded by a large part of the public as needlessly harsh and even heartless. The sentimental but powerful pen of Charles Dickens, for example, was shortly to make the retention of the workhouse system impossible. The almost inevitable tendency in any relief system is for demagogic politicians to remove one by one all the original restraints and safeguards and to load the relief rolls to the point where work incentives are destroyed, the national budget becomes chronically unbalanced, and a progressive inflation sets in.

Even more broadly, what Mill

overlooked was that once these broad powers of control were put in the hands of the state, under a popularly-elected government, that government would be very unlikely to adhere to the sound economic (and anti-interventionist) principles that Mill, and other economists of his school, were recommending in their textbooks, but would enact popular prejudices leading to inflation, to price-controls, to "soak-the-rich" taxes, to the redistribution of wealth and income, to anti-capitalistic and anti-productive policies of every other kind, and incidentally to the eventual destruction of liberty.

In his essays on *Liberty*, on *Representative Government*, and on *The Subjection of Women*, Mill made important contributions to political theory. But on the central question of what ought to be the limits of government power, he clearly granted too much. He left unanswered the great problem: How can we retain interventionist democratic government and yet prevent majority rule from degenerating into mob rule? 

Alexis de Tocqueville

IDEAS ON



LIBERTY

To manage these minor affairs in which good sense is all that is wanted, the people are held to be unequal to the task; but when the government of the country is at stake, the people are invested with immense powers; they are alternately made the playthings of their ruler, and his masters—more than kings, and less than men.

Do You Really Believe in a Limited Government?



Is a philosophy of limited government worth the worry? Last night, in an introspective moment, I was compelled to reevaluate that very question. I had just returned from an exhausting choir practice. My conscience felt a pang when my eyes fell on the unanswered letter from my parents. Lisa, my adopted black daughter, was loudly vocalizing her displeasure with the circumstances of the moment. Larke, the world's cutest four-year-old blonde, would not wait another minute for her nightly bedtime story. The open Sunday School manual on the kitchen table was a grim reminder that my lesson was not yet prepared. When would I have time to prepare it? Tomorrow my softball team entered the all-day play-offs in the

morning and the evening featured another choir rehearsal. These various demands converged on me in an instant. Just the thought of straining to reach another high A, composing letters to my parents, changing diapers, putting a new twist into the "Three Bears," searching for elusive Bible passages, or chasing fly balls in centerfield sent me stumbling for my easy chair. A philosophy of limited government is not easy to live.

Each of these demands is an integral part of my effort to live according to principles of limited government. If an individual really shares Jefferson's view—"That government is best that governs least"—he must make provision in his own life to take responsibility for essential services that government should not be allowed to monopolize.

For example, no civilized society

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will deny that art is necessary to inspire and uplift the human mind and spirit. Therefore, if we citizens do not devote ourselves to creativity, the government will tax everyone (force us) to set up an agency to subsidize artists. But forced government programs cannot satisfy the real need for ennobling art. Creativity cannot be forced; artists need absolute freedom to develop sensitivity (often through personal sacrifice) to the symbols and truths they elucidate. Hence, I sing tenor several nights a week on top of a cramped schedule.

Family Obligations

No charitable society will allow the aged to suffer deprivations when they can no longer care for themselves. Therefore, if we do not care for our own parents or the elderly in our greater family units, the government will tax everyone (force us) to set up massive nursing home programs. But forced government programs cannot meet the real needs of the aged. Love cannot be forced; the elderly need the love and respect of their posterity as much as they need food and shelter. Hence, I must strengthen my ties to my own parents.

No enlightened society overlooks that counseling is necessary to train youth to accept responsibility. Therefore, if we do not see that our own children are schooled in the

principles we have experienced as the basis for worthwhile living, the government will tax everyone (force us) to subsidize mandatory counseling sessions for teenage youth. But forced government programs cannot meet the real needs of youth. Will to learn and desire to develop a well-rounded attitude toward life cannot be forced; young people need the guidance of loving parents (long before they are teenagers) to instill this will far more than they need compulsory counseling. Hence, Larke gets a nightly dose of love from her father.

No self-respecting society will deny that all men are of equal worth and deserve equal respect. Therefore, if we do not openly welcome all qualified citizens regardless of race into our civic associations, schools, and clubs, the government will tax everyone (force us) to bus students and institute civil rights lawsuits. But government cannot eliminate racial discrimination at all because by taking sides in any racial conflict it is giving the force of law to, and thereby perpetuating, distinctions based on race. Respect cannot be forced. The disadvantaged and minorities want no special privileges; they want only to be welcomed as any other individual into those schools, clubs, and associations for which they qualify. Hence, Lisa gets exactly the same dose of love that Larke enjoys.

No merciful society will leave abandoned children without some means of support. Therefore, if we do not open our homes to parentless children, the government will tax everyone (force us) to create a national system of foster homes. But forced government programs cannot meet the real needs of parentless children. Parenting cannot be forced; these children need more than a bed and three meals a day. Hence, Lisa gets an affectionate kiss with every diaper change.

Moral Standards

No ethical society will refuse to accept that some moral standards are essential to its survival. Therefore, if churches and families do not teach honesty, the government must tax everyone (force us) to set up expensive crime prevention programs or juvenile correction institutions. But forced government programs cannot meet real needs of youth and mature alike for moral guidelines. Lasting respect for the property and persons of others cannot be forced; youth and mature alike need motivating clergy and friends to care enough about them to present them with constructive alternatives to destructive behavior. Hence, my duty as a Sunday School teacher cannot be taken lightly.

No humane nation wants to leave others to endure poor health, the specter of a life with pain. Therefore,

if we do not eat correctly, exercise regularly, avoid harmful agents (cigarettes, narcotics, and the like) to remain healthy, the government will tax everyone (force us) to create an unwieldy national health program. But forced government programs which treat people in bulk, instead of as individuals, cannot supply universal health. Good health habits cannot be forced; an end to pain cannot be legislated. As long as men are mortal, some will experience disease and misery. Government cannot prevent that. Individuals must, however, take primary responsibility for their own health, which includes practicing good health habits. Hence, softball season will be followed by basketball for me.

Individuals within societies, and hence societies themselves, have many legitimate needs. Therefore, if we do not make provision to meet our own personal needs first and then supply service to others (itself a primary personal need), the government will tax everyone (force us) to try to satisfy those needs. Although its efforts are sincere and do apply a bandaid to deep wounds, government can never completely meet real needs. Lasting solutions are only realized when individuals learn to and acquire the strength to meet their own needs. This cannot be forced, only encouraged.

I am not suggesting that govern-

ment has no role in meeting individual/societal needs. Instead it should have a very limited role. It should be a last line of defense.

If we profess a philosophy of limited government, we profess in the same breath a faith in unlimited personal responsibility. When I arrived home last night, that thought made me tired. Yet everything

worth having in life must be earned: health, respect, creativity, friendship, and so forth. Government cannot meet the need because, in most instances, the need is for personal effort or activity or growth. If we do not believe in pervasive government, we must believe in pervasive individual, family, church, and community responsibility. 

Life's Deeper Meaning

OUT of all these material gains none compares to the greater gain in finding that life is more than the bread and bed. This is what America stands for. There was much reward outside of material gain in the pioneer life of our forefathers. To be a good neighbor was rewarding. To be a responsible citizen brought recognition. The secret of our very successful youth agencies such as the Boy Scouts, the 4-H Clubs, the Future Farmers, and similar organizations may be that they recognize the worthiness of any achievement or the extra mile of any individual.

In a government-controlled system much of this may be lost, because why go an extra mile when some get rewards just because they exist as numbers? This is why we do not want a system of government where the State and its agents make the rules. But to avoid such an order for the masses, we must each of us become individuals who make it a part of our character to go the extra mile on every road and do every task beyond the call of duty, not just for a state or organization or institution or company, but for much more than these—for the dignity of man and his chance to be worthy of being free to choose.

The reward for the extra miles may come in promotions and increased pay, but more than such remunerations will be the compensation that will come out of the growing inward satisfaction and the respect and love of our neighbors. These gains must be earned.

GEORGE D. SCARSETH, "That Extra Mile"

IDEAS ON



LIBERTY

Socialism

I am in Buenos Aires as a guest of the Centro de Difusión de la Economía Libre. What is *economía libre*? What does this system of economic freedom mean? The answer is simple: it is the market economy, it is the system in which the cooperation of individuals in the social division of labor is achieved by the market. This market is not a place; it is a *process*, it is the way in which, by selling and buying, by producing and consuming, the individuals contribute to the total workings of society.

In dealing with this system of economic organization—the market economy—we employ the term “economic freedom.” Very often, people misunderstand what it means, believing that economic freedom is something quite apart from other freedoms and that these other freedoms—which they hold to be more important—can be preserved even in the absence of economic freedom. The meaning of

economic freedom is this: that the individual is in a position to *choose* the way in which he wants to integrate himself into the totality of society. The individual is able to choose his career, he is free to do what he *wants* to do.

This is of course not meant in the sense which so many people attach to the word freedom today; it is meant rather in the sense that, through economic freedom, man is freed from natural conditions. In nature, there is nothing that can be termed freedom, there is only the regularity of the laws of nature, which man must obey if he wants to attain something.

In using the term freedom as applied to human beings, we think only of the freedom *within society*. Yet, today, social freedoms are considered by many people to be independent of each other. Those who call themselves “liberals” today are asking for policies which are pre-

cisely the opposite of those policies which the liberals of the nineteenth century advocated in their liberal programs. The so-called liberals of today have the very popular idea that freedom of speech, of thought, of the press, freedom of religion, freedom from imprisonment without trial—that all these freedoms can be preserved in the absence of what is called economic freedom. They do not realize that, in a system where there is no market, where the government directs everything, all those other freedoms are illusory, even if they are made into laws and written up in constitutions.

Let us take one freedom, the freedom of the press. If the government owns all the printing presses, it will determine what is to be printed and what is not to be printed. And if the government owns all the printing presses and determines what shall or shall not be printed, then the possibility of printing any kind of opposing arguments against the ideas of the government becomes practically nonexistent. Freedom of the press disappears. And it is the same with all the other freedoms.

Freedom in Society

In a market economy, the individual has the freedom to choose whatever career he wishes to pursue, to choose his own way of integrating himself into society. But in a socialist system, that is not so: his

career is decided by decree of the government. The government can order people whom it dislikes, whom it does not want to live in certain regions, to move into other regions and to other places. And the government is always in a position to justify and to explain such procedure by declaring that the governmental plan requires the presence of this eminent citizen five thousand miles away from the place in which he could be disagreeable to those in power.

It is true that the freedom a man may have in a market economy is not a perfect freedom from the metaphysical point of view. But there is no such thing as perfect freedom. Freedom means something only within the framework of society. The eighteenth-century authors of "natural law"—above all, Jean Jacques Rousseau—believed that once, in the remote past, men enjoyed something called "natural" freedom. But in that remote age, individuals were not free, they were at the mercy of everyone who was stronger than they were. The famous words of Rousseau: "Man is born free and everywhere he is in chains" may sound good, but man is in fact *not* born free. Man is born a very weak suckling. Without the protection of his parents, without the protection given to his parents by society, he would not be able to preserve his life.

PHOTO BY DAVID JARRETT



Ludwig von Mises, 1881-1973, was one of the great defenders of a rational economic science, and perhaps the single most creative mind at work in this field in our century.

Found among the papers of Dr. Mises were transcripts of lectures he delivered in Argentina in 1959. These have now been edited by his widow and are available as a Regnery/Gateway paperbacked book. This article, one of the lectures, is here reprinted by permission of the publishers. All rights reserved.

The book, *Economic Policy: Thoughts for Today and Tomorrow*, also may be purchased at \$4.95 from The Foundation for Economic Education, Inc., Irvington-on-Hudson, N.Y. 10533.

Freedom in society means that a man depends as much upon other people as other people depend upon him. Society under the market economy, under the conditions of "economía libre," means a state of affairs in which everybody serves his fellow citizens and is served by them in return. People believe that there are in the market economy bosses who are independent of the good will and support of other people. They believe that the captains of industry, the businessmen, the entrepreneurs are the real bosses in the economic system. But this is an illusion. The real bosses in the economic system are the consumers. And if the consumers stop patronizing a branch of business, these businessmen are either forced to

abandon their eminent position in the economic system or to adjust their actions to the wishes and to the orders of the consumers.

One of the best-known propagators of communism was Lady Passfield, under her maiden name Beatrice Potter, and well-known under the name of her husband Sidney Webb. This lady was the daughter of a wealthy businessman and, when she was a young adult, she served as her father's secretary. In her memoirs she writes: "In the business of my father everybody had to obey the orders issued by my father, the boss. He alone had to give orders, but to him nobody gave any orders." This is a very short-sighted view. Orders *were* given to her father by the consumers, by the

buyers. Unfortunately, she could not see *these* orders; she could not see what goes on in a market economy, because she was interested only in the orders given within her father's office or his factory.

Sovereign Consumers

In all economic problems, we must bear in mind the words of the great French economist Frédéric Bastiat, who titled one of his brilliant essays: "*Ce qu'on voit et ce qu'on ne voit pas*" ("What you see and what you do not see"). In order to comprehend the operation of an economic system, we must deal not only with the things that can be seen, but we also have to give our attention to the things which cannot be perceived directly. For instance, an order issued by a boss to an office boy can be heard by everybody who is present in the room. What cannot be heard are the orders given to the boss by his customers.

The fact is that, under the capitalistic system, the ultimate bosses are the consumers. The sovereign is not the state, it is the people. And the proof that they are the sovereign is borne out by the fact that they have *the right to be foolish*. This is the privilege of the sovereign. He has the right to make mistakes, no one can prevent him from making them, but of course he has to pay for his mistakes. If we say the consumer is supreme or that the consumer is

sovereign, we do not say that the consumer is free from faults, that the consumer is a man who always knows what would be best for him. The consumers very often buy things or consume things they ought not to buy or ought not to consume.

But the notion that a capitalist form of government can prevent people from hurting themselves by controlling their consumption is false. The idea of government as a paternal authority, as a guardian for everybody, is the idea of those who favor socialism. In the United States some years ago, the government tried what was called "a noble experiment." This noble experiment was a law making it illegal to consume intoxicating beverages. It is certainly true that many people drink too much brandy and whiskey, and that they may hurt themselves by doing so. Some authorities in the United States are even opposed to smoking. Certainly there are many people who smoke too much and who smoke in spite of the fact that it would be better for them not to smoke. This raises a question which goes far beyond economic discussion: it shows what freedom really means.

Granted, that it is good to keep people from hurting themselves by drinking or smoking too much. But once you have admitted this, other people will say: Is the body everything? Is not the mind of man much more important? Is not the mind of

man the real human endowment, the real human quality? If you give the government the right to determine the consumption of the human body, to determine whether one should smoke or not smoke, drink or not drink, there is no good reply you can give to people who say: "More important than the body is the mind and the soul, and man hurts himself much more by reading bad books, by listening to bad music and looking at bad movies. Therefore it is the duty of the government to prevent people from committing these faults."

And, as you know, for many hundreds of years governments and authorities believed that this really *was* their duty. Nor did this happen in far distant ages only; not long ago, there was a government in Germany that considered it a governmental duty to distinguish between good and bad paintings—which of course meant good and bad from the point of view of a man who, in his youth, had failed the entrance examination at the Academy of Art in Vienna; good and bad from the point of view of a picture-postcard painter. And it became illegal for people to utter other views about art and paintings than those of the Supreme Führer.

Once you begin to admit that it is the duty of the government to control your consumption of alcohol, what can you reply to those who say

the control of books and ideas is much more important?

Freedom to Make Mistakes

Freedom really means *the freedom to make mistakes*. This we have to realize. We may be highly critical with regard to the way in which our fellow citizens are spending their money and living their lives. We may believe that what they are doing is absolutely foolish and bad, but in a free society, there are many ways for people to air their opinions on how their fellow citizens should change their ways of life. They can write books; they can write articles; they can make speeches; they can even preach at street corners if they want—and they do this, in many countries. But they must *not* try to police other people in order to prevent them from doing certain things simply because they themselves do not want these other people to have the freedom to do it.

This is the difference between slavery and freedom. The slave must do what his superior orders him to do, but the free citizen—and this is what freedom means—is in a position to choose his own way of life. Certainly this capitalistic system can be abused, and is abused, by some people. It is certainly possible to do things which ought not to be done. But if these things are approved by a majority of the people, a disapproving person always has a

way to attempt to change the minds of his fellow citizens. He can try to persuade them, to convince them, but he may not try to force them by the use of power, of governmental police power.

Status and Caste

In the market economy, everyone serves his fellow citizens by serving himself. This is what the liberal authors of the eighteenth century had in mind when they spoke of the harmony of the rightly understood interests of all groups and of all individuals of the population. And it was this doctrine of the harmony of interests which the socialists opposed. They spoke of an "irreconcilable conflict of interests" between various groups.

What does this mean? When Karl Marx—in the first chapter of the *Communist Manifesto*, that small pamphlet which inaugurated his socialist movement—claimed that there was an irreconcilable conflict between classes, he could not illustrate his thesis by any examples other than those drawn from the conditions of precapitalistic society. In precapitalistic ages, society was divided into hereditary status groups, which in India are called "castes." In a status society a man was not, for example, born a Frenchman; he was born as a member of the French aristocracy or of the French bourgeoisie or of the French peasant-

try. In the greater part of the Middle Ages, he was simply a serf. And serfdom, in France, did not disappear completely until after the American Revolution. In other parts of Europe it disappeared even later.

But the worst form in which serfdom existed—and continued to exist even after the abolition of slavery—was in the British colonies abroad. The individual inherited his status from his parents, and he retained it throughout his life. He transferred it to his children. Every group had privileges and disadvantages. The highest groups had only privileges, the lowest groups only disadvantages. And there was no way a man could rid himself of the legal disadvantages placed upon him by his status other than by fighting a political struggle against the other classes. Under such conditions, you could say that there was an "irreconcilable conflict of interests between the slave owners and the slaves," because what the slaves wanted was to be rid of their slavery, of their quality of being slaves. This meant a loss, however, for the owners. Therefore there is no question that there had to be this irreconcilable conflict of interests between the members of the various classes.

One must not forget that in those ages—in which the status societies were predominant in Europe, as well as in the colonies which the

Europeans later founded in America—people did not consider themselves to be connected in any special way with the other classes of their own nation; they felt much more at one with the members of their own class in other countries. A French aristocrat did not look upon lower class Frenchmen as his fellow citizens; they were the “rabble,” which he did not like. He regarded only the aristocrats of other countries—those of Italy, England, and Germany, for instance—as his equals.

The most visible effect of this state of affairs was the fact that the aristocrats all over Europe used the same language. And this language was French, a language which was not understood, outside France, by other groups of the population. The middle classes—the bourgeoisie—had their own language, while the lower classes—the peasantry—used local dialects which very often were not understood by other groups of the population. The same was true with regard to the way people dressed. When you travelled in 1750 from one country to another, you found that the upper classes, the aristocrats, were usually dressed in the same way all over Europe, and you found that the lower classes dressed differently. When you met someone in the street, you could see immediately—from the way he dressed—to which class, to which status he belonged.

It is difficult to imagine how different these conditions were from present-day conditions. When I come from the United States to Argentina and I see a man on the street, I cannot know what his status is. I only assume that he is a citizen of Argentina and that he is not a member of some legally restricted group. This is one thing that capitalism has brought about. Of course, there are also differences within capitalism. There are differences in wealth, differences which Marxians mistakenly consider to be equivalent to the old differences that existed between men in the status society.

Aristocratic Wealth

The differences within a capitalist society are not the same as those in a socialist society. In the Middle Ages—and in many countries even much later—a family could be an aristocrat family and possess great wealth, it could be a family of dukes for hundreds and hundreds of years, whatever its qualities, its talents, its character or morals. But, under modern capitalistic conditions, there is what has been technically described by sociologists as “social mobility.” The operating principle of this social mobility, according to the Italian sociologist and economist Vilfredo Pareto, is “la circulation des élites” (the circulation of the elites). This means that there are

always people who are at the top of the social ladder, who are wealthy, who are politically important, but these people—these elites—are continually changing.

This is perfectly true in a capitalist society. It was *not* true for a precapitalistic status society. The families who were considered the great aristocratic families of Europe are still the same families today or, let us say, they are the descendants of families that were foremost in Europe, 800 or 1000 or more years ago. The Capetians of Bourbon—who for a very long time ruled here in Argentina—were a royal house as early as the tenth century. These kings ruled the territory which is known now as the Ile-de-France, extending their reign from generation to generation. But in a capitalist society, there is continuous mobility—poor people becoming rich and the descendants of those rich people losing their wealth and becoming poor.

Wealth under Capitalism

Today I saw in a bookshop in one of the central streets of Buenos Aires the biography of a businessman who was so eminent, so important, so characteristic of big business in the nineteenth century in Europe that, even in this country, far away from Europe, the bookshop carried copies of his biography. I happen to know the grandson of

this man. He has the same name his grandfather had, and he still has a right to wear the title of nobility which his grandfather—who started as a blacksmith—had received eighty years ago. Today this grandson is a poor photographer in New York City.

Other people, who were poor at the time this photographer's grandfather became one of Europe's biggest industrialists, are today captains of industry. Everyone is free to change his status. This is the difference between the status system and the capitalist system of economic freedom, in which everyone has only himself to blame if he does not reach the position he wants to reach.

The most famous industrialist of the twentieth century up to now is Henry Ford. He started with a few hundred dollars which he had borrowed from his friends, and within a very short time he developed one of the most important big business firms of the world. And one can discover hundreds of such cases every day.

Every day, the *New York Times* prints long notices of people who have died. If you read these biographies, you may come across the name of an eminent businessman, who started out as a seller of newspapers at street corners in New York. Or he started as an office boy, and at his death he is the president of the same banking firm where he

started on the lowest rung of the ladder. Of course, not all people can attain these positions. Not all people *want* to attain them. There are people who are more interested in other problems and, for these people, other ways are open today which were not open in the days of feudal society, in the ages of the status society.

The socialist system, however, *forbids* this fundamental freedom to choose one's own career. Under socialist conditions, there is only one economic authority, and it has the right to determine all matters concerning production.

Central Planning

One of the characteristic features of our day is that people use many names for the same thing. One synonym for socialism and communism is "planning." If people speak of "planning" they mean, of course, *central* planning, which means *one plan made by the government*—one plan that prevents planning by anyone except the government.

A British lady, who also is a member of the Upper House, wrote a book entitled *Plan or No Plan*, a book which was quite popular around the world. What does the title of her book mean? When she says "plan," she means only the type of plan envisioned by Lenin and Stalin and their successors, the type which governs all the activities of

all the people of a nation. Thus, this lady means a central plan which excludes all the personal plans that individuals may have. Her title *Plan or No Plan* is therefore an illusion, a deception; the alternative is not a central plan or no plan, it is *the total plan* of a central governmental authority *or freedom* for individuals to make their own plans, to do their own planning. The individual plans his life, every day, changing his daily plans whenever he will.

The free man plans daily for his needs; he says, for example: "Yesterday I planned to work all my life in Cordoba." Now he learns about better conditions in Buenos Aires and changes his plans, saying: "Instead of working in Cordoba, I want to go to Buenos Aires." And that is what freedom means. It may be that he is mistaken, it may be that his going to Buenos Aires will turn out to have been a mistake. Conditions may have been better for him in Cordoba, but he himself made his plans.

Under government planning, he is like a soldier in an army. The soldier in the army does not have the right to choose his garrison, to choose the place where he will serve. He has to obey orders. And the socialist system—as Karl Marx, Lenin, and all socialist leaders knew and admitted—is the transfer of army rule to the whole production system. Marx spoke of "industrial armies,"

and Lenin called for "the organization of everything—the postoffice, the factory, and other industries, according to the model of the army."

Therefore, in the socialist system everything depends on the wisdom, the talents, and the gifts of those people who form the supreme authority. That which the supreme dictator—or his committee—does *not* know, is not taken into account. But the knowledge which mankind has accumulated in its long history is not acquired by everyone; we have accumulated such an enormous amount of scientific and technological knowledge over the centuries that it is humanly impossible for one individual to know all these things, even though he be a most gifted man.

And people are different, they are unequal. They always will be. There are some people who are more gifted in one subject and less in another one. And there are people who have the gift to find new paths, to change the trend of knowledge. In capitalist societies, technological progress and economic progress are gained through such people. If a man has an idea, he will try to find a few people who are clever enough to realize the value of his idea. Some capitalists, who dare to look into the future, who realize the possible consequences of such an idea, will start to put it to work. Other people, at first, may say: "They are fools"; but they will

stop saying so when they discover that this enterprise, which they called foolish, is flourishing, and that people are happy to buy its products.

"Planners" Resist New Ideas

Under the Marxian system, on the other hand, the supreme government body must first be convinced of the value of such an idea before it can be pursued and developed. This can be a very difficult thing to do, for only the group of people at the head—or the supreme dictator himself—has the power to make decisions. And if these people—because of laziness or old age, or because they are not very bright and learned—are unable to grasp the importance of the new idea, then the new project will not be undertaken.

We can think of examples from military history. Napoleon was certainly a genius in military affairs; he had one serious problem, however, and his inability to solve that problem culminated, finally, in his defeat and exile to the loneliness of St. Helena. Napoleon's problem was: "How to conquer England?" In order to do that, he needed a navy to cross the English Channel, and there were people who told him they had a way to accomplish that crossing, people who—in an age of sailing ships—had come up with the new idea of steamships. But Napoleon did not understand their proposal.

Then there was Germany's famous *Generalstab*. Before the First World War, the German general staff was universally considered to be unsurpassed in military wisdom. A similar reputation was held by the staff of General Foch in France. But neither the Germans nor the French—who, under the leadership of General Foch, later defeated the Germans—realized the importance of aviation for military purposes. The German general staff said: "Aviation is merely for pleasure, flying is good for idle people. From a military point of view, only the Zeppelins are important," and the French general staff was of the same opinion.

Later, during the period between World War I and World War II, there was a general in the United States who was convinced that aviation would be very important in the next war. But all other experts in the United States were against him. He could not convince them. If you have to convince a group of people who are not directly dependent on the solution of a problem, you will never succeed. This is true also of noneconomic problems.

Artists Under Socialism

There have been painters, poets, writers, composers, who complained that the public did not acknowledge their work and caused them to remain poor. The public may certainly

have had poor judgment, but when these artists said: "The government ought to support great artists, painters, and writers," they were very much in the wrong. Whom should the government entrust with the task of deciding whether a newcomer is really a great painter or not? It would have to rely on the judgment of the critics, and the professors of the history of art who are always looking back into the past yet who very rarely have shown the talent to discover new genius. This is the great difference between a system of "planning" and a system in which everyone can plan and act for himself.

It is true, of course, that great painters and great writers have often had to endure great hardships. They might have succeeded in their art, but not always in getting money. Van Gogh was certainly a great painter. He had to suffer unbearable hardship and, finally, when he was thirty-seven years old, he committed suicide. In all his life he sold only *one painting*, and the buyer of it was his cousin. Apart from this one sale, he lived from the money of his brother, who was not an artist nor a painter. But van Gogh's brother understood a painter's needs. Today you cannot buy a van Gogh for less than a hundred or two hundred thousand dollars.

Under a socialist system, van Gogh's fate might have been differ-

ent. Some government official would have asked some well-known painters (whom van Gogh certainly would not have regarded as artists at all) whether this young man, half or completely crazy, was really a painter worthy to be supported. And they without a doubt, would have answered: "No, he is not a painter; he is not an artist; he is just a man who wastes paint;" and they would have sent him into a milk factory or into a home for the insane. Therefore all this enthusiasm in favor of socialism by the rising generation of painters, poets, musicians, journalists, actors, is based on an *illusion*. I mention this because these groups are among the most fanatical supporters of the socialist idea.

Economic Calculation

When it comes to choosing between socialism and capitalism as an economic system, the problem is somewhat different. The authors of socialism never suspected that modern industry, and all the operations of modern business, are based on calculation. Engineers are by no means the only ones who make plans on the basis of calculations, businessmen also must do so. And businessmen's calculations are all based on the fact that, in the market economy, the money prices of goods inform not only the consumer, they also provide vital information to businessmen about the factors of

production, the main function of the market being not merely to determine the cost of the *last* part of the process of production and transfer of goods to the hands of the consumer, but the cost of those steps leading up to it. The whole market system is bound up with the fact that there is a mentally calculated division of labor between the various businessmen who vie with each other in bidding for the factors of production—the raw material, the machines, the instruments—and for the human factor of production, the wages paid to labor. This sort of calculation by the businessman cannot be accomplished in the absence of prices supplied by the market.

At the very instant you abolish the market—which is what the socialists would like to do—you render useless all the computations and calculations of the engineers and technologists; the technologists can give you a great number of projects which, from the point of view of the natural sciences, are equally feasible, but it takes the market-based *calculations* of the businessman to make clear which of those projects is the most advantageous, from the *economic* point of view.

The Importance of Prices

The problem with which I am dealing here is the fundamental issue of capitalistic economic calculation as opposed to socialism. The

fact is that economic calculation, and therefore all technological planning, is possible only if there are money prices, not only for consumer goods but also for the factors of production. This means there has to be a market for all raw materials, for all half-finished goods, for all tools and machines, and for all kinds of human labor and human services.

When this fact was discovered, the socialists did not know how to respond. For 150 years they had said: "All the evils in the world come from the fact that there are markets and market prices. We want to abolish the market and with it, of course, the market economy, and substitute for it a system without prices and without markets." They wanted to abolish what Marx called the "commodity character" of commodities and of labor.

When faced with this new problem, the authors of socialism, having no answer, finally said: "We will not abolish the market altogether; we will pretend that a market exists; we will play market, like children who play school." But everyone knows that when children play school, they do not learn anything. It is just an exercise, a game, and you can "play" at many things.

This is a very difficult and complicated problem and in order to deal with it in full one needs a little more time than I have here. I have ex-

plained it in detail in my writings. In six lectures I cannot enter into an analysis of all its aspects, therefore, I want to advise you, if you are interested in the fundamental problem of the impossibility of calculation and planning under socialism, read my book *Human Action*, which is available in an excellent Spanish translation.

But read other books, too, like the book of the Norwegian economist Trygve Hoff, who wrote on economic calculation. And if you do not want to be one-sided, I recommend that you read the highly-regarded socialist book on this subject by the eminent Polish economist Oscar Lange, who at one time was a professor at an American university, then became a Polish ambassador, and later returned to Poland.

The Soviet "Experiment"

You will probably ask me: "What about Russia? How do the Russians handle this question?" This changes the problem. The Russians operate their socialistic system within a world in which there are prices for all the factors of production, for all raw materials, for everything. They can therefore employ, for their planning, the *foreign* prices of the world market. And because there are certain differences between conditions in Russia and those in United States, the result is very often that the Russians consider

The Pricing Process

The pricing process is a social process. It is consummated by an interaction of all members of the society. All collaborate and cooperate, each in the particular role he has chosen for himself in the framework of the division of labor. . . .

It is the very essence of prices that they are the offshoot of the actions of individuals and groups of individuals acting on their own behalf . . .

Prices are by definition determined by peoples' buying and selling or abstention from buying and selling. They must not be confused with fiat issued by governments or other agencies enforcing their orders by an apparatus of coercion and compulsion. . . .

In declaring that it is not the business of government to determine prices, we do not step beyond the borders of logical thinking. A government can no more determine prices than a goose can lay hen's eggs.

LUDWIG VON MISES, *Human Action*

something to be justified and advisable—from their economic point of view—the Americans would not consider economically justifiable at all.

The "Soviet experiment," as it was called, does not prove anything. It does not tell us anything about the fundamental problem of socialism, the problem of calculation. But are we entitled to speak of it as an experiment? I do not believe there is such a thing as a scientific experiment in the field of human action and economics. You cannot make laboratory experiments in the field of human action because a scientific experiment requires that you do the same thing under various condi-

tions, or that you maintain the same conditions, changing perhaps only one factor. For instance, if you inject into a cancerous animal some experimental medication, the result may be that the cancer will disappear. You can test this with various animals of the same kind which suffer from the same malignancy. If you treat some of them with the new method and do not treat the rest, then you can compare the result. You cannot do this within the field of human action. There are no laboratory experiments in human action.

The so-called Soviet "experiment" merely shows that the standard of living is incomparably lower in

Soviet Russia than it is in the country that is considered, by the whole world, as the paragon of capitalism: the United States.

Of course, if you tell this to a socialist, he will say: "Things are wonderful in Russia." And you tell him: "They may be wonderful, but the average standard of living is much lower." Then he will answer: "Yes, but remember how terrible it was for the Russians under the tsars and how terrible a war we had to fight."

I do not want to enter into discussion of whether this is or is not a correct explanation, but if you deny that the conditions are the same, you deny that it was an experiment. You must then say this (which would be much more correct): "Socialism in Russia has not brought about an improvement in the conditions of the average man which can be compared with the improvement of conditions, during the same period, in the United States."

The Buyer as Boss vs. Control by a "Planner"

In the United States you hear of something new, of some improvement, almost every week. These are improvements that business has generated, because thousands and thousands of business people are trying day and night to find some new product which satisfies the con-

sumer better or is less expensive to produce, or better *and* less expensive than the existing products. They do not do this out of altruism, they do it because they want to make money. And the effect is that you have an improvement in the standard of living in the United States which is almost miraculous, when compared with the conditions that existed fifty or a hundred years ago. But in Soviet Russia, where you do not have such a system, you do not have a comparable improvement. So those people who tell us that we ought to adopt the Soviet system are badly mistaken.

There is something else that should be mentioned. The American consumer, the individual, is both a buyer and a boss. When you leave a store in America, you may find a sign saying: "Thank you for your patronage. Please come again." But when you go into a shop in a totalitarian country—be it in present-day Russia, or in Germany as it was under the regime of Hitler—the shopkeeper tells you: "You have to be thankful to the great leader for giving you this."

In socialist countries, it is not the seller who has to be grateful, it is the buyer. The citizen is *not* the boss; the boss is the Central Committee, the Central Office. Those socialist committees and leaders and dictators are supreme, and the people simply have to obey them. ☉

Order and Disorder

IN one part of Spain, some 20,000 demonstrators protest the construction of a generating station to be equipped with an American-supplied nuclear reactor, and police cordon off access highways to prevent the gathering of an estimated 10,000 more. In another part of Spain, Basque separatists block the main highway to France, burn buses and cars, and initiate a general strike involving tens of thousands in the Basque region. And across Spain, social and economic indicators spell other troubles: the crime rate rises, drug addiction spreads, unemployment approaches the 9% mark, and inflation rots the Spanish peseta at the rate of 16% a year.

Dr. Peterson is the Scott L. Probasco, Jr., Professor of Free Enterprise, director of the Center for Economic Education at the University of Tennessee at Chattanooga, and a member of the Mont Pelerin Society.

Spain, one discovers, is part and parcel of "the Western sickness"—the disorder of the Western democracies.

But in Madrid, at a week-long meeting last September of the Mont Pelerin Society—an international group of market economists—the talk is not only of disorder but of order: the essential social harmony and economic growth implicit in a society of unhampered markets, of neoliberal values, of freedom and free enterprise. For example:

- University of Chicago economist George Stigler reaffirms the competitive order, with its system of built-in rewards and penalties, as a means of enhancing the ethics of society.

- British economist Arthur Shenfield gives the case for withdrawing legal exemptions from unions and resubjecting them and their mem-

bers to the law of contract and tort as a means of correcting labor power abuses.

- Guatemalan businessman and university trustee Manuel Ayau cautions his fellow businessmen everywhere to do their homework on the finer points of free enterprise economics and avoid seeking government favors like a plague—or else risk the image of appearing as naive and two-faced in the court of public opinion.

- Erasmus University economist Roland Vaubel of Rotterdam employs the Buchanan-Tullock “theory of public choice” and finds politicians, bureaucrats and voters, in utilizing the coercive powers of the state, a lot less public-interested and a lot more self-interested than is commonly presumed.

- West German economist Gerhard Prosi analyzes and rejects the push for codetermination—government insistence on union representation on corporate boards—citing West German experience in which union representatives opted for short-run worker advantages at the expense of long-run company objectives.

- University of Illinois economist Donald Kemmerer puts in a plug for “honest money” and the gold standard as a means of restoring order in the current international monetary turmoil.

The turmoil, monetary and

otherwise, is pervasive as well as gloomy. Swedish economist Eric Brodin, for instance, finds Sweden’s famed “middle-way” welfare state counterproductive, to put it mildly. Sweden’s taxes are about the highest in the world. This factor has contributed mightily to its “brain drain” and bodes ill for its export-oriented economy to compete in world markets. To make matters worse, income tax progressivity—the tax biting deeper and deeper as incomes inflate—depresses employee productivity by dulling the incentive to work harder or longer and by inducing absenteeism. Swedish absenteeism increased 63% from 1960 to 1978, Brodin notes.

In addition, he points out, the tax burden has pushed as much as 10% of the Swedish economy into the “underground” of barter and unreported sales and incomes, so as to evade the tax collector. Thus, say, a Swedish dentist and carpenter swap some bridgework for some kitchen cabinets. Things like that prompt Eric Brodin to suggest that the Swedish tax system increasingly puts a tax on honesty; and he quotes renowned Swedish economist Gunnar Myrdal who is blunter still on accelerating tax-cheating: “We are becoming a nation of hustlers.”

In like manner, University of Rome economist Antonio Martino details the spread and repercussions of statism in inflation-rife Italy. One

indicator he employs is the ratio of public sector spending to national income. He reports that this percentage has climbed in Italy from 37% in 1960, to 44% in 1970, and is expected to be between 55% and 60% in 1979, a trend greatly facilitated by the Italian government's penchant for financing its deficits over the years by money creation—in effect, the printing press.

Professor Martino notes how Luigi Einaudi, Italy's first president and an early member of the Mont Pelerin Society, had anticipated the problem of deficit finance. During the drafting of Italy's postwar constitution, Dr. Einaudi sought and won a provision which states: "Every law which involves new or greater expenditures must indicate the means to meet them." But, as may be expected, this provision has been progressively ignored by Italian politicians, especially since the early 1960's when they "opened the door to the Left."

Helping to break Italian budgets, says Dr. Martino, has been the policy of purchasing "problem firms" so as to save threatened jobs. But "problem firms" seem to become even more problem-prone under state ownership, for losses, apparently, are of little consequence. For example, Alfa Romeo, the presti-

gious state car manufacturer, produces about 200,000 cars a year, and annually loses on the order of 200 billion lire. In other words, the manufacturer—or rather the Italian taxpayer—loses roughly one million lire, or \$1,235, per car.

The irony of these and similar national examples of disorder put forth by other Mont Pelerin speakers is told by Nobel Laureate in Economics F. A. Hayek. To restore "order" the authorities ignore the fact that it was their interventions that largely caused the problems in the first place, and so they intervene further. For example, they fight inflation with price controls. But the more they intervene, frequently egged on by interest groups, the greater becomes the disorder.

So Hayek points to the "spontaneous order" inherent in free markets, the order springing from the nature of knowledge. He stresses the dynamics and wide dispersion of economic knowledge, especially that related to supply and demand. It is the inevitable lack of this knowledge, along with the vain attempt to repeal the law of supply and demand, says Hayek, that frustrates central planners, welfare administrators and industry regulators—as well as their respective nations. ㊦

George Koether



Hans F. Sennholz

AGE OF INFLATION

LUDWIG VON MISES said it almost seventy years ago: "State regulation . . . in the sphere of banking, as everywhere else . . . has been a failure."

Now one of Mises' most eminent and articulate disciples, Professor Hans Sennholz of Grove City College, has restated that principle much more forcefully: "*money is inflated, depreciated and ultimately destroyed whenever government holds monopolistic power over it.*" That is the main lesson to be learned from Sennholz's latest book, *Age of Inflation*.

This book deals with fundamentals: what is money, how was it created, what determines its value, how does it operate in an economy, what happens when money is "managed" by government, what alterna-

tives are there for present monetary mismanagement? With an engaging mixture of logic and history—thoroughly grounded on the rock of Austrian monetary theory and his own personal experience with inflation in Germany—Sennholz serves up a feast of good reading upon the economic problem that has become the curse of the world. Each chapter can be enjoyed separately on its own. This is a book one can pick up, lay down and come back to many times—all with profit.

In the tangled labyrinth of economic myth no truth seems harder to find than the truth about money. Happily, Sennholz knows his way well as he thoroughly exposes the major monetary myths: that money was created by the State, that a growing economy requires a growing money "supply," that unemployment can be cured by sufficient doses of inflation and that

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business cycles are an inevitable characteristic of a free market. Especially timely are his treatment of the Chicago School "monetarists" and his strictures on the Federal Reserve System.

Monetary Policy

He challenges the Chicago School's Nobel-prize winner, Milton Friedman, with a frontal attack on Friedman's monetary theory. Sennholz generously credits Friedman and the "monetarists" for the "analytical depth, scientific precision and overwhelming empirical evidence" with which they "re-emphasized the importance of monetary policy." He applauds their "levelling devastating criticisms at official monetary managers for having generated feverish booms and disastrous recessions."

But Sennholz scorns Friedman's recommendation for a slow but steady, planned and controlled increase in currency and bank deposits of three to five per cent per year. This lessened rate of inflation, Sennholz points out, still has deleterious effects upon the economy leading to recurring depressions. His summary *coup de grace* for Chicago School monetary theory is brief and to the point: "It is built on the quicksand of macroeconomic analysis, it misinterprets the business cycles and therefore is bound to fail as a policy guide for economic stability;

and it is inherently inflationary because it makes government the guardian of our money. . . . After all, it puts government in charge of economic stability and then prescribes monetary policies that will continue to generate business cycles."

Age of Inflation by Hans F. Sennholz. Published by Western Islands, Belmont, Massachusetts 02178, 1979. 214 pages, \$8.95 cloth. The book also is available from The Foundation for Economic Education, Irvington-on-Hudson, New York 10533.

In a short discussion of Keynes, Samuelson, Hansen, Lerner and other "fine-tuners" of the economy who seem to think they can "manage" the destinies of 200 million Americans with push buttons from Washington, Sennholz points out the inherent conflict between their "macroeconomic" point of view—with its Phillips Curves, its computer models, its equations and projections—and the "microeconomic" principles of Austrian economics that begin with the action of individuals—action no person can predict or measure.

Sennholz's castigation of the Federal Reserve System is unreserved and devastating. He calls it "the most important tool in the armory of economic interventionism." Oper-

ated "with all the planners' usual assumption of benevolent omniscience. . . . It provides the government with the money the planners think they should have, beyond the amount they dare take directly in taxes" and "it does all this by wrecking the purchasing power of the dollar . . . through a process exactly on a par with the coin-clipping of ancient kings—but much more diabolical because so much less visible."

Citing Emergency Banking Regulation No. 1 which, he says, empowers the instant seizure of most bank deposits "in the event of an attack on the United States" and "prohibits the transfer of credit sought for any unauthorized purpose," Sennholz describes the government's monopoly over money via the Treasury and the Federal Reserve as a "ready instrument of tyranny." He recommends that the Federal Reserve System be inactivated or abolished.

His other recommendations to bring the United States out of the Age of Inflation are:

1. the Federal Budget must be balanced now, next year and every year thereafter

2. Federal Reserve money now in circulation must stay in circulation and be made fully redeemable in gold

3. legal tender laws should be repealed

4. private coinage should be allowed

5. business taxes must be lowered considerably, and

6. the numerous legal immunities and privileges of labor unions must be abolished.

The labor union privileges, of course, must be removed in order to restore freedom and flexibility to the labor market. "It is true," says Sennholz, "that labor unions do not directly increase the quantity of money and credit and thus cause the depreciation." But their policy of using their power and privileges to force wage rates above what a free market would make economically possible continually creates unemployment. So labor leaders "become advocates of all schemes for easy money and credit that promise to alleviate unemployment."

In other words, labor's *political* power has given it *money* power and now its money power enlarges and enhances its political power. (Labor is not only pushing for inflation, it is now pushing for nationalization of the nation's petroleum industry.)

"Gold is Money," as Sennholz wrote in the book of that title, so, naturally, his restoration of a sound money requires the use of gold. In this he agrees with his mentor Mises. But he differs from Mises in the methodology of his reform. Mises had prescribed a currency reform requiring a government agency established specifically for this task.

"This proposal," says Sennholz, "assumed a state of economic and political enlightenment that surpasses by far the present state of economic and political thought." Thus, reasons Sennholz, we may have to find our way back to monetary soundness via *monetary freedom* which will give the new gold standard "birth and meaning through inexorable economic law." So sound money should be restored without the "aid" of government—aid which, as he has shown, has always been disastrous, not beneficent. "That is why we seek no reform, no restoration law, no conversion or parity, no government cooperation, *merely freedom*."

In that freedom Sennholz envisions the development of "parallel" monies: Government's paper money, and *gold* money, operating through free gold markets, free private coinage, enforceable gold contracts and a market-established (*not* government-established) exchange ratio between gold money and the government's legal tender paper. People would be free to use whichever money they preferred. Hopefully, some day, an enlightened (or chastened?) government might see the wisdom of making *its* money fully convertible into gold.

This proposal opens a Pandora's box for supporters or critics who will present a myriad of arguments on "why it will" or "will not" work. A

private "parallel" money implies an unregulated, private-enterprise banking system. That idea will be anathema to those who cannot be weaned from the fallacy that money is a creature of the State and must be controlled by the State.

A Market Money

Yet the existence of today's "underground" or "other" economy which has developed as a sort of shunpike around the heavily-taxed toll road of our over-regulated enterprise, suggests the very real possibility for an "other" money as well as an "other" economy. After all, even the man on the street is beginning to see that the only *real* money is that *chosen by the market*—i. e., gold or silver. And if the government, in order to finance deficit after deficit, keeps on printing more and more paper and calling it "legal tender" money, that paper will some day become as worthless as did the Continental currency and the German mark.

This raises the intriguing image of Gresham's Law being turned upside down: *good* money driving out *bad* money instead of the reverse. Gresham's Law—"bad money drives out good money"—only applies when government controls the price of *both* parallel monies, i. e., their ratio of exchange. Under freedom of choice in the market place, competition among traders will displace bad money with *good* money—just as

competition displaces poor products and services with better products and services.

Professor Sennholz does not say what might happen if the government forced its paper on the public in payment for public debts while requiring, at the same time, that taxes must be paid in gold (or gold-redeemable certificates). That stratagem, resorted to by the Byzantine Emperor Alexius Comenus (AD 1081-1118) led to the decline and fall of the Byzantine Empire.

In any case, no solution of our monetary crisis is possible without a total reformation of our political, social and economic understanding.

Says Sennholz: "Depending on the resistance offered by popular ignorance and prejudice, by government greed and lust for power, it may take us many years" to restore a sound money system in our country. He emphasizes that government's propensity to inflate the currency can only end if pressure group voters stop asking government for favors at the expense of all other taxpayers. And he ends his book with a fervent call for renunciation of government subsidies, tariffs, favors and other gifts by all of us, and a return to self-reliance and a renewed dedication to the "giant educational task" before us. ☸

The Sennholz Creed of Public Morality

No matter how the transfer state may victimize me, I shall seek no transfer payments, nor accept any.

I shall seek no government grants, loans, or other redistributive favors, nor accept any.

I shall seek no government orders on behalf of redistribution, nor accept any.

I shall seek no employment in the government apparatus of redistribution, nor accept any.

I shall seek no favors from the regulatory agencies of government, nor accept any.

I shall seek no protection from tariff barriers or any other institutional restrictions on trade and commerce.

I shall seek no services from, nor lend support to, institutions that are creatures of redistribution.

I shall seek no support from, nor give support to, associations that advocate or practice coercion and restraint.

The Future of Business Regulation

MURRAY L. WEIDENBAUM, who is Director of the Center for the Study of American Business at Washington University in St. Louis, doesn't go so far as to say that government intervention in business is unnecessary. His message, in a horrifying little book, *The Future of Business Regulation* (Amacom, a Division of American Management Associations, 135 W. 50th St., New York, N.Y. 10020, 183 pp., \$12.95), is simply that we can get too much of a good thing.

This is a subtle study of the law of diminishing returns—indeed, the law of negative returns—as it applies to those well-meaning people in Washington and fifty state capitals who seek to save us from ourselves. Nobody in his right mind wants to die in an industrial accident, nobody wants to get cancer from the circumambient air or strangle on carbon monoxide, and nobody since the legendary King Mithridates has relished poison in

his food. But when the costs of regulation deprive every family of four of \$2,000 a year, which is the Weidenbaum claim, most people would be happy to save the money and to trust their own common sense to minimize the risks they must encounter in their daily living.

Despite his prodigious feats of cost-benefit analysis and quantification, Mr. Weidenbaum doesn't set any minimal standards for regulation. He deals in trajectories. In fiscal 1974 the budget to run the various federal regulatory bureaus was \$2.2 billion. In fiscal 1979 this had jumped 115 per cent to \$4.8 billion. There was, of course, the general inflation, but, as Mr. Weidenbaum observes in his deadpan manner, "there are few parts of the private sector that have recorded such gains in the same five-year period." Regulation, he adds, has "become a major growth area of the American economy."

The 115 per cent jump in federal

regulatory costs in five years was largely due to the passage of twenty-five new Congressional acts and amendments to older acts. One wonders just who has had his well-being improved to any considerable extent by any of this Congressional solicitude. Do we have any more energy because of the Energy Policy and Conservation Act? Weren't toxic substances under firm control before 1974? Couldn't the separate states be trusted to handle surface mining control or fair market practices in transactions between oil companies and their dealers? Why did the minimum wage have to be raised in the very five-year period that had seen such an increase in black teen-age unemployment? And why should Washington be concerned about levying fines for "business payments abroad," meaning money spent on meeting the customs of countries whose sense of morality differs from our own?

A Lower Standard of Living

In short, what do we get out of it all? We get a lowered standard of living, for one thing. Innovation in pharmaceuticals passes to other countries. Research and development money flows into defensive channels. Says the head of the General Motors Research Laboratory, "we've diverted a large share of our resources—sometimes up to half—into meeting government regula-

tions instead of developing better materials, better manufacturing techniques, and better products. . . . It's a terrible way to waste your research dollars."

The Dow Chemical Company, in 1976, figured that its expenses in complying with federal regulations came to \$186 million, a twenty-seven per cent jump from the 1975 total. A little more than half of the compliance money could be justified as necessary for the safety and protection of workers, customers and the general public. But the rest was either duplicative or simply "beyond good scientific manufacturing, business, or personnel practices," which is a nice way of describing stupidity.

Beyond the costs of compliance Dow has a story to tell about the costs to the community in expansion that is forgone. Dow had plans for a \$300 million petrochemical complex in California to meet West Coast demands for the company's goods and services. After spending \$4 million "for an environmentally sound project," the company decided it couldn't afford to waste any more money threading through "the regulatory red tape maze."

It's the same sort of story in copper. According to an Arthur D. Little company study, new pollution control regulations will add from twenty-three to thirty-nine per cent to copper prices, and cut smelter production around twenty-five to

thirty-three per cent. Copper imports will jump by eight per cent. The air will be cleaner, of course, but it will be cleaner mostly in areas that are quite capable of absorbing pollution without damage to individuals.

Environmental Problems

In a lot of instances of our concern for environmental perfection, regulation merely serves to shift the nature of pollution. In compliance with the law, the Pennsylvania Power Company added scrubbers to its new 825-megawatt complex. The scrubbers take the pollutants out of the coal, all right, but the by-product is 18,000 tons of sludge a day. To contain the sludge, the company has had to build a 350-foot-high dam, "the largest earth and rock embankment east of the Mississippi River." And the lake behind the dam, a lake of gook, already covers 900 acres of once picturesque countryside.

When the Labor Department proposed some new noise standards in steel mills, the steel company accountants sharpened their pencils. They figured that the cost of establishing controls that would satisfy OSHA inspectors would come to \$1.2 million for each affected steelworker. For a mere \$42 per employee, the companies could provide ear protectors (\$10), noise monitoring (\$12) and audiometric testing

(\$20). Some of the money saved could go for higher wages, some of it could go into needed capital formation to make more steel jobs for more people wearing ear protectors.

Alternatives

Mr. Weidenbaum would like to see Congress require economic impact statements before new regulatory bureaus are created and new laws passed. He would like to see the federal government imitate the state of Colorado in adopting so-called sunset laws that would force periodic reviews of the functions and the budgetary demands of agencies. Pollution taxes might be adopted, and fees might be charged for discharging effluents. This would force industries to do their own pollution monitoring. It would not only contribute to a healthier environment, it would also lighten the bureaucratic payroll in Washington.

What is needed most of all is a return to a little common sense. Mr. Weidenbaum paints an amusing picture of a man going to the bathroom in the morning and mildly losing his temper trying to open a bottle of aspirin which has the child-proof cap required by the Consumer Product Safety Commission. Personally I doubt that this would happen more than once—the alternative, which is to throw the child-proof cap into the wastebasket, is all too easy. It takes less effort to stow the aspirin bottle

on a top shelf out of a child's reach than it does to put the cap back on.

What we need is a Congress that will stop treating people like idiots. But if idiots continue to elect Congressmen, what can we do? ☉

AMERICAN ETHNIC GROUPS

edited by Thomas Sowell

(The Urban Institute, 2100 M Street, N.W., Washington, D.C. 20037)

249 pages ■ \$7.50

Reviewed by Allan C. Brownfeld

WHY have some racial, religious and ethnic groups advanced rapidly in the American society while others have progressed economically and educationally more slowly? Are some groups inherently superior, or is there something in the background of each which may account for both successes and failures?

This study is the product of research conducted at The Urban Institute from 1972 to 1975 under the direction of Thomas Sowell. Dr. Sowell is a widely respected black economist and the author of a number of important books, including *Race and Economics*, a landmark study of the impact of race upon economic advancement in the American society. He is an advocate of free enterprise and believes that through the working of the market

blacks will progress as have the various immigrant groups which preceded them to urban America.

Of the dozen or so groups that were examined, six were selected for special emphasis: those with black, Chinese, Japanese, Irish, Italian or Jewish background. These groups, writes Dr. Sowell, "are all minorities, they share many aspects of the immigrant experience, although only blacks suffered the burden of slavery; and all have faced exceptional barriers and experienced frustration in achieving economic and social mobility. One of the chief structural concepts implicit in this study is that the evolution of minority immigrant groups proceeds in parallel continua, in the course of which each group experiences similar developments, although not necessarily at the same time, with the same intensity, or in exactly the same way."

In an essay concerning black Americans, Sowell discusses three separate and distinct categories: (1) Those "free persons of color" who were emancipated before the end of the Civil War and in 1830 constituted 14 per cent of the American Negro population; (2) The largest component of the American Negro population, those blacks emancipated after the Civil War and their descendants; and (3) Black immigrants, primarily from other parts of the Western Hemisphere, and espe-

cially from the British West Indies.

Many traditional myths are shattered in this study. Dr. Sowell declares, for example, that, "Despite a large literature which has repeated, without evidence, the theory that slavery was responsible for broken or matriarchal homes among American Negroes, it was precisely among freed slaves that the highest incidence of two-parent families was found in mid-nineteenth century Philadelphia and it is only in a much later era that the incidence of broken homes in urban ghettos reached unusually large proportions." Figures show that a similarly high rate of broken homes may be found among other, nonenslaved groups, such as the Irish in an earlier era, and Puerto Ricans and Mexican-Americans today.

The West Indians are of particular interest because their rate of progress in the U.S. has been far ahead of that of native-born blacks, indicating that race has not been the key factor. Dr. Sowell writes that slavery in the West Indies differed significantly from that in the U.S. because, "instead of a minority of blacks surrounded by a larger white society, the West Indies has long been a place with an overwhelmingly black population. . . . The West Indian plantation could not draw upon a larger white society for its economic needs, and in fact members of the enslaved black popula-

tion grew their own food individually, and sold the surplus in the market off the plantation. Unlike slaves in the U.S. . . . slaves in the West Indies were assigned individual plots of land in which each family grew its own food. In short, even during the era of slavery, black West Indians had generations of experience in individual reward for individual effort . . . also, the virtual absence of a white working class meant that 'free persons of color,' and later the whole free black population, could not be restricted to the most menial occupations, as in the U.S., or the more skilled and more responsible positions would have gone unfilled. . . . The whole West Indian experience followed a pattern reminiscent of European immigrants rather than the pattern of their native black contemporaries."

In an essay concerning Chinese and Japanese immigrants in the U.S., William Petersen points out that the gross discrimination and collective frustration to which these groups were subjected "ordinarily result in a pattern of poor education, low income, high crime rate and unstable family life. . . . However, these two minorities themselves broke through the barriers of prejudice and, by such key indices as education and income, surpassed the average levels of native born whites. This anomalous record, like the earlier one of Jews, challenges the

premises from which the etiologies of poverty, crime, illegitimacy and other social ills are typically deduced. That discrimination is evil in itself is beyond question . . . the question is whether even the most debilitating discrimination need incapacitate a people if it is not reinforced by other pressures."

Dr. Petersen writes that, "Like Negroes, Orientals got few loans from regular banks; but unlike Negroes, they used traditional institutions to amass the capital needed to establish small businesses. One system has worked more or less like a building-and-loan association: subscribers paid in regularly, received interest for their deposits, and were eligible for interest-bearing loans when they needed them. . . ."

During World War II, the Japanese were placed in internment camps and lost most of their property—losses estimated at more than \$400 million in 1940 dollars. "One might have anticipated that the camp inmates would succumb to bitterness and apathy. Instead most lived out the Japanese proverb, 'Six times down, seven times up!' . . . For both Chinese and Japanese, the self-discipline of individuals was supplemented by various types of their own organizations designed to further their joint efforts."

Discussing the European immigrant groups, and the reasons for swift Jewish advance and much

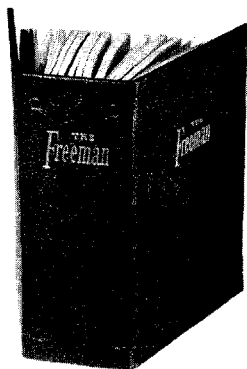
slower advances by other European groups, particularly the Roman Catholic Irish and Italians, Alice Kessler-Harris and Virginia Yans-McLaughlin note that, "When choices had to be made, such groups as Italians, Irish and Poles would sacrifice the educational interests of their young, withdrawing them from school, sending them to work, absorbing their earnings. Such decisions increased present earnings at the expense of future skills. Jews do not seem to have made similar compromises. . . . Jewish mobility is legendary. . . . Seventy-five per cent of the sons of Jewish immigrants had moved up to middle class status by 1950, an almost exact reversal of the proportions among Italians. . . . Religious tradition and community approval encouraged the Jew in America to invest in education and correspondingly to increase his upward mobility. No other group had this advantage. . . . By 1953 . . . while one in every 20 Americans had completed college, one in every six Jews had done so."

The authors point out that every group which has been successful has "come from a cohesive community, one characterized by concerned participation in religious institutions, charitable enterprises and self-help groups." They also point out that political power and economic advance have little relationship to one another. "Irish political acumen, as

evidenced in the big city political machines of New York, Chicago, and Boston, was not translated into mobility for the ethnic group. . . . The Boston Irish who had political control of that city from the 1880s on, were twice as likely as any other group, native or foreign, to be low-level manual workers in the 1890s."

This study challenges the idea that discrimination causes poverty, crime and other social problems. The dramatic advance of black West Indians, Japanese, Chinese, Jews and others indicates that far more is

involved in achieving economic success. Those who seek to correct social problems by interfering in the workings of the free market—the same market which enabled all of these other groups to succeed as a result of their own efforts—are misreading the problems we face. A free society rewards hard work, self-discipline, respect for education, and self-help. How to imbue those who do not share these values with such an approach to life is our real problem. It cannot be done by one or another of the "Wars on Poverty" we have entered into. ☸



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The Crisis of Our Age

It is not possible to define or circumscribe historical periods with any degree of exactitude. Rather must we make generalizations. We can say that the Golden Age of Greece was approximately from 500 to 200 B.C. When were the Dark Ages? That too is a period difficult to designate—perhaps from the 8th to the 14th century. When did the so-called Modern Age begin? Sometime after 1750, perhaps in 1776 with the invention of the steam engine and the publication of Adam Smith's *Wealth of Nations*, as well as the signing of the Declaration of Independence. But to fix on any given year is no doubt an oversimplification.

Dr. Norman S. Ream is pastor of the First Congregational Church, Wauwatosa, Wisconsin. This article is from his sermon of October 14, 1979.

It is even more difficult to deal with our own age. When we are so close to something it is impossible to assess it with a great degree of accuracy. Ours has, however, already been nominated as the Aspirin Age, the Age of Anxiety, and the Atomic Age, among others. We can only generalize about when our age began and no one knows when it will end. There are many, however, who are exceedingly fearful of how it will end.

There is another name that could be given to our age and unfortunately it too is a name implying that you and I and many who preceded us have not done very well with our Christian Stewardship. Would that we could call ours an age of enlightenment, or an age of new renaissance. But even the most op-

timistic would be hard put to make such descriptions believable.

I would suggest that ours could be defined as an age of moral disintegration—a time during which all the old and generally accepted standards for human behavior began to crumble and to fall apart. Where once there was general agreement as to what was right and wrong, moral and immoral, good and bad, now we are a people seemingly almost hopelessly divided on such issues. We will not admit that this is the result of our moral myopia, however, but would rather insist that we are just more liberal, more tolerant and more understanding than people used to be. But if a society is to be judged by its fruits, as Jesus said a tree was to be judged—and by implication individuals—then our society would seem to be in an extremely precarious condition.

"Situational Ethics"

Ours is a society which has adopted "situational ethics" with a vengeance. What is right is what each person thinks is right. In any society where that is generally so, then, in that society there is no way of making valid judgments about human behavior, and no one form of behavior can be defended as being better than any other. No doubt the widespread belief in egalitarianism is in part responsible for such a

state of moral anarchy. If we are all equal in all ways, then the morality of a saint is no better than that of a member of the Mafia.

Anarchy and chaos are always the consequence of a loss of order in society. Because, by man's very nature, he cannot long live without order, when the situation gets bad enough he will turn to any kind of order as being better than none. What is then offered him is an order imposed by force. He finds himself in a totalitarian society where order, civil and moral, is imposed by the will of the omnipotent few.

One need only read the two opening books of the Old Testament to discover that mankind always teeters between anarchy and order, between barbarism and morality. Moses had a terrible time trying to keep his people loyal and faithful to the moral order God had revealed to him. But the Ten Commandments were not new and unique. They were preceded by the code of Hammurabi. Wherever there has been any semblance of civilization there has been—there has had to be—some kind of generally accepted moral order, or an imposed one. Men do not survive in community by instinct alone. And without community there is little, if any, progress. When a community loses its principles, its moral guidelines, then it begins to disintegrate.

Two philosophers have written a

book entitled *Personality and the Good*. Their names are Bertocci and Millard and this is what they say:

A human being will not accept chaos. When he can no longer cope with it he begins to get sick, both physically and mentally. When chaos has won out he is dead. But as long as he is alive he is seeking to reduce chaos in some way or other.

Lack of Moral Discipline

A French scientist by the name of J. Rostand has observed that "science has made us gods before we were even worthy of being men." We have great means at our disposal but very little meaning, tremendous power but a lack of purpose. The primary need in modern society, contrary to what we read so much of in the media, is not the need for natural resources; oil, or other material things. What we desperately need is not someone to tell us what we ought to do, but someone to show us what we ought to be, not someone who will tell us how to build a brave new world, but someone who will show us how to be new men and new women. What we need most requires a moral and a spiritual discipline, and that is the area where modern man is so sadly lacking.

I am convinced that is not only what is needed, but by our finest young people that is precisely what is most desired, whether they can

define it or not. Let me share a quotation from a former liberal modernist who has seen the light and is now a moral and spiritual traditionalist. Irving Kristol is his name. He is a professor at New York University and a frequent contributor to the *Wall Street Journal*. He says this:

Young people do not want to hear that the church is becoming modern. Go tell the young people that the message of the church is to wear sack cloth and ashes and to walk on nails to Rome, and millions would do it. . . . Young people are looking for religion so desperately that they are inventing new ones; old religions are pretty good. New ones are being invented because the churches capitulated to modernity at the very time when the rebellious, gnostic, self-confident spirit of modernity was entering a major crisis and was moving toward its own discreditation.

It is in the youth that we see most clearly the reality that men cannot live happily in a state of moral chaos. They do not live by bread alone. They require and they desire rules, standards, principles, to which the majority will adhere and which will give them a sense of oneness as they pursue a high and worthy goal.

Now, these rules, standards and principles must have a source, and only if that source is believed to be beyond the puny mind of man will it have any objective validity. The Hebrew-Christian tradition affirms

the source of all moral validity to be God. Out of God's love for man; out of God's plan and purpose for him, comes the moral law. It has no ulterior motive nor any selfish purpose. It is meant to enhance man's eternal well-being, but it also enhances his temporal state as well.

Success Requires Character

Let me offer the simplest of illustrations, one which has been in my mind for many years. Who makes the most successful salesman in the long run? Is it the man who lies and cheats and steals? Remember, I said "in the long run". To be sure, in the short run, you may get a big order by sharp practice, but will you get any repeat business? The most successful salesman is the one who is trusted because he is honest, he is sincere, he is a man of character. And what is true in sales is true in every other area of life. These values promote order and trust. Lack of them leads to chaos and anarchy because men and women become constantly suspicious of one another. Which kind of world would you prefer to live in?

A short time ago I received a mild rebuke for not preaching more Biblically oriented sermons. I do not conceive how any sermon could be more Biblically oriented than this one. It's what the Bible is all about from start to finish. God loves you. Because he loves you he has a goal

and a purpose for you. To have you attain that goal and purpose he has given you a Way in which to walk. Here in the Old Testament are Ten Commandments to which you must adhere if you would walk in that way. Here in the New Testament are Two Commandments to direct your path—love God with all of your being and love your neighbor as yourself. How do you do that? Read the Sermon on the Mount—forgive endlessly, turn the other cheek, go the second mile, serve without thought of reward, do good to those who despise and persecute you. But most important of all, we have in the New Testament a person who reveals to us by his example what each of us can become.

All Christian morality is based on God's love. Why is abortion an evil thing? Because God loves that little child he created, but also because God loves you and does not want you to do anything that would destroy the great potential for good that is within you.

These Christian values are ultimate values. I listened to a professor of economics recently. He was speaking to foremen and supervisors of a large Wisconsin corporation. He knew I was present and that I was a minister. He mentioned the fact and prefaced one of his remarks by suggesting that I might not agree with him. He was right. I didn't, for what he said was, "Moral-

ity is determined by the economic environment." I would agree that morality—ultimate truth about human action—is discovered in the marketplace, but it is not determined there. It was determined a long time ago in the mind of God when he considered the end and the goal he desired man to achieve. The market may motivate man to act morally or immorally, but it does not determine right and wrong, good and evil. God has determined that.

You and I live, I am afraid, in a time of moral confusion bordering on moral chaos. What can we do

about it? We can live morally ourselves. We can advocate morality to others and defend it when it is attacked. We can pray that God will reveal the truth about morality to enough men and women that our own civilization may be saved before it goes the way of so many that have preceded it.

One thing more, we can be committed to the teaching and preserving of the moral principles taught by Jesus Christ and without which no free and worthwhile social order can survive. 

A Worthy National Goal

WHETHER man's destiny is forced or free; whether he is a robot product of his environment or whether he can shape his environment; whether he is a moral, intelligent being who should be left free to plan his own life or whether he should be considered a pawn, to be planned by the state—these are among the most important questions of our time. Several years ago, it was the fashion to project for America so-called national goals or purposes; a rather futile undertaking because America, like any free society, is many million purposes—all combining toward end results far richer and finer than any totalitarian state has produced.

But it would be a worth-while national goal to rekindle in American public opinion those attitudes and responses—social, economic, and moral—appropriately based on the assumption that man is internally free and, regardless of environment, able to shape his life, for better or for worse.

WILLIAM HENRY CHAMBERLIN,
"Man's Destiny: Forced or Free?"

IDEAS ON



LIBERTY

PRICE CONTROLS AND SHORTAGES

PRICE controls are advocated as a method of controlling inflation. People assume that inflation means rising prices and that it exists only when and to the extent that businessmen raise their prices. It appears to follow, on this view, that inflation would not exist if price increases were simply prohibited by price controls.

Actually, this view of inflation is utterly naive. Rising prices are merely a leading symptom of inflation, not the phenomenon itself. Inflation can exist, and, indeed, accelerate, even though this particular symptom is prevented from appearing. Inflation itself is not rising

prices, but an unduly large increase in the quantity of money, caused, almost invariably, by the government. In fact, a good definition of inflation would be, simply: an increase in the quantity of money caused by the government. Rising prices as a chronic social problem are a consequence of governments overthrowing the use of gold and silver as money and putting in their place unbacked paper currencies and checking deposits whose quantity can be increased without limit and virtually without cost.

The imposition of price controls to deal with inflation is as illogical as would be an attempt to deal with expanding pressure in a boiler by means of manipulating the needle in the boiler's pressure gauge. It is no less self-destructive, as well. Prices are equivalent to an instrument

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This article is reprinted by permission from his new book, also reviewed in this issue, *The Government Against the Economy*.

panel on the basis of which everyone plans his economic activities and which enables the plans of each individual to be harmoniously adjusted to the plans of all other individuals participating in the economic system.

The free market is a truly awe-inspiring complex of relationships in which the rational self-interest of individuals unites all industries, all markets, all occupations, all production, and all consumption into a harmonious, progressing system serving the well-being of all who participate in it.

All of this is what price controls destroy.

Controls Cause Shortages

The one consequence of price controls that is the most central and the most fundamental and important from the point of view of explaining all of the others is the fact that *price controls cause shortages*.

A shortage is an excess of the quantity of a good buyers are seeking to buy over the quantity sellers are willing and able to sell. In a shortage, there are people willing and able to pay the controlled price of a good, but they cannot obtain it. The good is simply not available to them. Experience of the gasoline shortage of the winter of 1974 should make the concept real to everyone. The drivers of the long lines of cars all had the money that

was being asked for gasoline and were willing, indeed, eager, to spend it for gasoline. Their problem was that they simply could not obtain the gasoline. They were trying to buy more gasoline than was available.

The concept of a shortage is not the same thing as the concept of a scarcity. An item can be extremely scarce, like diamonds, Rembrandt paintings, and so on, and yet no shortage exist. In a free market the effect of such a scarcity is a high price. At the high price, the quantity of the good demanded is levelled down to equality with the supply available, and no shortage exists. Anyone willing and able to pay the free-market price can buy whatever part of the supply he wishes; the height of the market price guarantees it, because it eliminates his competitors. It follows that however scarce a good may be, the only thing that can explain a shortage of it is a price control, not a scarcity. It is a price control that prevents the price of a scarce good from being raised by the self-interest of the buyers and sellers to its free-market level and thus reducing the quantity of the good demanded to equality with the supply of the good available.

Of course, if a price control on something exists, and a scarcity of it develops or grows worse, the effect will be a shortage, or a worsening of the shortage. Scarcities can cause

shortages, or worsen them, *but only in the context of price controls*. If no price control existed, the development or worsening of a scarcity would not contribute to any shortage; it would simply send the price higher.

Shortage Amidst Abundance

It should be realized that a shortage can exist despite a great physical *abundance* of a good. For example, we could easily develop a severe shortage of wheat in the United States with our present, very abundant supplies, or even much larger supplies. This is because the quantity of wheat demanded depends on its price. If the government were to roll back the price of wheat sufficiently, it would create a major additional demand—not only a larger export demand, but a larger demand for raising cattle and broilers, making whiskey, and perhaps for many other employments for which one does not presently think of using wheat, because of its price. In other words, no matter how much wheat we now produce or might produce in the future, we could have a shortage of wheat, because at an artificially low price we could create a demand for an even larger quantity.

To the degree that the controlled price is below the potential free-market price, buyers judge that they can afford more of the good with the same monetary wealth and income.

They judge that they can carry its consumption to a point of lower marginal importance. In this way, the quantity of the good demanded comes to exceed the supply available, whether that supply is scarce or abundant.

Price controls also reduce supply, which intensifies the shortages they create.

In the case of anything that must be produced, the quantity supplied falls if a price control makes its production unprofitable or simply of less than average profitability.

Squeezing Marginal Producers

It is not necessary that a price control make production unprofitable or insufficiently profitable to *all* producers in a field. Production will tend to fall as soon as it becomes unprofitable or insufficiently profitable to the highest-cost or *marginal* producers in the field. These producers begin to go out of business or at least to operate on a smaller scale. Their place cannot be taken by the more efficient producers, because the same price control that drives them out of business restricts the profits of the more efficient producers and deprives them of the incentive and also the capital required for expansion. Indeed, the tendency is eventually for even the most efficient producers to be unable to maintain operations and to be driven out of business.

For example, the price controls on oil have held down the supply of oil. They have not yet totally destroyed the supply of oil, but they have discouraged the development of high-cost sources of supply, such as oil from shale rock and even from the continental shelf in some instances. They have also made the more intensive exploitation of existing oil fields unprofitable, which, it is estimated, could be made to yield from one-third to two-thirds more oil over their lives by the adoption of such methods as thermal or chemical flooding, sometimes known as "tertiary recovery." At the same time, in restricting the profits from the lower-cost oil deposits, price controls have held down both the incentives to discover and develop new such deposits and the capital necessary to the oil companies for expanded oil operations of any type.

Rent Controls

Rent controls on housing that has already been constructed provide a similar example of the destruction of supply. As inflation drives up the operating costs of housing—namely, such costs as fuel, maintenance, and minor repairs—more and more landlords of rent-controlled buildings are forced to abandon their buildings and leave them to crumble. The reason is that once the operating costs exceed the frozen rents, continued ownership and operation of a build-

ing become a source merely of fresh losses, over and above the loss of the capital previously invested in the building itself.

This destruction of the housing supply starts with the housing of the poor and then spreads up the social ladder. It starts with the housing of the poor because the operating costs of such housing are initially so low that they leave relatively little room for further economies. For example, there are no doormen to eliminate and therefore no doormen's salaries to save. Also, the profit margins on such housing (i.e., profits as a percentage of rental revenues) are the lowest to begin with, because the land and the buildings are the least valuable and therefore the amount of profit earned is correspondingly low. As a result, the housing of the poor is abandoned first, because it provides the least buffer between rising operating costs and frozen rents.

A price control reduces supply whenever it is imposed in a local market and makes that market uncompetitive with other markets. In such a case, the local market is prevented from drawing in supplies from other areas, as was the Northeast and the United States as a whole during the Arab oil embargo.

In exactly the same way, in the winter of 1977, price controls on natural gas prevented areas of the United States suffering freezing

weather from bidding for additional supplies from the producing regions in the South and Southwest. Natural gas shipped across state lines was controlled by the Federal Power Commission at a maximum of \$1.42 per thousand cubic feet. Natural gas sold within the states where it was produced, and thus outside the jurisdiction of the FPC and free of price controls, was selling at \$2.00 per thousand cubic feet, with lower costs of transportation besides. It was therefore much more profitable to sell natural gas in the states where it was produced, such as Texas and Louisiana, than in such states as New Jersey or Pennsylvania.

Export Policies Affected

A price control not only prevents a local market from drawing in supplies from elsewhere, but it can also cause a local market that normally exports, to export excessively. In this case, as supplies are drawn out, the price control prevents the people in the local market from bidding up the price and checking the outflow.

This phenomenon occurred in this country in 1972 and 1973. Our price controls on wheat, soybeans, and other products made possible an unchecked exportation that jeopardized domestic consumption and led to an explosion of prices each time the controls were taken off, in Presi-

dent Nixon's succession of on-again, off-again "phases."

In this instance, the fall in the value of the dollar in terms of foreign currencies played a critical role. When President Nixon imposed price controls in August of 1971, he also took steps to devalue the dollar by 10 percent. Over the following two years, the dollar continued to fall in terms of foreign currencies and in 1973 was formally devalued a second time. The fall in the dollar's foreign exchange value meant a lower price of dollars in terms of marks, francs, and other currencies. Since the prices of our goods were frozen, a lower price of dollars meant that all of our goods suddenly became cheaper to foreigners. As a result, they began buying in much larger quantities—especially our agricultural commodities. As they began buying, domestic buyers were prevented by price controls from outbidding them for the dwindling supplies. As a result, vast accumulated agricultural surpluses were swept out of the country, and domestic food supplies were threatened, which is why prices skyrocketed each time the controls were taken off.

The fact that price controls jeopardize supplies in markets that export leads to embargoes against further exports, as occurred in this country in the summer of 1973, when we imposed an embargo on the

export of various agricultural commodities. In addition, price controls in markets that must import make such markets helpless in the face of embargoes imposed by others, as we were made helpless in the face of the Arab oil embargo. It follows that in degree that countries impose price controls, they must fear and hate each other. Each such country must fear the loss of vital supplies to others, as the result of excessive exportation, and the deprivation of vital supplies from others, as the result of their embargoes and its helplessness to cope with them. Each such country makes itself hated by its own embargoes and hates the countries that impose embargoes against it. Our embargo on agricultural products in 1973 did not endear us to the Japanese. And there was actual talk of military intervention against the Arabs. Simply put, price controls breed war. A free market is a necessary condition of peace.

Reserves Exhausted

A price control reduces supply whenever it is imposed on a commodity of the kind that must be stored for future use. The effect of a price control in such a case is to encourage a too rapid rate of consumption of the commodity and thus to reduce supplies available for the future. As we have seen, buyers are led to buy too rapidly by the artifi-

cially low price, and sellers are led to sell too rapidly, since the fixity of the controlled price does not enable them to cover storage costs and earn the going rate of profit in holding supplies for future sale.

If the buying public is unaware of the impending exhaustion of supplies, the effect of sellers placing their supplies on the market right away is to depress the current market price below the controlled price. This process tends to go on until the current market price falls far enough below the controlled price, so that once again it has sufficient room to rise in the months ahead to be able to cover storage and interest costs. The resulting structure of prices guarantees the premature exhaustion of supplies.

Under conditions such as those described above, the buying public sooner or later becomes aware of the fact that supplies will run out. At that point, demand skyrockets, as the buyers scramble for supplies. As soon as this occurs, and it may be very early, the larger supplies that sellers are encouraged to place on the market under price controls are not sufficient to depress the market price below the controlled price, because they are snapped up by the speculative buying of the public, which is aware of the shortage to come. The consequence of the speculative buying of the public is that the item disappears from the

market right away; it is hoarded.

The hoarding of the buying public is not responsible for the existence of shortages. The public hoards *in anticipation* of shortages caused by the price controls. The public's speculative demand cannot even be blamed for hastening the appearance of a shortage. That too must be blamed on price controls, because in the absence of the controls the additional demand of the public would simply raise prices; at the higher prices, the rise in the quantity of goods demanded would be cut back; prices would rise to whatever extent necessary to level down the quantity demanded to equality with the supply available.

Speculative Influence

Speculation on the part of the suppliers of goods is likewise blameless for the existence of shortages. Contrary to popular belief, price controls do not give suppliers a motive to withhold supplies, but, as we have seen, an incentive to unload them too rapidly.

There is, of course, an important exception to the principle that price controls give sellers an incentive to sell their supplies too rapidly. This is the case in which the sellers are able to look forward to the repeal of the controls. In this case, a price control makes it relatively unprofitable to sell in the present, at the artificially low, controlled price, and

more profitable to sell in the future, at the higher, free-market price. In this case, sellers do have a motive to withhold supplies for future sale.

Even in this case, however, it is still the price control that is responsible for the existence of any shortage that develops or intensifies. In this case, the price control discriminates against the market in the present in favor of the market in the future; it prevents the market in the present from competing for supplies with the market in the future. Furthermore, in the absence of a price control, any build-up of supplies for sale in the future would simply be accompanied by a rise in prices in the present, which would prevent the appearance of a shortage, as we have seen repeatedly in previous discussion.

Finally, it should be realized that the withholding of supplies in anticipation of the repeal of a price control does not imply any kind of antisocial or evil action on the part of the suppliers. Price controls, as we have seen, lead to inadequate stocks of goods; in many cases, it is probable that the build-up of stocks in anticipation of the repeal of controls merely serves to restore stocks to a more normal level. Even if the build-up of stocks does become excessive, its effect later on, when the stocks are sold, is merely to further reduce the free-market price in comparison with what that price

would otherwise have been. In any event, any ill-effects that may result are entirely the consequence of price controls.

The Consumer's Interest

Sometimes, the question is raised as to what argument one could give to a consumer to convince him to be against price controls; especially what argument one could give to a tenant to convince him to be against rent controls. Our discussion of how price controls reduce supply indicates a very simple argument to give to any consumer against any price control. That is that if he wants something, he must be willing to pay the necessary price. It is a natural law—a fact of human nature—that a good or service can only be supplied if supplying it is both worthwhile to the suppliers and as worthwhile as any of the alternatives open to them. If the price is controlled below this point, then it is equivalent to a prohibition of supply. To command, for example, that apartments be supplied at rents that do not cover the costs of construction and maintenance, and the going rate of profit, is equivalent to commanding that buildings be built out of impossible materials like air and water rather than steel and concrete. It is to command construction in contradiction of the laws of nature. In the same way, to command that oil be sold less profitably in

New York than in Hamburg, say, or that natural gas be sold less profitably in Philadelphia than in Houston, is equivalent to commanding that these materials become drinkable and that water become burnable, for it is no less an act in contradiction of the nature of things.

Now it is simply absurd for a consumer who wants a good, to support a measure which makes its supply impossible. And that is what one should tell him. That is what the consumers themselves should tell the legislators who are busy enacting price-control laws for their alleged benefit. These would-be benefactors of the consumers are prohibiting the consumers from making it worthwhile for businessmen to supply them. They are destroying the businessmen. In effect, they are destroying the consumers' ability to find agents to act on their behalf. They are reducing the consumers to the point where if they want anything, they will have to produce it themselves, because price controls will make it unprofitable for anyone to supply it to them. Already, rent control has "benefitted" tenants to the point that it is becoming increasingly necessary if one wants an apartment to own it oneself: one must buy a "co-op" or a condominium. Price controls have made it increasingly difficult, and at times absolutely impossible, to buy oil or natural gas. If the legislators

are to go on "benefitting" the consumers long enough with their price controls, they will benefit them all the way back to the economic self-sufficiency that was the leading characteristic of feudalism.

"The reader of this book may very well finish it with a radically different understanding of such events as the oil and natural gas crises, chronic power failures, and the decline of rental housing in places like New York City."

—From the introduction by
William E. Simon

The ignorance that underlies the destruction of our economic system is made possible by a protective shell of envy and resentment. People take the attitude that somehow the utilities, the landlords, the oil industry, or whoever, are "already rich enough," and that they'll be damned if they'll let them get any richer. So, on with the price controls. That is the beginning and the end of their thinking on the subject, and they just don't care to think any further. They are eager to accept high nominal profits as a confirmation of their view that the industries concerned are "rich enough," and to let it go at that.

However, the simple fact is that

none of these industries is rich enough, and in preventing them from becoming richer, or even staying as rich as they are, people foolishly harm themselves. None of these industries is rich enough for the simple reason that we really do not have enough power plants, enough good apartment buildings, or enough oil wells and oil refineries. Speaking for myself, *as a consumer*, I must say that I would like Con Edison, the landlords of New York City, the oil industry, and so on, all to be worth many more billions than they are presently worth. I would benefit from that fact. If Con Ed had more power plants, my supply of electricity would be assured. If the landlords had more and better buildings, I would have a better apartment. If the oil industry had more wells and refineries, I would have a more abundant and secure supply of oil products.

If one thinks about it, I believe, nothing could be more absurd than consumers in a capitalist economy attacking the wealth of their suppliers. That wealth serves *them*—they are the physical beneficiaries of it. All of the wealth of the utilities, the landlords, the oil companies—where is it? It is in power plants and power lines, apartment buildings, oil wells and oil refineries. And whom does it actually, physically, serve? It serves

the consumers. It serves *us*—all of us. We have a selfish interest in the preservation and increase of that wealth. If we deprive Con Ed of a power plant, we deprive ourselves of power. If we deprive our landlords of more and better buildings, we deprive ourselves of apartments. If we deprive the oil industry of wells and refineries, we deprive ourselves of gasoline and heating oil.

Trust the Market

There is indeed a harmony of interests between the consumer and the producer under capitalism. Because of it, even if businessmen become cowardly and do not fight for their own interests, we, as consumers, must fight for them, and thereby for ourselves. For we have a selfish interest in being able to pay prices that make it profitable for businessmen to supply us. It is to our self-interest to pay utility rates, rents, oil prices, and so on, that enable the producers in these fields to keep their facilities intact and growing, and that make them want to supply us. And I must say that we do not have to worry about being charged unfairly in a free market, because any high profits that might be made from us are simply the incentive and the means to an expanded supply, and are generally made only because of special efficiency on the part of the producers who earn them. (E)

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—F.A. Hayek

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Robert E. Hood

“SWEET LAND OF LIBERTY”?

LIBERTY, freedom, justice, equality: these are a few of the words often used to define America. But each time I attempt to associate these qualities with “America is” I find myself more inclined to use “America was”. America is the sum of its people, its government, and its national character. Our government is the people; we elect it and we are directly responsible for its actions. It is a reflection of our national character or lack of it.

How does one sing praises to a government that, having taxed its citizens to the bearable limit, proceeds to inflate the currency in order to finance its grandiose schemes? How does one applaud a government whose principal function has become the redistribution of the wealth and property of its citizens? How does one extol the virtues of a government which preaches human rights while it condones by its actions the most flagrant violations of human rights all over the world and consistently abrogates the individual rights of its own people? How does one glorify a government which at every turn takes steps to reward slothfulness, indolence, and conformity at the expense of industry, initiative, and creativity? How does one honor a government which places political expediency above the very principles upon which it was founded?

America was great. Today America is less great. Tomorrow America will cease to be great—if it continues its present course. Must we forever bungle our way through one unworkable social plan and government edict after another? When will we learn to separate the rational from the absurd; justice from injustice; principle from expediency; the moral from the immoral?

It was not always so. America has risen from an agricultural society of tedious hand labor to a technological monolith of

Mr. Hood, a businessman in Meredith, New Hampshire, formerly served in the State Legislature.

magnificent proportion. It has provided a standard of living for all which was unknown to previous generations. It has accomplished all this by the creative genius of mankind in an atmosphere of freedom and individual responsibility; not by the beneficence of a government whose only legitimate contribution is the protection of individual rights and property. America has proved beyond doubt the efficacy of a system whereby each individual is free to pursue his own goals and enjoy the benefits produced by his own labor, for only freedom is compatible with human nature and man's infinite range of interests and abilities. It alone is conducive to the fulfillment of man's enormous potential.

If America is to remain great it must reaffirm and reestablish the principles upon which it was created. We must restore the "free" in free enterprise and learn again the limitations of government as the Founding Fathers once knew them. We must understand that liberty and freedom mean the right to pursue one's own goals and the right to earned property without government intervention. Freedom does not mean that we should be free of individual responsibility or free of the necessity of earning our own way. We must understand that justice and equality mean equality before the law without regard for color, creed, or sex. Justice does not mean retribution and unearned privilege or favor. We must no longer subordinate the inalienable rights of all to the whims and wishes of an undeserving few.

America was founded on the principles of freedom, not patronage and subsidy. America was built by the creativity and industry of its people, not by its government. America has endured by the strength and integrity of Americans, not by the will of its leaders. America will continue to flourish only by a rededication to its original ideals, not by hopeless dependence on political solutions. No other nation was ever founded on such a moral base and no other nation ever had such glorious potential. In the civilized world no other people have ever been so uniquely blessed as we.



Interventionism

A famous, very often quoted phrase says: "That government is best, which governs least." I do not believe this to be a correct description of the functions of a good government. Government ought to do all the things for which it is needed and for which it was established. Government ought to protect the individuals within the country against the violent and fraudulent attacks of gangsters, and it should defend the country against foreign enemies. These are the functions of government within a free system, within the system of the market economy.

Under socialism, of course, the government is totalitarian, and there is nothing outside its sphere and its jurisdiction. But in the market economy the main task of the government is to protect the smooth

functioning of the market economy against fraud or violence from within and from outside the country.

People who do not agree with this definition of the functions of government may say: "This man hates the government." Nothing could be farther from the truth. If I should say that gasoline is a very useful liquid, useful for many purposes, but that I would nevertheless not drink gasoline because I think that would not be the right use for it, I am not an enemy of gasoline, and I do not hate gasoline. I only say that gasoline is very useful for certain purposes, but not fit for other purposes. If I say it is the government's duty to arrest murderers and other criminals, but not its duty to run the railroads or to spend money for useless things, then I do not hate the

government by declaring that it is fit to do certain things but not fit to do other things.

It has been said that under present-day conditions we no longer have a free market economy. Under present-day conditions we have something called the "mixed economy." And for evidence of our "mixed economy," people point to the many enterprises which are operated and owned by the government. The economy is mixed, people say, because there are, in many countries, certain institutions—like the telephone, telegraph, and railroads—which are owned and operated by the government.

That some of these institutions and enterprises are operated by the government is certainly true. But this fact alone does *not* change the character of our economic system. It does not even mean there is a "little socialism" within the otherwise nonsocialist, free market economy. For the government, in operating these enterprises, is subject to the supremacy of the market, which means it is subject to the supremacy of the consumers. The government—if it operates, let us say, post offices or railroads—has to hire people, who have to work in these enterprises. It also has to buy the raw materials and other things that are needed for the conduct of these enterprises. And on the other hand, it "sells" these services or commodi-

ties to the public. Yet, even though it operates these institutions using the methods of the free economic system, the result, as a rule, is a deficit. The government, however, is in a position to finance such a deficit—at least the members of the government and of the ruling party believe so.

It is certainly different for an individual. The individual's power to operate something with a deficit is very limited. If the deficit is not very soon eliminated, and if the enterprise does not become profitable (or at least show that no further deficit and losses are being incurred) the individual goes bankrupt and the enterprise must come to an end.

But for the government, conditions are different. The government can run at a deficit, because it has the power to *tax* people. And if the taxpayers are prepared to pay higher taxes in order to make it possible for the government to operate an enterprise at a loss—that is, in a less efficient way than it would be done by a private institution—and if the public will accept this loss, then of course the enterprise will continue.

Intervention Breeds Inflation

In recent years, governments have increased the number of nationalized institutions and enterprises in most countries to such an extent that the deficits have grown far beyond the amount that could be

PHOTO BY DAVID JARRETT



Ludwig von Mises, 1881-1973, was one of the great defenders of a rational economic science, and perhaps the single most creative mind at work in this field in our century.

Found among the papers of Dr. Mises were transcripts of lectures he delivered in Argentina in 1959. These have now been edited by his widow and are available as a Regnery/Gateway paperbacked book. This article, one of the lectures, is here reprinted by permission of the publishers. All rights reserved.

The book, *Economic Policy: Thoughts for Today and Tomorrow*, also may be purchased at \$4.95 from The Foundation for Economic Education, Inc., Irvington-on-Hudson, N.Y. 10533.

collected in taxes from the citizens. What happens then is not the subject of today's lecture. It is inflation, and I shall deal with that tomorrow. I mentioned this only because the mixed economy must not be confused with the problem of *interventionism*, about which I want to talk tonight.

What is interventionism? Interventionism means that the government does not restrict its activity to the preservation of order, or—as people used to say a hundred years ago—to “the production of security.” Interventionism means that the government wants to do more. It wants to interfere with market phenomena.

If one objects and says the government should not interfere with

business, people very often answer: “But the government necessarily always interferes. If there are policemen on the street, the government interferes. It interferes with a robber looting a shop or it prevents a man from stealing a car.” But when dealing with interventionism, and defining what is meant by interventionism, we are speaking about government interference with the market. (That the government and the police are expected to protect the citizens, which includes businessmen, and of course their employees, against attacks on the part of domestic or foreign gangsters, is in fact a normal, necessary expectation of any government. Such protection is not an intervention, for the government's only legi-

timate function is, precisely, to produce security.)

What we have in mind when we talk about interventionism is the government's desire to do *more* than prevent assaults and fraud. Interventionism means that the government not only fails to protect the smooth functioning of the market economy, but that it interferes with the various market phenomena; it interferes with prices, with wage rates, interest rates, and profits.

The government wants to interfere in order to force businessmen to conduct their affairs in a different way than they would have chosen if they had obeyed only the consumers. Thus, all the measures of interventionism by the government are directed toward restricting the supremacy of consumers. The government wants to arrogate to itself the power, or at least a part of the power, which, in the free market economy, is in the hands of the consumers.

Let us consider one example of interventionism, very popular in many countries and tried again and again by many governments, especially in times of inflation. I refer to price control.

Governments usually resort to price control when they have inflated the money supply and people have begun to complain about the resulting rise in prices. There are many famous historical examples of

price control methods that failed, but I shall refer to only two of them because, in both these cases, the governments were really very energetic in enforcing or trying to enforce their price controls.

Price Controls in Ancient Rome and during the French Revolution

The first famous example is the case of the Roman Emperor Diocletian, very well-known as the last of those Roman emperors who persecuted the Christians. The Roman emperor in the second part of the third century had only one financial method, and this was currency debasement. In those primitive ages, before the invention of the printing press, even inflation was, let us say, primitive. It involved debasement of the coinage, especially the silver. The government mixed more and more copper into the silver until the color of the silver coins was changed and the weight was reduced considerably. The result of this coinage debasement and the associated increase in the quantity of money was an increase in prices, followed by an edict to control prices. And Roman emperors were not very mild when they enforced a law; they did not consider death too mild a punishment for a man who had asked for a higher price. They enforced price control, but they failed to maintain the society. The result was the disintegra-

tion of the Roman Empire and the system of the division of labor.

Then, 1500 years later, the same currency debasement took place during the French Revolution. But this time a different method was used. The technology for producing money was considerably improved. It was no longer necessary for the French to resort to debasement of the coinage: they had the printing press. And the printing press was very efficient. Again, the result was an unprecedented rise in prices. But in the French Revolution maximum prices were not enforced by the same method of capital punishment which the Emperor Diocletian had used. There had also been an improvement in the technique of killing citizens. You all remember the famous Doctor J. I. Guillotin (1738-1814), who invented the guillotine. Despite the guillotine the French also failed with their laws of maximum price. When Robespierre himself was carted off to the guillotine the people shouted, "There goes the dirty Maximum."

I wanted to mention this, because people often say: "What is needed in order to make price control effective and efficient is merely more brutality and more energy." Now certainly, Diocletian was very brutal, and so was the French Revolution. Nevertheless, price control measures in both ages failed entirely.

Now let us analyze the reasons for

this failure. The government hears people complain that the price of milk has gone up. And milk is certainly very important, especially for the rising generation, for children. Consequently, the government declares a maximum price for milk, a maximum price that is lower than the potential market price would be. Now the government says: "Certainly we have done everything needed in order to make it possible for poor parents to buy as much milk as they need to feed their children."

But what happens? On the one hand, the lower price of milk increases the demand for milk; people who could not afford to buy milk at a higher price are now able to buy it at the lower price which the government has decreed. And on the other hand some of the producers, those producers of milk who are producing at the highest cost—that is, the marginal producers—are now suffering losses, because the price which the government has decreed is lower than their costs. This is the important point in the market economy.

Milk Production Curbed

The private entrepreneur, the private producer, cannot take losses in the long run. And as he cannot take losses in milk, he restricts the production of milk for the market. He may sell some of his cows for the slaughter house, or instead of milk

he may sell some products made out of milk, for instance sour cream, butter or cheese.

Thus the government's interference with the price of milk will result in less milk than there was before, and at the same time there will be a greater demand. Some people who are prepared to pay the government-decreed price cannot buy it. Another result will be that anxious people will hurry to be first at the shops. They have to wait outside. The long lines of people waiting at shops always appear as a familiar phenomenon in a city in which the government has decreed maximum prices for commodities that the government considers as important. This has happened everywhere when the price of milk was controlled. This was always prognosticated by economists. Of course, only by sound economists, and their number is not very great.

But what is the result of the government's price control? The government is disappointed. It wanted to increase the satisfaction of the milk drinkers. But actually it has dissatisfied them. Before the government interfered, milk was expensive, but people could buy it. Now there is only an insufficient quantity of milk available. Therefore, the total consumption of milk drops. The children are getting less milk, not more. The next measure to which the government now resorts,

is rationing. But rationing only means that certain people are privileged and are getting milk while other people are *not* getting any at all. Who gets milk and who does not, of course, is always very arbitrarily determined. One order may determine, for example, that children under four years old should get milk, and that children over four years, or between the age of four and six should get only half the ration which children under four years receive.

Feed Prices Controlled

Whatever the government does, the fact remains, there is only a smaller amount of milk available. Thus people are still more dissatisfied than they were before. Now the government asks the milk producers (because the government does not have enough imagination to find out for itself): "Why do you not produce the same amount of milk you produced before?" The government gets the answer: "We cannot do it, since the costs of production are higher than the maximum price which the government has established." Now the government studies the costs of the various items of production, and it discovers one of the items is fodder.

"Oh," says the government, "the same control we applied to milk we will now apply to fodder. We will determine a maximum price for fod-

der, and then you will be able to feed your cows at a lower price, at a lower expenditure. Then everything will be all right; you will be able to produce more milk and you will sell more milk."

But what happens now? The same story repeats itself with fodder, and as you can understand, for the same reasons. The production of fodder drops and the government is again faced with a dilemma. So the government arranges new hearings, to find out what is wrong with fodder production. And it gets an explanation from the producers of fodder precisely like the one it got from the milk producers. So the government must go a step farther, since it does not want to abandon the principle of price control. It determines maximum prices for producers' goods which are necessary for the production of fodder. And the same story happens again.

Other Products Affected

The government at the same time starts controlling not only milk, but also eggs, meat, and other necessities. And every time the government gets the same result, everywhere the consequence is the same. Once the government fixes a maximum price for consumer goods, it has to go farther back to producers' goods, and limit the prices of the producers' goods required for the production of the price-controlled

consumer goods. And so the government, having started with only a few price controls, goes farther and farther back in the process of production, fixing maximum prices for all kinds of producers' goods, including of course the price of labor, because without wage control, the government's "cost control" would be meaningless.

Moreover, the government cannot limit its interference into the market to only those things which it views as vital necessities, like milk, butter, eggs, and meat. It must necessarily include luxury goods, because if it did not limit *their* prices, capital and labor would abandon the production of vital necessities and would turn to producing those things which the government considers unnecessary luxury goods. Thus, the isolated interference with one or a few prices of consumer goods always brings about effects—and this is important to realize—which are even *less* satisfactory than the conditions that prevailed before: before the government interfered, milk and eggs were expensive; after the government interference they began to disappear from the market.

The government considered those items to be so important that it interfered; it wanted to increase the quantity and improve the supply. The result was the opposite: the isolated interference brought about a

condition which—from the point of view of the government—is even *more* undesirable than the previous state of affairs which the government wanted to alter. And as the government goes farther and farther, it will finally arrive at a point where all prices, all wage rates, all interest rates, in short, everything in the whole economic system, is determined by the government. And this, clearly, is *socialism*.

Controls After World War I

What I have told you here, this schematic and theoretical explanation, is precisely what happened in those countries which tried to enforce a maximum price control, where governments were stubborn enough to go step by step until they came to the end. This happened in the First World War, in Germany and England.

Let us analyze the situation in both countries. Both countries experienced inflation. Prices went up, and the two governments imposed price controls. Starting with a few prices, starting with only milk and eggs, they had to go farther and farther. The longer the war went on, the more inflation was generated. And after three years of war, the Germans—systematically as always—elaborated a great plan. They called it the *Hindenburg Plan*: everything in Germany considered to

be good by the government at that time was named after Hindenburg.

The Hindenburg Plan meant that the whole German economic system should be controlled by the government: prices, wages, profits . . . everything. And the bureaucracy immediately began to put this into effect. But before they had finished, the debacle came: the German empire broke down, the entire bureaucratic apparatus disappeared, the revolution brought its bloody results—things came to an end.

In England they started in the same way, but after a time, in the spring of 1917, the United States entered the war and supplied the British with sufficient quantities of everything. Therefore the road to socialism, the road to serfdom, was interrupted.

Hitler's Germany

Before Hitler came to power, Chancellor Brüning again introduced price control in Germany for the usual reasons. Hitler enforced it, even before the war started. For, in Hitler's Germany, there was no private enterprise or private initiative. In Hitler's Germany there was a system of socialism which differed from the Russian system only to the extent that the *terminology and labels* of the free economic system were still retained. There still existed "private enterprises," as they were called. But the owner was

no longer an entrepreneur, the owner was called a "shop manager" (*Betriebsführer*).

The whole of Germany was organized in a hierarchy of *führers*; there was the Highest Führer, Hitler of course, and then there were *führers* down to the many hierarchies of smaller *führers*. And the head of an enterprise was the *Betriebsführer*. And the workers of the enterprise were named by a word that, in the Middle Ages, had signified the retinue of a feudal lord: the *Gefolgschaft*. And all of these people had to obey the orders issued by an institution which had a terribly long name: *Reichswirtschaftsministerium*, at the head of which was the well-known fat man, named Goering, adorned with jewelry and medals.

And from this body of ministers with the long name came all the orders to every enterprise: what to produce, in what quantity, where to get raw materials and what to pay for them, to whom to sell the products and at what prices to sell them. The workers got the order to work in a definite factory, and they received wages which the government decreed. The whole economic system was now regulated in every detail by the government.

The *Betriebsführer* did not have the right to take the profits for himself; he received what amounted to a salary, and if he wanted to get more

he would, for example, say: "I am very sick, I need an operation immediately, and the operation will cost 500 Marks," then he had to ask the *führer* of the district (the *Gauführer* or *Gauleiter*) whether he had the right to take out more than the salary which was given to him. The prices were no longer prices, the wages were no longer wages, they were all quantitative terms in a system of socialism.

Now let me tell you how that system broke down. One day, after years of fighting, the foreign armies arrived in Germany. They tried to preserve this government-directed economic system, but the brutality of Hitler would have been necessary to preserve it and, without this, it did not work.

Britain in World War II

And while this was going on in Germany, Great Britain—during the Second World War—did precisely what Germany did: starting with the price control of some commodities only, the British government began step by step (in the same way Hitler had done in peacetime, even before the start of the war) to control more and more of the economy until, by the time the war ended, they had reached something that was almost pure socialism.

Great Britain was not brought to socialism by the Labour government which was established in 1945.

Great Britain became socialist *during* the war, through the government of which Sir Winston Churchill was the prime minister. The Labour government simply retained the system of socialism which the government of Sir Winston Churchill had already introduced. And this in spite of great resistance by the people.

The nationalizations in Great Britain did not mean very much; the nationalization of the Bank of England was merely nominal, because the Bank of England was already under the complete control of the government. And it was the same with the nationalization of the railroads and the steel industry. The "war socialism," as it was called—meaning the system of interventionism proceeding step by step—had already virtually nationalized the system.

The difference between the German and British systems was not important since the people who operated them had been appointed by the government and in both cases they had to obey the government's orders in every respect. As I said before, the system of the German Nazis retained the labels and terms of the capitalistic free market economy. But they meant something very different: there were now only governmental decrees.

This was also true for the British system. When the Conservative

party in Britain was returned to power, some of those controls were removed. In Great Britain we now have attempts from one side to retain controls and from the other side to abolish them. (But one must not forget that, in England, conditions are very different from conditions in Russia.) The same is true for other countries which depend on the importation of food and raw materials and therefore have to export manufactured goods. For countries depending heavily on export trade, a system of government control simply does not work.

Thus, as far as there is economic freedom left (and there is still substantial freedom in some countries, such as Norway, England, Sweden), it exists because of the *necessity to retain export trade*. Earlier, I chose the example of milk, not because I have a special preference for milk, but because practically all governments—or most of them—in recent decades, have regulated milk, egg or butter prices.

Rent Control

I want to refer, in a few words, to another example, and that is rent control. If the government controls rents, one result is that people who would otherwise have moved from bigger apartments to smaller ones when their family conditions changed, will no longer do so. For example, consider parents whose

children left home when they came into their twenties, married or went into other cities to work. Such parents used to change their apartments and take smaller and cheaper ones. This necessity disappeared when rent controls were imposed.

In Vienna, Austria, in the early twenties, where rent control was well-established, the amount of money that the landlord received for an average apartment under rent control was not more than twice the price of a ticket for a ride on the city-owned street cars. You can imagine that people did not have any incentive to change their apartments. And, on the other hand, there was no construction of new houses. Similar conditions prevailed in the United States after the Second World War and are continuing in many cities to this day.

One of the main reasons why many cities in the United States are in such great financial difficulty is that they have rent control and a resulting shortage of housing. So the government has spent billions for the building of new houses. But why was there such a housing shortage? The housing shortage developed for the same reasons that brought milk shortages when there was milk price control. That means: *when the government interferes with the market, it is more and more driven towards socialism.*

And this is the answer to those

people who say: "We are not socialists, we do not want the government to control everything. We realize this is bad. But why should not the government interfere a little bit with the market? Why shouldn't the government do away with some things which we do not like?"

These people talk of a "middle-of-the-road" policy. What they do not see is that the *isolated* interference, which means the interference with only one small part of the economic system, brings about a situation which the government itself—and the people who are asking for government interference—find worse than the conditions they wanted to abolish: the people who are asking for rent control are very angry when they discover there is a shortage of apartments and a shortage of housing.

But this shortage of housing was created precisely by government interference, by the establishment of rents below the level people would have had to pay in a free market.

There Is No Third System

The idea that there is a *third* system—between socialism and capitalism, as its supporters say—a system as far away from socialism as it is from capitalism but retains the advantages and avoids the disadvantages of each—is pure nonsense. People who believe there is such a mythical system can become really

poetic when they praise the glories of interventionism. One can only say they are mistaken. The government interference which they praise brings about conditions which they themselves do not like.

One of the problems I will deal with later is *protectionism*. The government tries to isolate the domestic market from the world market. It introduces tariffs which raise the domestic price of a commodity above the world market price, making it possible for domestic producers to form cartels. The government then attacks the cartels, declaring: "Under these conditions, anti-cartel legislation is necessary."

This is precisely the situation with most of the European governments. In the United States, there are yet other reasons for antitrust legislation and the government's campaign against the specter of monopoly.

It is absurd to see the government—which creates by its own intervention the conditions making possible the emergence of domestic cartels—point its finger at business, saying: "There are cartels, therefore government interference with business is necessary." It would be much simpler to avoid cartels by ending the government's interference with the market—an interference which makes these cartels possible.

The idea of government interference as a "solution" to economic

problems leads, in every country, to conditions which, at the least, are very unsatisfactory and often quite chaotic. If the government does not stop in time, it will bring on socialism.

Nevertheless, government interference with business is still very popular. As soon as someone does not like something that happens in the world, he says: "The government ought to do something about it. What do we have a government for? The government should do it." And this is a characteristic remnant of thought from past ages, of ages *preceding* modern freedom, modern constitutional government, before representative government or modern republicanism.

Omnipotent Government

For centuries there was the doctrine—maintained and accepted by everyone—that a king, an anointed king, was the messenger of God; he had more wisdom than his subjects, and he had supernatural powers. As recently as the beginning of the nineteenth century, people suffering from certain diseases expected to be cured by the royal touch, by the hand of the king. Doctors were usually better; nevertheless, they had their patients try the king.

This doctrine of the superiority of a paternal government, of the supernatural and superhuman pow-

ers of the hereditary kings gradually disappeared—or at least we thought so. But it came back again. There was a German professor named Werner Sombart (I knew him very well), who was known the world over, who was an honorary doctor of many universities and an honorary member of the American Economic Association. That professor wrote a book, which is available in an English translation, published by the Princeton University Press. It is available also in a French translation, and probably also in Spanish—at least I hope it is available, because then you can check what I am saying. In this book published in our century, not in the Dark Ages, "Sir" Werner Sombart, a professor of economics, simply says: "The Führer, our Führer"—he means, of course, Hitler—"gets his orders directly from God, the Führer of the Universe."

I spoke of this hierarchy of the führers earlier, and in this hierarchy, I mentioned Hitler as the "Supreme Führer" . . . But there is, according to Werner Sombart, a still higher Führer, God, the Führer of the universe. And God, he wrote, gives His orders directly to Hitler. Of course, Professor Sombart said very modestly: "We do not know how God communicates with the Führer. But the fact cannot be denied."

Now, if you hear that such a book can be published in the German language, the language of a nation which was once hailed as "the nation of philosophers and poets," and if you see it translated into English and French, then you will not be astonished at the fact that even a little bureaucrat considers himself wiser and better than the citizens and wants to interfere with everything, even though he is only a poor little bureaucrat, and not the famous Professor Werner Sombart, honorary member of everything.

A Remedy?

Is there a remedy against such happenings? I would say, yes, there is a remedy. And this remedy is the power of the citizens; they have to prevent the establishment of such an autocratic regime that arrogates to itself a higher wisdom than that of the average citizen. This is the fundamental difference between freedom and serfdom.

The socialist nations have arrogated to themselves the term *democracy*. The Russians call their own system a People's Democracy; they probably maintain that the people are represented in the person of the dictator. I think that *one* dictator, here in Argentina, was given a good answer. Let us hope that all other dictators, in other nations, will be accorded a similar response. ☪

Who Shall Carry My Load?

THE FREE MARKET seems to be gaining economic and political favor. But if this is to be more than a passing fad, the full implications of the term must be clearly grasped.

Those who will learn to understand the workings of a free market will find that it can exist to its fullest material advantage only in a society of individual independence and responsibility. A deeper penetration of the subject also brings recognition that any infringement of independent decision-making is not only unproductive in a material sense but is also immoral. It is immoral to place the load one is responsible for on the back of another without his willing consent.

Contrasting pictures emerge. One is an unfree, governmental-interference type of society. This is a society where each is required by government to carry on his back the load of all others—an awkward, nonproductive and painful way to function. Particularly is it nonproductive when those who are able and willing to produce the most in goods and services for themselves *and for others* are allotted the heaviest burdens, thus restricting their efforts.

On the other hand, a free market society is one in which each is solely responsible for his own load. Only insofar as his own judgment and conscience dictates does he share the burden of another. Unhampered, he finds that his expanded production can benefit himself only as it benefits others—a mighty important, but key difference—since his personal consumption is very minimal compared with the improved quality of life his production brings to all others.

In selecting which society I prefer, I may well ask, "Who shall carry my load?"

When measured by the most productivity for the benefit of all, the answer must be that of a *free market society*—no one, but me!

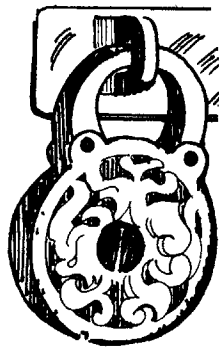
When measured by the moral principle of assuming my own responsibility, the answer must be that of a *free market society*—no one, but me!

Both demand that I carry my own load. To start, let me remove from others any of the burden of my responsibility now carried by them. 

Mr. Sparks is an executive of an Ohio manufacturing company.

Melvin D. Barger

CRIME: THE UNSOLVED PROBLEM



WHAT causes crime? Why do some individuals possess tendencies which lead them to commit acts of violence and predation: robberies, assaults, rape, and other felonies? What sets the habitual or occasional criminal apart from the mainstream of society? More important, what can be done to "change" criminals into productive, law-abiding citizens?

The theory that has partly governed public policy for many years is that crime is caused by an unjust society. A most eloquent spokesman for this point of view was Ramsey Clark, who served as assistant attorney general in the Kennedy Administration and attorney general in the Johnson Administration. Here's how Clark described the crime problem in his well-known 1970 book, *Crime in America*:

If we are to deal meaningfully with crime, what must be seen is the dehumanizing effect on the individual of slums, racism, ignorance and violence, of corruption and impotence to fulfill rights, of poverty and unemployment and idleness, of generations of malnutrition, of congenital brain damage and prenatal neglect, of sickness and disease, of pollution, of decrepit, dirty, ugly, unsafe, overcrowded housing, of alcoholism and narcotics addiction, of avarice, anxiety, fear, hatred, hopelessness and injustice. These are the fountainheads of crime. They can be controlled. As imprecise, distorted and prejudiced as our learning is, these sources of crime and their controllability clearly emerge to any who would see.¹

And how would such conditions be changed? In that same volume, Clark explains that it's a "matter of will." If society becomes willing, the conditions that cause crime can be changed, and then crime will be greatly reduced.

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¹New York: Simon and Schuster.

Clark's theory has a plausible sound and anybody who visits a large state prison will find scores of inmates from deprived backgrounds. Some of them are not really criminals in the true sense of the word; they are simply badly adjusted and disturbed people who need to be institutionalized. There are others with personal problems which got them into trouble.

But if a visitor searches out the professional criminals—both in prison and out—he may find that the theory doesn't hold up at all. There are men, and some women, who have numerous advantages in their lives and yet they seem to become criminals by deliberate choice.

For example, neither John Dillinger nor the notorious Alvin Karpis really were deprived as youngsters, nor were they getting revenge on an unjust society. The fact is, the criminal life simply gave them power, excitement, and recognition that they couldn't have found in most straight professions. Far from being driven to crime by necessity and despair, both men had fierce appetites for the danger and rewards of their lawlessness. It is even possible that John Dillinger would have considered his short life well spent, for his crimes brought him a dubious fame that he couldn't have achieved in any other way. Even Karpis, who spent more than 32

years in Federal prisons for his crimes, did not seem to regret his choice of a criminal career. Indeed, his personal story published after his release in 1969 carried few regrets and tended to glorify and defend his criminal career.²

In the introduction to that same book, a quotation from Ben Hecht sheds some light on the nature of the criminal mind. Hecht had been working on a biography of Mickey Cohen, and this portion was later published:

(Wrote Hecht): I have been talking to Mickey Cohen for a number of years and mingling with his underworld entourage. Out of my contacts has come what I think may be a major piece of anthropological lore. The criminal has no hates or fears—except very personal ones. He is possibly the only human left in the world who looks lovingly on society. He does not hanker to fight it, reform it or even rationalize it. He wants only to rob it. He admires it as a hungry man might admire a roast pig with an apple in its mouth.

I was pleased to find this out, for I have read much to the contrary. Society does not, as sociologists and other tony intellectuals maintain, create the criminal. Bad housing, bad companions, bad government, etc., have little to do with why there are killers, robbers and outlaws. The criminal has no relation to society to speak of. He is part of man's soul, not his institutions. He is an old one. A

²Alvin Karpis, *The Alvin Karpis Story* (New York: Coward-McCann & Geoghegan, Inc., 1971).

thousand preachers, summer boy's camps, plus a congress of psychiatrists can barely dent even a minor criminal. As for the major criminal, he cannot be touched at all by society because he operates on a different time level. He is the presocial part of us—the ape that spurned the collar . . .

The criminal at the time of his lawlessness is one of the few happy or contented men to be found among us . . .

Alvin Karpis certainly was that kind of criminal. In his biography, he discussed the few times he had accepted regular employment in the straight world. To Karpis, such a life was boring and pointless, and he quickly abandoned it for the lure of crime. He considered himself a professional thief, and he took considerable pride in his competence and in his standing among other gangsters. If he suffered any remorse for his crimes or saw anything evil in the robberies or kidnappings he carried out, it was not evident in his autobiography. In reading it, one almost has the feeling that Karpis would have selected such a life again if he could have returned to his youth and had choices to make.

Not all criminals have been as open as Karpis about the attractions of a criminal career. In any prison, it is always possible to find convicts who seem to have changed and who have shown appropriate responses to counseling and other supposedly rehabilitative programs. Some of

them, of course, are sincere people who really have changed. Other convicts, however, are usually cynical about the motives of their fellow inmates. Quite often, the "rehabilitated" inmate is really only a perceptive and cunning person who produces the responses that counselors and prison authorities are seeking.

This is not to say that brutal prisons are good institutions for society or that one should abandon hope in possible methods of rehabilitation. We should admit, however, that crime is a lot like cancer. We may know more about it than we did in former days and we may have some criminals who have dramatically changed for the better. Still, both crime and cancer are unsolved problems and nobody has answers that promise wholesale improvements in crime statistics.

Self-Responsibility

One recent development is that some thoughtful people are beginning to question the belief that the criminal is simply the victim of bad social conditions. They are taking another look at the problem and are concluding that the criminal is, after all, responsible for his behavior. This was the conclusion of a psychiatrist, the late Dr. Samuel Yochelson, who with a clinical psychologist named Stanton Samenow studied 252 male hard-

core criminals. They also interviewed people connected with the criminals, including prison and probation officials, families, girl friends, employers, and associates.

Yochelson and Samenow eventually made a basic assumption that flew in the face of popular theory about the roots of crime. This assumption was: *The criminal can and does choose his way of life freely in his quest for power, control and excitement. Moreover, he can choose to change if he musters courage or will to endure the consequences of responsible choices.*³

This assumption was surprisingly close to Ben Hecht's thoughts after spending time with Mickey Cohen and his underworld friends. The criminal, like the rest of us, possesses a human will and is capable of making choices. Every human being is controlled by the fact that choices may lead to unpleasant or unwanted consequences. For many of us, it is often necessary to make hard or difficult choices because we want to avoid certain consequences. For example, many people choose to plod away at boring, unsatisfying jobs simply because they need to make a living and do not want to live in destitution or dependency. Most people, in fact, do not manage to find a great deal of power, control, or excitement.

It's true that most criminals may not completely understand their own motivations. However, this too is changing. Yochelson and Samenow started a therapeutic program aimed at helping criminals understand themselves and voluntarily change their thought patterns and actions. The program was unapologetically moralistic and was aimed at helping criminals change into responsible citizens. They had promising success with a small group of persons who were willing to change. In the process, they also discovered that a criminal who comes to the program has "to wean himself from the high-voltage jolts he got out of crime to a steady current of satisfaction from self-respect and responsible living." This process may even produce withdrawal pains similar to those experienced by a recovering drug addict!

Helping the Individual To Help Himself

While the work of Yochelson and Samenow is still controversial among professionals in the mental health and psychiatric fields, it is likely to attract other disciples who have become disillusioned with the conventional deterministic theories about criminal behavior. Their findings also are consistent with the results obtained by self-help and religious groups which have worked with criminals. Prison inmates have

³See "The Criminal Mind: A Startling New Look," *The Reader's Digest*, May 1978.

been helped by voluntary efforts such as Alcoholics Anonymous and the Dale Carnegie speech training program. The significant element in these programs is that of personal responsibility. The individual is guided to understand himself and to take voluntary steps to change his own thoughts and behavior.

At this point, none of these programs have helped more than a small percentage of the criminal population. Crime is still an unsolved problem, and nobody has found ways of changing the majority of criminals. From time to time, the nation's prisons come under attack for their failure to rehabilitate criminals; some of these institutions also are rightly criticized for their brutality and bestial living conditions. However, there is nothing about the prison system that should logically lead to recovery or rehabilitation of criminals. Prisons are state or Federally-run institutions with bureaucratic managements which are forced to respond to political pressures. The primary purpose of a prison is *custody* and in any conflict between that purpose and rehabilitation, custody always wins.

And until rehabilitation measures can produce a better record of results, custody will continue to be society's principal way of dealing with criminals. Maintaining a prison is expensive and difficult, but there is a grim logic in the concept of

custody. John Dillinger held up no banks while he was in prison at Michigan City, Indiana, and Alvin Karpis neither robbed nor kidnapped anybody after he landed in Alcatraz. There is also a strong feeling in society that violators should be punished. Even Jonathan Kwitny, a knowledgeable and seasoned reporter who writes on crime subjects for *The Wall Street Journal*, has stated that the main problem with criminal justice now is that the system doesn't punish violators—organized or unorganized—after they are convicted.⁴

Punishment as Deterrent

Perhaps another arrangement in favor of strong custodial measures and swift punishments is to deter others who may be weighing the possible advantages of a criminal life. Whether it works this way or not, the public apparently believes that it does and supports the maintenance of prison systems.

But there is no reason why self-help programs cannot be offered even in maximum security prisons. And while no self-help program has produced spectacular results in helping criminals change their lives, some of the *individual* changes have been dramatic. The present author knows several per-

⁴See Jonathan Kwitny, "Ford Foundation Mulls Crime Fight," *The Wall Street Journal*, November 18, 1976.

sons whose lives were completely transformed in prison by accepting certain new ideas about themselves and society. One man made such a complete change that he was later named to *head* a prison camp in another state. Another person who once had been associated with the Detroit underworld became so completely rehabilitated that he was named deputy sheriff of the county where he lived (legally possible for felons if they receive a complete pardon). Still another person had been considered institutionalized; that is, he was believed to be incapable of functioning in society. However, he eventually met all the conditions of a parole and has lived an exemplary life for more than ten years.

Three greatly changed individuals would not be very interesting to the people who compile statistics about crime and criminals. Out of 1,000 men, for example, these persons would be only .3 per cent of the total number. *In their lives, however, the changes were 100 per cent.* They changed completely from persons who had been irresponsible criminals to citizens who could live in peace with themselves and other people in society. How were they able to do it?

All of them reached a point of becoming dissatisfied with their past lives and desired change. Moreover, they realized that the old

ways were wrong and that they had harmed other people. They also accepted full responsibility for their own actions. While they knew that they had been driven by wrong impulses and feelings, they did not place responsibility outside of themselves. Then they accepted new ideas and beliefs which resulted in change. They seemed to become different persons, and in a way they were. They thought differently, they felt differently, and they acted differently.

Probably none of these men had ever heard of Yochelson and Samenow. Yet they proved the Yochelson/Samenow thesis: *The criminal chooses his way of life and can change it if he musters the courage or will to do so.*

No Miracles Promised

It would be misleading and thoughtless to say that *every* criminal can be changed by the sparse self-help programs now available in state and Federal prisons. After all, few people in free society make dramatic behavioral changes, so why should criminals be any different from the normal population? Crime is an unsolved problem, but it is not the only unsolved problem.

It also is wrong to say that individuals can be expected to change their lives without help or assistance from others. Actually, all of us are part of society and we owe many

of our best ideas and beliefs to others who have helped us, patiently instructed us, and guided us. There is no such thing as a good society without a great deal of human cooperation and voluntary problem-solving.

But this is not the same as saying that society is responsible for our condition or that the proper way to change people is to impose, by coercive means, a certain form of organization on society. The fact is, it works the other way around. People think and act in certain ways, and society becomes a mirror of their beliefs and actions. Criminals are sometimes called the victims of an unjust society. But criminals, like the rest of us, help make society what it is. In fact, the criminal helps destroy the very society that is blamed for his ills.

In dealing with crime and criminals, we still have no answers that promise broad, sweeping changes. We should, however, be very skeptical of any proposals for fighting crime that do not take into account the *individual will* and *motivations* of each person who is or might become a criminal. James Q. Wilson, a Harvard professor who has served on crime and drug commissions, makes an important statement about the general problem of crime in closing his book, *Thinking About Crime*:

... some persons will shun crime even if we do nothing to deter them, while

others will seek it out even if we do everything to reform them. Wicked people exist. Nothing avails except to set them apart from innocent people. And many people, neither wicked nor innocent, but watchful, dissembling, and calculating of their opportunities, ponder our reaction to wickedness as a cue to what they might profitably do. We have trifled with the wicked, made sport of the innocent, and encouraged the calculators. Justice suffers, and so do we all.⁵

The professor seems to be saying that we should be very humble about our knowledge of crime and its causes. He does say that we still should make distinctions between innocence and wickedness. There are criminals whose actions need to be taken seriously, and who should be locked up in order to protect the innocent. The innocent person should not have to take the rap for the criminal's actions.

One of the crucial questions in thinking about crime is whether or not the criminal is capable of making conscious choices that govern his actions. If he is incapable of making such choices, he should be adjudged insane and dealt with accordingly. If he is capable of choosing right or wrong behavior, then he also can choose a new way of life. Few criminals do make such choices. Perhaps that's why crime still is the great unsolved problem. ☐

⁵James Q. Wilson (New York: Basic Books, 1975), p. 209.

Faith Integrity and Shame

WHATEVER happened to shame? We have lived long enough to see people from all sectors of the population line up at the government trough to beg for tax dollars from the hands of self-serving politicians at all levels of "public service." And they do it without shame! If you are not getting yours from some governmental bureau or agency, there are other agencies established to help you find a law or clause or loophole to open the cornucopia of limitless "bread" looted from the hapless taxpayers and funnel it right into your pocket.

In the little town where I live in rural America one of the forward-looking citizens came up with the idea of sprucing up Main Street, through which a lot of

tourists pass during a year. Businesses were called upon to voluntarily fix up the fronts of their buildings with needed repairs and paint, soap and water. The idea caught on and people began to sign up as participants. But, not more than two weeks passed when one of the socialist-minded localites discovered a federal bureau that is programmed to dispense funds for just such enterprises. Now several of the businessmen have decided to wait until the paper work for the anticipated largess has been cleared. This is only one example of many pipelines for tax dollars into our community, and it is typical of hundreds of thousands of raids on the treasury—without shame!

About 2500 years ago there lived a man named Ezra. Like a misplaced Vietnamese, he was an exile

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from his homeland, and he organized a pilgrimage of his people to return to the land from which they had been led away captive. Being a man of faith he said, "I proclaimed a fast, so that we humble ourselves before our God and ask him for a safe journey for us and our children, with all our possessions." If Ezra had been our contemporary instead of occupying such a remote slot in history he would have found bureaucrats standing in line with financial aid, trucks, buses, ships, planes or whatever he might think he needed. In those days, as you can well imagine, the state patrol was not cruising the freeway at the beck and call of distressed pilgrims. They had to traverse hostile country to arrive at Jerusalem, their destination. There was some safety in numbers, of course, but without an organized army they were in jeopardy, especially in view of the large quantities of gold and silver they were transporting.

Temptation Resisted

Ezra resisted what must have been a strong temptation to ask for a detachment of military support and protection. "I was ashamed to ask the king for soldiers and horsemen to protect us from enemies on the road, because we had told the king, 'The good hand of our God is on everyone who looks to him, but his anger is against all who forsake

him.' So we petitioned our God about this and he answered our prayer" (Ezra 8:21-23).

All the peoples of that day were religious; most of them, including the Babylonians, the Medes and the Persians, worshiped idols. Even Artaxerxes, king of Persia, bowed to man-made gods and consulted astrologers in order to communicate with the metaphysical realm. But Ezra and his people worshiped a God who could not be seen with the physical eye, and for this reason they were at times called atheists by the idol worshipers.

Ezra claimed his God was the only real one and that all the rest were phony, and now he was going to get a chance to "put your money where your mouth is." It was, then, with some fear and trembling that he led his people back to the land from which they had been exiled for 70 years. Having bragged about the faithfulness and power of Jehovah, he was ashamed to ask help from a heathen king, the most powerful in the world at that time.

Obviously, Ezra was a man of faith and integrity. He trusted God and prayed to him because he believed in him. The testimony of his forefathers and the prophets had impressed him so deeply that he was still a believer, even though he and his people were exiled captives in the hands of a heathen king. Furthermore, he was honest enough

to admit that he couldn't have it both ways. Either he would walk by faith all the way, or he would admit his God was not worthy of trust.

Ezra, come on back; we need you. Most of the "Christians" of our day pay lip service to God, but they petition the Government for just about every material thing. And they do it without shame. They ask for commodity foods, food stamps, tax breaks for churches and other non-profit organizations. They go to government agencies for welfare, medicare, pensions, and so on. We have arrived at the point in time where the people of this nation whose coins bear the inscription, "In God we Trust," have turned their backs on God and their faces to Government. The Government even publishes a virtual library of books detailing how every citizen may petition Big G for help of all kinds. Big G will tell you how to raise bees, make charcoal, buy a car, insulate your house (and pay you to do it!), save gas, raise a garden and can its produce, on and on. You may even subscribe to publications that tell you how to get more money out of your Government.

Government or God?

We as a people have petitioned our Government so long (nearly 50 years) it is really mockery to talk about our "faith in God." As Government has grown in power

and has come to dominate every facet of our lives, God has diminished in the hearts and minds of each of us. We can't serve God and Government in the same way at the same time.

The sense of shame Ezra felt at the mere thought of petitioning the government of his time is what we need in Americans today, but shame is almost totally non-existent among us. In fact, the converse is true; millions of our people tend to think first of the Government whenever any need arises. "There must be some agency to dispense the funds we need for this project!" What are you planning to do? Build a bridge? Educate your child? Insulate your house? Pave your streets? Kill your mosquitoes? Vaccinate your hogs? The Government can do it for you! PTL (praise the Leader).

The conviction is growing in my heart that until Americans lose faith in "Almighty Government" and turn back to Almighty God, there is no hope for the survival of this republic. Faith in Government as the all-powerful one to whom all should pray is rank humanism, and the epitome of it is found in Soviet Russia, the "Peoples" Republic of China, and all the "peoples republics" of the world. Their "hearts belong to Daddy," "Big Daddy Government," and their minds are being conditioned to send all petitions in that direction. They become slaves,

mind and body. They are schooled in scarcity and can only dream for fleeting moments of the abundant life that Jesus came to give us. As we turn all our responsibilities over to Government we develop a scarcity of everything but bureaucrats, who sit around like vultures grabbing whatever else we are allowed to produce. The next step, of course, is rationing.

Why are we in this sorry mess? Someone has rightly said we get the kind of government we deserve. Unless we can have a resurgence of men like Ezra, there will be no change for the better. We need a restoration of faith and integrity. We need to re-educate the conscience of the American people to the place where they can again experience shame instead of blatantly asking Government to rip off their neighbors on their behalf at the

point of a gun. Queuing up at the Government pipeline is legalized stealing, regardless of the euphemistic title given it by the G-men. Federal aid is a transfusion from one arm to the other—through a leaky tube. Those who ask for it because it is legal are still immoral, and it should be stressed that legality and morality are not synonymous.

Because of Ezra's faith and integrity he became involved in a tremendous reconstruction project. If it's not too late, we too can become involved in the restoration of a glorious republic composed of responsible, free men and women who will be ashamed to petition the Government for any kind of financial help. But it takes faith and integrity now as much as it did 2500 years ago. 

Faith and Freedom

BEFORE we attempt to lead other nations toward peace, we first must reaffirm our own faith in the moral and spiritual principles of Christianity, so that we shall be strong enough to resist the invasion of Communism and other alien influences. Individually and nationally, we must cleanse our minds of all dishonest thinking. We must strive constantly for honesty in government, in politics, in business, and in our private lives. We must rededicate ourselves to the service of God, and be ready at all times to give a reason for the faith that is in us.

IDEAS ON



LIBERTY

J. HOWARD PEW, from
Faith and Freedom, a biography
compiled by Mary Sennholz

An Ideology for Unions

...us workers, on the one hand, and the employers, on the other. The latter, by their actions, have caused the unionists to adopt the doctrine of the class struggle, which gives coherence and direction to the whole union effort. It is an ideology derived from socialism, which has existed in embryo fashion since the time of the first socialist movement. It was the 1894 socialist formula that the unionists have ever-present contest with the wealth producers to conquer the rights from the wealth absorbers." Most late nineteenth century

LABOR UNIONS had rough sledding for most of the nineteenth century. Most of them were short-lived organizations. During periods of inflation and industrial expansion, such as the late 1820s and early 1830s, the number of unions increased; they gained in strength and numbers. But they tended to lose their following and disintegrate during periods of deflation and industrial contraction.¹ Until well into the 1880s, at the earliest, labor unions were hardly a fixture in the United States. Here and there, and in a few industries, they had a slight hold.

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The most obvious explanation is also the correct one, so far as it goes. Unions found it difficult, if not impossible, to survive competition from unorganized workers in an industrial contraction. When jobs were scarce and workers plentiful, union members dropped out, either because they were unemployed or in order to obtain employment, and employers would not treat with the unions. In like manner, any great surge of immigrants into United States, such as occurred during the potato famine in Ireland in the 1840s, compounded the difficulties of unions. Since they can only succeed by reducing the supply of labor available to an employer, their chances of succeeding were greatly diminished when the supply was plentiful.

The supply of labor was not the only obstacle to unionization, however. Indeed, it was the main reason for being of unions, and only an obstacle when they were unable to deny employment to the unorganized. The fundamental obstacles to unionization lay deeper than that in nineteenth century America. Unions had no socially or legally acceptable object for their main activities.

The Legality of Combinations

Let us consider the narrow legal question first, since it can be dealt with most readily. That men may associate together for voluntarily entered into lawful purposes was not seriously challenged in the history of the United States. (I except slaves and slavery from the issue, for that confuses rather than clarifies the matter.) What was questioned was that men might combine so as to set conditions of employment and exclude others from employment. Such combinations were frequently held to be conspiracies in the early years of the Republic, and therefore unlawful. In *Commonwealth v. Pullis*, for example, the Philadelphia Cordwainers, a union of shoemakers, were brought to trial in 1806. "The indictment included charges that association members conspired to raise wages, refused to work for an employer who paid less than a fixed rate, and prevented

workers who were not members of the association from being hired."² The members of the union were found guilty and fined.

In *The People v. Fisher* a New York court isolated and addressed the specific issue of whether or not it was lawful to combine in order to exclude non-members of the union from employment. The decision was rendered in 1835. The court substructured its argument with the common law rulings and legislative position on combinations in restraint of trade. It then proceeded to the issue:

... The man who owns an article of trade or commerce is not obliged to sell it for any particular price, nor is the mechanic obliged to labor for any particular price. He may say that he will not make coarse boots for less than one dollar per pair, but *he has no right to say that no other mechanic shall make them for less*. The cloth merchant may say that he will not sell his goods for less than so much per yard, but has no right to say that any other merchant shall not sell for a less price. If one individual does not possess such a right over the conduct of another, no number of individuals can possess such a right. All combinations therefore to effect such an object are injurious, not only to the individual particularly oppressed, but to the public at large. . . .³

The above ruling was based most specifically on an act of the legislature of New York. Thus, it declared the act of combination was itself

illegal when the object was to exclude non-members from employment. The common law was not usually interpreted as being quite so restrictive. Thus, Chief Justice Shaw gave it as his opinion in 1842 in *Commonwealth* (of Massachusetts) v. *Hunt* that combinations as such were not illegal. This has been hailed as a landmark decision by many historians. It was not a landmark in the sense that it acknowledged the right of men to associate to take legal action. That had been granted all along. The prosecuting attorney in *Commonwealth* v. *Pullis* had granted this right readily. He said: "The defendants formed a society the object of which was . . . What? That they should not be obliged to work for wages which they did not think a reasonable compensation? No: If that was the sole object of the society, I approve it. . . . No man is to work without a reasonable compensation; they may legally and properly associate for that purpose. . . ."4 It was, as he went on to point out, their use of compulsion to which he objected and about which the suit was being prosecuted.

Means and Ends

The opinion given by Chief Justice Shaw in support of the decision in *Commonwealth* v. *Hunt* did muddy the waters. He held that an association might be legal even though it may adopt "measures that

may have a tendency to impoverish another, that is, to diminish his gains and profits, and yet so far from being criminal or unlawful, the object may be highly meritorious and public spirited."⁵ It all depended, he said, on the means employed to accomplish the object. For any courts inclined to follow in the steps of his opinion, he did open the way to consideration of the object of a labor union. More, he opened the way for ignoring the harm that might be done to non-members—such as loss of job, unemployment, the closing of businesses—if the end being sought was a worthy one. However, courts were decades away from generally accepting as evidence all the sociological data that such considerations entailed.

More important, the main thrust of American society for most of the nineteenth century was profoundly individualist. Unionism requires a collectivist framework within which to work. The thrust of the American Revolution was in the direction of removing special privileges and legal supports from groups and organizations. The disestablishment of churches is an important case in point. Most of the colonies had an established church, or accorded special privileges to those of particular denominations. In most of the new states both privileges and restrictions were struck away in the 1780s. The First Amendment to the Con-

stitution prohibits Congress to establish a religion.

The abolition of any government-imposed entailment and primogeniture tended to make property fully individually owned and at the disposition of its owner. Aristocratic titles were proscribed, and the movement was away from legally supported classes. Most northern states abolished slavery; it was prohibited in the Northwest territory; and provision was made for the eventual ending of the slave trade.

Individual Rights

Although the principle was incompletely realized, one emerged nonetheless. It could be stated this way: No non-governmental organization should have any legal standing other than such as belonged to the members comprising it. In *The People v. Fisher* the court had articulated the principle in this fashion: "If one individual does not possess such a right over the conduct of another, no number of individuals can possess such a right." In short, organizations possessed no rights beyond those of individuals. The opposition to the Order of the Cincinnati—a society of veterans of the Revolutionary War—was based on the fear of special rights coming to be attached to its members. Freemasonry was sometimes attacked for similar reasons.

In the realm of economic organi-

zations there were countercurrents at work at the time of the founding of the United States. Mercantilism still had its followers, as it has from time to time throughout American history. It was a common mercantilist practice for government to grant charters to particular businesses which gave them monopolistic privileges. It was commonplace in early American history, for example, for a company to be given a charter to build a bridge or road and to collect tolls from users. The United States Bank was the most famous national instance of such a chartered monopoly. This Bank was financed both with government and private funds, a fairly common practice at the time also.

The other current was the movement to divest organizations of all special privileges and to deny them any special favors. This movement reached its peak during the Jackson Era—the 1830s and 1840s. Much of the ire of this opposition was focused on banking, but by no means all of it. The United States Bank was the national victim of the opposition to privileged organizations, but in some states the opposition extended to all banks. In 1819, the governor of Kentucky proposed to the legislature that it initiate an amendment to the United States Constitution to the effect that "no incorporated bank should exist in the United States."⁶

When a constitution for Iowa was drawn in 1846, it prohibited the most salient feature of banking at the time—the issuance of paper money—in these words: “No corporate body shall hereafter be created, renewed, or extended with the privilege of making, issuing, or putting in circulation any bill, check, ticket, certificate, promissory note, or other paper, or the paper of any bank, to circulate as money. . . .”⁷ The author of the article from which these quotations are taken points out that had these people understood the effects of deposit banking they would have been equally opposed to it.⁸

Opposition to Corporations

The opposition to giving legal standing to organizations never quite reached through to all commercial and charitable undertakings. (In any case, the opposition was more western than national.) Perhaps it was deflected from that course by the furor over special privileges and chartered monopolies. From the beginning, state legislatures had granted charters and passed special acts of incorporation for particular businesses or institutions. These special acts not only smacked of special privilege but also were susceptible to corrupt relations between those seeking them and members of the legislature.

Instead of abandoning the corporate form, many legislatures passed general acts of incorporation. “Led by Connecticut in 1837, Maryland, New Jersey, New York, Pennsylvania, Indiana, Massachusetts, and Virginia all passed some type of general incorporation statute before the Civil War. In all cases, the laws sought to bring about uniformity and to protect the public from special privileges in the establishment of corporations.”⁹ General acts of incorporation did not end opposition to corporations, of course; that has been a fairly constant refrain in American history, and has risen to a crescendo from time to time.

My main point, however is that an individualistic ethos prevailed in America in the nineteenth century. Not even political parties had legal standing; they were private associations. Rights were something belonging to individuals. Slavery was an anachronism, and as some of the most astute men saw, it had to go. Clubs, groups, and various sorts of organizations abounded; church denominations proliferated, and some prospered. But they subsisted by individual choice, and survived and prospered only so long as individuals gave freely of their time and substance to them. Work and trade relations were a matter of contracts between or among adult individuals (slavery excepted, as always). In general, neither government nor so-

ciety recognized any class, grouping, order, or organization of men with special privileges and positions.

There was hardly a place for labor unions within this ethos. True, they might exist as private societies so long as they engaged in no destructive acts. Conceivably, they might have applied for corporate status, but that was not a very live option. In the first place, even limited liability incorporation would impose liabilities on unions which they have usually sought to avoid. In the second place, incorporation imposed limits on activities and required the spelling out of the purpose of the organization. It is most unlikely that a corporate charter would have been issued in the nineteenth century to a union which stated in blunt legal language its purpose and the means by which it was to be achieved.

Secret Societies

It is not surprising, then, that most early American labor unions were secret societies. They sometimes adopted names redolent of secret societies, such as the Knights of St. Crispin or the Knights of Labor. Their membership rolls and rites were secret; their efforts at organization were often surreptitious. The Knights of Labor, the first national union of consequence, resembled in form the Knights of the Ku Klux Klan, though its purpose and

methods were different. The head of the Knights of Labor was styled "Grand-master."

Labor unions had a large and apparently intractable problem to solve before they could come out into the open, become respectable, and gain some sort of recognized legal status. There was a gaping hole in their argument. Their basic appeal for members was that they could gain something of value for them—higher wages, shorter hours, better working conditions, or what have you. Yet most of these improvements could only be obtained by labor unions by reducing the supply of workers available to employers at crucial times. This means that unions are organizations of some workers primarily against other workers. It means that their basic acts will be against other workers, as in strikes, boycotts, and just about any tactics that may be devised. The usual impact on unorganized workers is indirect, of course; it is experienced as unemployment, underemployment, and lower returns.

For labor unions to succeed either in gaining a large following or establishing themselves on anything like a permanent basis required a favorable framework. A considerable portion of that framework was provided by ideology, ideology which shifted the emphasis from the individual to the collective, ideology

which papered over or concealed the primary thrust of unionism, and ideology which provided a justification for the conflict which unionists claimed was involved, i.e., between management and labor.

Unionism Rests on Socialist Vision of Injustice

The ideology which undergirds unionism is socialism. Lest this statement be misunderstood, some qualifications are in order at the outset. In the first place, socialism was not originated as a doctrine to support the founding of labor unions. In the second place, many of those who support labor unions have not been consciously, avowedly, or by their own understanding of the matter, socialists. The ideological justification of unions is an offshoot of socialism, not its primary impetus. Socialism is a vision of the good society; unions are conceived as a partial corrective in an unjust society. It is that socialist vision of injustice which informs unionism, not necessarily its ultimate goal. It is in this sense mainly that socialism undergirds unionism.

There are three doctrines which were variously formulated by socialists which undergird unionism. They are: (1) *that the wage system in a capitalistic economy is unjust*; (2) *class consciousness*; and (3) *the class struggle*. These doctrines serve both to justify

the union activity and to conceal much of its essential character.

Here is a statement of the first doctrine, one from among many that could be adduced. It is general enough, as many of them are, to include a variety of explanations of the injustice that is supposed to be involved:

It is hardly disputed that capital, under our modern industrial system, is receiving more than a just share of the fruits of labor, and the laborer is receiving relatively less and less of the profits of his toil. The increase of wealth and wages is in no sense equitable. There is not a progressive economist in America or England who does not say that wealth is growing out of all proportion to the benefits which the laborer derives from his labor. The distribution of wealth is not according to industry or ability; not according to one's worth to society, but according, in large measure to the skill of some in appropriating to themselves the fruits of the labor of others by commercial legerdemain. . . .¹⁰

In general, socialists ascribe this inequity to the private ownership of property, or, more precisely, to the private ownership of the means of producing and distributing goods. This ownership—a system in which some have much, and most have little or none—is supposed to enable the owners to claim much more than their rightful share of the product of labor.

Indeed, according to Karl Marx's famous formulation of the labor

theory of value, the owners of productive property would be entitled only to the return from what they had produced with their own labor. As Marx put it, "*The relative values of commodities are, therefore, determined by the respective quantities or amounts of labour, worked up, realised, fixed in them.*"¹¹ That being the case, anything taken by owners or managers for themselves was taken from what rightfully belonged to the workers. This taking away of the product of his labor led to the alienation of the worker and a whole train of unfavorable consequences, according to Marx:

The alienation of the worker in his object is expressed as follows in the laws of political economy: the more the worker produces the less he has to consume; the more value he creates the more worthless he becomes. . . .¹²

Most American union leaders have not been Marxists, but that they based their efforts on the injustice of the system should be clear from the following statement. It was worked out in 1894 in a conference of labor leaders, including Samuel Gompers of the American Federation of Labor, in Chicago in 1894:

The trade union movement has its origin in economic and social injustice. . . . It stands as the protector of those who see the wrongs and injustice resultant of our present industrial system, and who by organization manifest their purpose of becoming larger sharers in the product

of their labor, and who by their efforts contribute toward securing the unity and solidarity of labor's forces; so that in the ever-present contest of the wealth producers to conquer their rights from the wealth absorbers, we may . . . work out through evolutionary methods the final emancipation of labor.¹³

This statement not only affirms the labor leaders' belief in the injustice of the system but also the other two doctrines of the ideology. The second doctrine is class consciousness. It is stated above as "the unity and solidarity of labor's forces." By "class consciousness," I mean to convey the conception that all workers—all the "toilers of the world," as it was sometimes stated—are members of a single class. The notion is that they share a common interest and a common goal. As the ideal was often stated, "an injury to one [is] an injury to all."¹⁴

Class Consciousness

The doctrine of class consciousness is absolutely essential to the labor union effort. In reality, workers are in competition with one another for jobs, just as employers are in competition with one another for workers. In actuality, the primary contest of unions is with unorganized workers or with workers in other unions. This obtrusive fact must somehow be countered or put out of mind and sight. Class consciousness is the de-

vice for doing it. If all workers have an identity of interest, if they think of it that way and believe it (or if the general population does), they must support all justified union efforts. Class consciousness is the bond of union collectivism.

This does not alter the fact that many workers do not belong to unions. More important, it does not change the actuality that when some workers walk out, others may remain on the job, or when there is a strike, other workers are sometimes willing to take their place, or when there is a boycott, some workers may ignore it. It does, however, provide a framework for placing those who ignore the union will beyond the pale. Such workers are fundamentally "defective." They lack the sense of class consciousness. They are not, however, objects of pity but of scorn, fit to be treated in whatever way it is necessary in order to be rid of them.

Union terminology recognizes three categories for those who work in defiance of the union decision. There are, first of all, "scabs," the non-union workers who work when the union has proclaimed a work stoppage. Then, there are the "rats," an even more contemptible category, those workers who were formerly union members but have left the union to act on their own. Then, there is a kind of universal category, that of "strikebreakers."

In union mythology, "strikebreakers" are toughs and thugs brought in by employers to work during a strike in order to break it. They are semi-professionals at being tough enough to endure the abuse they will receive when they go through picket lines and unafraid of the threats of retaliation. Although there have no doubt been instances when such people have been brought in by employers, just as unions sometimes bring in toughs to fortify mass picketing lines, any who work during a strike are likely to be castigated as "strikebreakers," as well as by the other unsavory terms.

The important point here, however, is that the doctrine of class consciousness enables unionists to place workers who act contrary to their aims beyond the pale. Thus, any conflict with them is not viewed as a contest between workers but as a contest between noble and righteous workers, on the one hand, and traitors to the cause on the other.

A Class Struggle

The linchpin of unionist ideology is the doctrine of the class struggle. It gives coherence and direction to the whole union effort. It is a doctrine derived from socialism, though it existed in embryo fashion in pre-socialist formulations. It was stated in the 1894 unionist formulation as "the ever-present contest of the wealth producers to conquer their

rights from the wealth absorbers. . . ." Most late nineteenth century socialists described it as a struggle between capital and labor. In twentieth century America it has been somewhat softened by referring to it as a contest between labor and management. (Note, labor unions usually describe the contest in such a way as to claim that they embrace all of "labor." The doctrine of class consciousness fortifies this notion.)

In the preamble to their constitution in 1908, the I.W.W., a revolutionary American union, described the class struggle this way:

The working class and the employing class have nothing in common. . . .

*Between these two classes a struggle must go on until the workers of the world organize as a class, take possession of the earth and the machinery of production and abolish the wage system.*¹⁵

Most American unionists do not, of course, subscribe to the revolutionary goals professed above. But the class struggle doctrine is essential to their ideology. It defines who the struggle is with. It is against the employers. They are the antagonists. They are the source of whatever injustices are alleged, and they are the ones who have it in their power to alter the situation. It is not supposed to be a struggle to the death. It is not even a continuous struggle. Instead, it is an episodic struggle, one which may go on until union recognition has been

achieved and a pact arrived at between the two parties. Then, it is in abeyance, so to speak, until new grievances arise or until a new contract is due.

In a broader sense, though, it is a continuing struggle. It is the struggle to organize all workers in a trade or industry and to get recognition for these unions. Even more broadly, there is the tacit, and sometimes explicit, goal of organizing all employed workers. Interestingly, established labor unions never make an extended effort to organize the unemployed. (Coxey's Army, an assortment of the unemployed during the depression going on in 1894, did receive some contributions from labor unions, but it was not a labor union and was brought into being to bring pressure on the national government.¹⁶) There is sufficient reason for them not to do so. For what purpose would the unemployed be organized? To get the jobs of some of those employed. But such an undertaking would blow the cover of the unions, so to speak.

Attention Diverted

That brings us to the essentiality of the class struggle doctrine to unionism. It serves to focus attention away from the primary contest between workers and upon what is, at best, a secondary contest between unions and employers. A widespread acceptance of the class struggle view

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of the matter tends to focus public attention on conditions of employment and the grievances alleged by the unions.

When a strike occurs, reporters do not ordinarily make surveys of the available supply of labor. They do not report the living conditions of those who were not employed. They

do not describe it as a basic conflict between employed and the unemployed, or those employed for less return. Instead, they report the alleged grievances of unions against employers and focus attention on the conduct of the employer. Presidential commissions and legislative committees do not call in the un-

employed from the surrounding countryside for interrogation. Instead, they grill the striking workers and the employers.

The class struggle doctrine makes all this quite plausible. It is only when the matter is examined economically, or when concern is shown for the victims of the violence, if there is any, that the matter takes on a different cast. Then it becomes clear that unions can only achieve their aims by excluding competing workers from employers, that organized workers are primarily organized against other workers. The class struggle thesis acts to conceal this character of the conflict.

In the course of the nineteenth century, labor unionists came under the sway of an ideology. It was so much of socialist ideology, at the least, as was necessary to buttress their undertaking. They accepted the view that individual workers acting alone would be cheated of their rightful share of the fruits of their labor—that the system was unjust. They accepted the necessity for collective action by workers and, in justification of that, that workers belonged to a class. They accepted the class struggle thesis, that theirs was a contest between capital and labor. They attempted, of course, to persuade people generally that their ideological version was the correct view of the matter.

Having an ideology did not insure

that labor unions would succeed in establishing themselves. It did provide a framework within which to operate. 

—FOOTNOTES—

¹See, for example, Gilbert C. Fite and Jim E. Reese, *An Economic History of the United States* (Boston: Houghton Mifflin, 1965, 2nd. ed.), pp. 227-30, 398.

²Raymond S. Iman and Thomas W. Koch, *Labor in American Society* (Glenview, Illinois: Scott, Foresman and Co., 1966), pp. 23-24.

³Henry S. Commager, *Documents of American History*, vol. I (New York: Appleton-Century-Crofts, 1962, 7th ed.), p. 296.

⁴Iman and Koch, *op. cit.*, p. 25.

⁵Commager, *op. cit.*, p. 298.

⁶Quoted in Bray Hammond, "Banking in the Early West: Monopoly, Prohibition, and Laissez Faire," in Thomas C. Cochran and Thomas B. Brewer, *The Agricultural Era* (New York: McGraw-Hill, 1966), p. 173.

⁷*Ibid.*, p. 177.

⁸*Ibid.*, p. 183.

⁹Thomas C. Cochran, *Business in American Life* (New York: McGraw-Hill, 1972), p. 78.

¹⁰George D. Herron, "Christ and the Social Revolution," in *American Issues*, edited by Merle Curti, Willard Thorp, and Carlos Baker (Philadelphia: J. B. Lippincott, 1960), p. 705.

¹¹Karl Marx and Friedrich Engels, *Selected Works* (New York: International Publishers, 1968), p. 204.

¹²Z. A. Jordan, ed., *Karl Marx: Economy, Class and Society* (New York: Scribner's, 1971), pp. 126-27.

¹³Thomas G. Manning, ed., *The Chicago Strike of 1894* (New York: Henry Holt, 1960), p. 34.

¹⁴Iman and Koch, *op. cit.*, p. 88.

¹⁵*Ibid.*

¹⁶See Donald L. McMurry, "The Industrial Armies and the Commonwealth," *Mississippi Valley Historical Review*, vol. 10, pp. 215-52.

An American Renaissance

LONG AGO Albert Jay Nock made a key distinction between political power and social power. When one waxes, the other wanes. In the great periods in history social power has been dominant, with wars localized and infrequent. Nineteenth-century America is an important case in point: here, on an open continent, inventiveness went hand in hand with low taxation, industry thrived, and great universities were founded on the basis of voluntary giving.

Nock was not a person to quantify his concepts; he relied on common sense observation to make his points. But common sense is not enough, particularly in a world in which there is so little of it. We have needed economists to demonstrate in cold arithmetical terms just how the seizure of the usufructs of social power by the political arm can diminish all our lives.

Recently Jude Wanniski, in *The Way the World Works*, has popularized and expanded upon the thinking of some of the new pro-social power anti-Keynesian economists, notably Arthur Laffer of the University of Southern California, and Robert Mundell of Columbia University. Between them, Laffer and Mundell have proved the case for the Nockian insight that taxation, when pushed to progressively high levels and combined with inflation, can asphyxiate an economy. But how do you get this across to politicians who thrive on the transfer of resources to the State?

Luckily, there are some politicians who care more for their productive-minded constituents than they do for themselves. One of them is Jack Kemp, the Congressman from Buffalo, who was once a most effective professional football

quarterback. An observant man, trained to read an enemy's defenses, Jack got into politics without much knowledge of economics. But he was, as he says in his *An American Renaissance: A Strategy for the 1980s* (Harper and Row, 207 pp., \$8.95), an expert in incentive. In football, he says, "your success is easily measurable. You have three seconds to get the ball, get back, and choose a receiver from four or five different possibilities. It's incentive. It's price theories, a reward-risk ratio."

This is a little fanciful, but the subject of reward-risk ratios led Kemp into the deeper waters of price theory. "Clearly, work and saving," he told an interviewer in 1978, "are more important than just consumption and leisure, and a society that rewards consumption and leisure more than it rewards saving and work is a society, black or white, rich or poor, Third World or developed world, that is on the decline."

The Incentive to Produce

At first Kemp had difficulty seeing the whole problem. He thought that the only way to increase the nation's productivity was to lower business taxes as an inducement to greater profits and production. Taxes on labor seemed to be in a different category, for workers were consumers, and, theoretically, if they kept more of their income they

would be using it to bid up prices. But Jude Wanniski, then of the *Wall Street Journal*, pointed out to Jack Kemp that he was still thinking in Keynesian terms. He had not stopped to consider that labor, if it could keep more of its wages after taxes, would also have more incentive to produce.

Once Jack Kemp had grasped the idea that both capital and labor had the same interest in tax reduction, he was ready for Professor Laffer's theory of the "wedge." Taxes on capital, taxes on labor, inflation, bureaucratic regulation, minimum wage laws, are all slices of the wedge that stands between maximizing individual effort and reward. True enough, some taxes are inevitable as long as people prefer limited government to anarchy. But it seemed obvious to Laffer—and to Kemp, as a reader of Laffer—that reduction of the wedge should be a prime concern of the statesman interested in productivity.

Productivity, of course, is the source of taxes. It follows that there can be two tax rates along a productivity curve that will produce the same revenue. A high tax rate on low volume won't generate any more government income than a low rate on high volume. The duty of the statesman is to find the point on the "Laffer curve" that will produce enough revenue to run the govern-

ment without cutting into the individual's marginal incentive to produce that last widget, or pair of shoes, or whatever.

Kemp, in his book, has digested Laffer's thinking. His response, as a Congressman, has been to introduce the so-called Kemp-Roth bill calling for a thirty per cent reduction in taxes over the period of a few years. Kemp is fond of quoting Jack Kennedy's phrase, "a rising tide lifts all boats." Kennedy, though surrounded by Keynesians, had hit upon the Laffer solution before Laffer had ever been heard of. The trouble with the Kennedy tax reduction is that it couldn't get the country moving fast enough to sustain both the Vietnam War and the Lyndon Johnson Great Society. There is a necessary limit to the miracles that a low-tax-rate-high-volume theory can work, as Jack Kemp himself realizes. Budget balancing can't be put off forever, or the inflation will get us all.

A Question of Priorities

But what should come first, budget balancing or tax reduction? Kemp has his own theory of priorities here. Americans, he says, "have two complementary desires. They want an open, promising ladder of opportunity. And they want a safety net of social services to catch and comfort those less fortunate than themselves and those unable to

share in the productive processes when the economy goes sour."

Kemp's advice is to begin cutting taxes across the board now and worry about money for the "safety net" later. "A vibrant economy," he says, "can afford to leave the safety net in place and at the same time ensure that the net is as empty as possible." With "real economic expansion" resulting from tax reduction, people would be bouncing out of the safety net into productive jobs. We wouldn't need all those appropriations for the Department of Health and Welfare, or for urban renewal, or for unemployment insurance or whatever.

There would be a short-term problem in accepting Jack Kemp's priorities if his fellow politicians happened to be laggard in getting away from old institutional habits. With people bouncing out of the social service "safety net" to take productive jobs, the need for a huge net-tending bureaucracy in Washington, D.C., would be diminished. But would the bureaucrats be inclined to depart in peace? And would Congress have the fortitude to fire net-tenders who had long-term records of party reliability?

These are questions that Jack Kemp thinks can be settled as transfer payments to individuals become less of a government problem. With less work to do, bureaucracies can wither. Or so we must hope.

Some two thirds of Kemp's book are devoted to the problems of incentives in society. The remainder goes into energy matters and into foreign and military policy in an extremely intelligent way. There is a great chapter on "exporting the American idea." The book is much more than a campaign document; it is a prod to high and serious thinking about problems that will be with us well into the twenty-first century. 

THE MADISONS: A BIOGRAPHY

by Virginia Moore

(McGraw-Hill, 1221 Ave. of
the Americas, New York, N.Y. 10020)
1979

568 pages ■ \$15.00 cloth

THE GREAT RIGHTS OF MANKIND: A HISTORY OF THE AMERICAN BILL OF RIGHTS

by Bernard Schwartz

(Oxford University Press, 200
Madison Ave., New York, N.Y. 10016)
1977

279 pages ■ \$11.95 cloth

Reviewed by Haven Bradford Gow

JAMES MADISON firmly believed that human beings possessed certain rights; inalienable, ungrantable rights that emanate not from the generosity of society or the government but, rather, from the hand of God. The duty of government, then,

is to preserve and protect these God-given rights.

Madison had a trenchantly realistic view of human nature. If men were angels, he said, government would not be necessary. But human nature is a mixture of good and evil. The faculties belonging to man's higher nature—conscience, sense of justice, capacity to love, the ability to subordinate his private, selfish interests to the common good, and the inherent capacity to make free choices and judgments—are traits which make self-government possible; but characteristics of man's lower nature such as envy, hatred, greed, selfishness and violence require a government of law to curb those who offend against the rights of others. And to further safeguard the individual Madison advocated the addition of a Bill of Rights to the Constitution to provide legal safeguards against both a "tyrannous majority" and abuses of government power.

When the first Congress convened in Old City Hall on Wall Street in New York, in April, 1789, Madison was at his peak, physically and intellectually, a slender, short-statured and soft-spoken man of thirty-eight, but a giant, morally and intellectually.

President George Washington, in his first message to Congress, had mentioned the widespread popular demand for amendments to the Con-

stitution, but had declined to make "particular recommendations on the subject," leaving that responsibility to Congress. In an Address to the President drafted by Madison, the House responded that the question of amendments "will receive the attention demanded by its importance."

The story is well told in the second book under review, written by New York University Professor of Law, Bernard Schwartz.

Madison addressed the first Congress on the 8th of June, 1789, to explain his nine amendments. He defended the bill as a much-needed check on a potentially tyrannous majority, and concluded that a bill of rights would have "a salutary effect against the abuse of power," because "independent tribunals of justice will consider themselves in a peculiar manner the guardians of those rights." Madison emphasized his fifth amendment, which forbade the states to violate the rights of conscience, freedom of the press, or jury trial, because, as he put it, "It is proper that every Government should be disarmed of powers which trench upon those particular rights."

Significantly, as Professor Schwartz points out, the Madison amendments cover all the articles that eventually became the Federal Bill of Rights. Four of Madison's amendments, though, were elimi-

nated during the congressional debates: the first, containing the general declaration of the theory of popular government; the fifth, prohibiting state violations of freedom of conscience, freedom of the press and trial by jury; the sixth, which limited appeals; and the eighth, which dealt with the separation of powers. Two of Madison's amendments failed to achieve ratification: the second and third, concerning congressional size and compensation. The other Madison amendments, though, survived substantially as the Bill of Rights itself: a very remarkable achievement indeed.

The rights protected by the Bill of Rights can be grouped under five general classifications: (1) freedom of religion; (2) the rights of expression and of association; (3) the right to privacy; (4) the right to due process; and (5) freedom from punishment that is cruel and unusual and from arbitrary restraint.

Does the Bill of Rights have popular and widespread support among the American people today?

A 1970 national survey conducted by CBS Television revealed that three-fourths of those polled said they would restrict the right of peaceful assembly for protests against the government; a majority would abridge the right to free speech and free press for criticisms of government, and the right of crimi-

nal defendants to confront the witnesses against them, as well as the guarantee against double jeopardy and the privileges against self-incrimination. One-third of those questioned would permit the police to search homes for drugs, guns, or other criminal evidence without warrants, and one-fifth would permit secret criminal trials.

The survey should cause those who still value the Bill of Rights to redouble their efforts to protect their rights, and to recognize just how much Madison and his colleagues accomplished for this nation. ☉

THE GOVERNMENT AGAINST THE ECONOMY

by George Reisman

(Caroline House Publishers, Inc., P.O. Box 738, Ottawa, Ill. 61350) 1979
207 pages ■ \$12.95 cloth

Reviewed by Roger R. Ream

"This book is about the destructive effects of price controls," the author tells us. "It explains why price controls are destructive in principle and shows how they have actually been destructive in practice."

But the book is more than this. Reisman details how the profit motive and private ownership operate in a free society to produce consequences beneficial to all. He contrasts this with socialism, which de-

stroys the possibility of rational economic activity and maintains control through compulsion. He demonstrates how housing is provided efficiently in a free market, then examines the chaos of rent controls. He explains why shortages cannot exist in a free economy, then explodes the myths surrounding the energy crisis.

But by far the greatest importance of this book is that it comes at a time when "voluntary" wage and price guidelines are upon us and calls are increasing for the imposition of mandatory controls. This book demonstrates once again that you cannot fight inflation (an increase in the quantity of money) by trying to hide one of the symptoms—rising prices—with price controls. Reisman uses fresh arguments and examples to do battle with this worn out economic concept.

One of the blessings of a free economy is the peaceful social cooperation that results from free exchange. Reisman describes the free market as "a truly awe-inspiring complex of relationships in which the rational self-interest of individuals unites all industries, all markets, all occupations, all production, and all consumption into a harmonious, progressing system serving the well-being of all who participate in it." The consumer is sovereign. "The real advocates of the consumers—

their virtual agents—are businessmen seeking profit, not the leaders of groups trying to restrict the freedom of businessmen to earn profits.”

Under price controls, the relationship between buyer and seller—consumer and businessman—is dramatically altered. Price controls cause shortages; rather than sellers seeking and serving buyers, the sellers have more buyers than they can possibly supply. As you may have noticed, your gas station attendant no longer routinely cleans your windshield and checks under the hood. If he loses your business, he suffers no financial loss since there are others in line—more than he can accommodate—hoping to buy his product. In fact, as we observed in the summer of 1979, consumers were offering gifts to gas station owners and taking their cars in for unnecessary tune-ups and minor repairs, all in an effort to keep on good terms with the seller. Price controls allow sellers to disregard consumer desires.

To understand this, it is important to see the distinction Reisman makes between a scarcity and a shortage. “An item can be extremely scarce, like diamonds, Rembrandt paintings, and so on,” Reisman writes, “yet no shortage exists.” Shortages exist when buyers demand more goods than sellers are willing to supply. This can only

occur when prices are not free to reflect the constantly changing demand for, and supply of, the goods being exchanged. In a free market, if demand increases or supply decreases, prices tend to rise. This has two effects: it discourages the marginal uses of a product, while simultaneously encouraging the production of more goods. Controls prevent prices from approaching market-clearing levels.

Editor's Note: For a more extensive sampling of this book, see the article, “Price Controls and Shortages,” page 72. Also, note on page 81 the publisher's special price for the book ordered by FREEMAN readers.

A shortage, in other words, means that prices are held too low. Therefore, “in order to blame the oil companies for the *shortage* [of oil], one would have to show that the oil companies *deliberately charged too low a price for their oil*. That would be the only conceivable way they could have caused the shortage. But that is absolutely absurd. It was not the oil companies that were responsible for too low a price, but the government, with its price controls.”

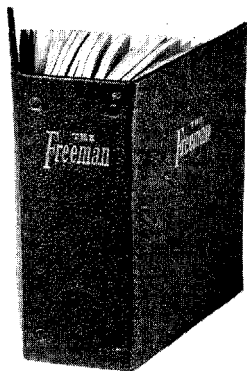
Reisman also shows how government acted directly to limit the supply of oil and was responsible for an

enormous artificial increase in demand for petroleum products.

Reisman's analysis of price controls is hard-hitting. He uses brilliant examples to drive home his points. Unfortunately, his approach is sometimes holistic, rather than focusing on the individual. Also, his explanations of profit and what determines price are unclear. But the overall forcefulness of his conclusions concerning the central thesis

of the book more than compensates and makes this a book well worth reading.

Americans experienced the chaos of comprehensive price controls in the early 1970s and again, on gas and oil last summer. Let us hope that Reisman's arguments get the attention they deserve, so that the destructiveness controls have caused over the centuries will be avoided in the years to come. 



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A MONTHLY JOURNAL OF IDEAS ON LIBERTY

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2 KINDS OF SABOTAGE

THE newspaper headline read, *Dam Destroyed,—Damages In Millions*. The copy relates the horrifying details: "A group of terrorists announced responsibility for the destruction of the hydro-electric dam . . . A bomb exploding deep in the dam fractured the superstructure . . . The collapsing dam released a huge wall of water into the valley below . . . Within hours the lake was drained completely . . . Power generation was cut off instantly."

The stunned reader can clearly recognize the devastation inflicted on life and property from such an evil event. Bombs in the hand of saboteurs can wreak havoc. The damage, both seen and unseen, is apparent to all.

The physical destruction of the dam, the leveling of properties from

the onslaught of water below the dam, the loss of both electrical power and the lake itself are immediately discernible. Also recognized are the losses of future recreational activities from the lake, irrigation water for agriculture, and a low-cost source of electrical energy. The impact of the saboteur's bomb in terms of capital destruction and a lower material well being for many people angers all who read or hear of such a violent act.

A public debate on the merits of blowing up the dam would be a discussion reserved for madmen. The harm from such sabotage is directly related to the exploding bomb. A universal condemnation of terrorism inevitably results because the devastation is so clearly recognized.

There is, however, another kind of sabotage. Unlike the exploding

Mr. Anderson is Executive Secretary of The Foundation for Economic Education.

bomb at the dam, the damage from this sabotage is not as readily perceived. This second kind of sabotage is the "time bomb" of government interference in the marketplace. And unlike madmen debating the merits of blowing up dams, practically everyone participates in this forum of economic sabotage by political manipulation.

The problem arises not from an abandonment of common sense in such debates, but instead from a failure to grasp the destructive consequences that this government "time bomb" can impose on life and property. If the economic consequences of government intervention could be as clear and direct as the damage from an exploding bomb, no problem would exist. The great tragedy, however, is that the effects of this latter bomb are rarely that clear.

Windfall Profits Tax a Time Bomb

An excellent demonstration of this government "time bomb" sabotaging the productivity of the market has been witnessed in the public debates over the "windfall profits tax." Political rhetoric seriously argued that the "solution" to the energy crisis was yet another tax. It was argued that such a tax would "solve" the problem of economic waste, while at the same time lead us to greater social justice.

But what is argued and what is true are rarely the same in politics today. The "windfall profits tax" is a classic example of sabotage with a government "time bomb." And whether this sabotage is an act of evil or ignorance is irrelevant, for it in no way alters the outcome. The result of sabotage, intentional or misguided, is always the same—devastation of life and property.

The "windfall profits tax" is a wedge driven between consumers and suppliers of a scarce and valuable resource. It deprives the suppliers of a part of the price consumers will pay for additional oil or other forms of energy. So it is a cost of production that will have to be covered by higher prices if the additional production is to be undertaken. Gasoline prices and cigarette prices have consistently demonstrated this principle in the past whenever new taxes were imposed upon them.

It is, of course, this very result of increasing product price that has led to the advocating of a "windfall profits tax" as a means of curtailing energy consumption. At least there seems to be an understanding that less of a good will be consumed at higher prices than at lower prices. But it's the other things that are not seen, and their harm to life and property, that is the force of sabotage to the marketplace.

It must never be forgotten that

the advancement of human welfare is accomplished by increasing the abundance of goods and services in society. A curtailment of consumption by taxation can only discourage production and therefore lead to a worsening of economic conditions. Such taxation, therefore, is a direct undermining of our economic well-being as it increases energy costs and makes energy ever more scarce.

The Function of Price

A distinction between rising prices generated by increased taxes and rising prices resulting from market forces must be made. Rising prices generated by the market forces of supply and demand perform a valuable economic function. The higher market price makes consumption more costly and thereby consumers will demand less. Correspondingly, producers receiving these higher prices are motivated to supply more of the good. These higher prices, when market determined, encourage more efficient use by consumers and greater productive output by producers. This increased efficiency in the use of the higher priced good by the consumer and the increased incentive to produce more of the good by producers brings about an ultimate improvement in total welfare.

When higher prices are generated by taxation, however, the market process is sabotaged. The signal gets

short-circuited. The demand by consumers falls in response to the higher price, but the "tax wedge" prevents the signal from reaching the producers. The result is a transfer of wealth, equal to the tax, from the consumers to the tax collector.

The public expenditure of the wealth collected by the tax invariably leads to the destruction of that wealth. Either through its consumption in wasteful activities (synfuel plants) or its employment in government regulation of future production (an energy department) the wealth collected by the tax is lost. The final result is a lower standard of living as the cost of living increases and productive activity declines.

The devastation to life and property from the destruction of the dam was visible to all. The evil of such sabotage could be clearly seen. But the sabotage by government taxation is never so visible. The unseen destruction of future prosperity by the political consumption of this wealth is every bit as devastating to our lives and property as the terrorist's bomb. But to see it requires an understanding of the economic forces in the marketplace that direct our lives.

An understanding of all of the economic consequences, both seen and unseen, is vital if we are to guard ourselves from this second kind of sabotage. 

Scott W. Hahn

10 Employee's social security number 516-04-1492	11 Federal income tax withheld \$1776.24	12 Wages, tips, other compensation \$17,423.00
15 Employee's name (last, first, middle initial) JOHN F. BROWN	13 Pension plan coverage? Yes/No Yes	
16 Home address 3700 Mill Way Hometown, N.Y. 14202	20 State income tax withheld \$ 658.00	21 Local income tax withheld
12 Employee's address (for record) 3700 Mill Way Hometown, N.Y. 14202		
Wage and Tax Statement		

Form W-2 This information is being furnished to the Internal Revenue Service.

The moment you abandon the cardinal principle of exacting from all individuals the same proportion of their income or of their property, you are at sea without rudder or compass, and there is no amount of injustice and folly you may not commit

...

—J. R. McCullough

★ ★ ★

MORE than a century ago, a young radical proposed the notion that the specter of communism would inevitably rise up and conquer the world. However, several measures had to be taken before this proletarian utopia could be ushered in. Young Marx admitted that these necessary measures could not be brought about

except by means of despotic inroads on the rights of property, and on the condi-

tions of bourgeois production; by means of measures, therefore, which appear economically insufficient and untenable, but which, in the course of the movement, outstrip themselves, necessitate further inroads upon the old social order, and are unavoidable as a means of entirely revolutionizing the mode of production.

One of the most significant of these proposed measures was the application of "a heavy progressive or graduated income tax."

For more than half a century, our nation has been experimenting with such a tax. Objections would be strenuously raised if one concluded that these American social "scientists" were consciously working to implement Marxist ideology. Indeed such name calling usually produces more heat than light. It would not be

Mr. Hahn, a recent graduate of Grove City College where he majored in economics, theology, and philosophy, is now studying at Gordon-Conwell Theological Seminary.

improper, however, to examine the effect that this graduated income tax has had upon the American society. For I believe that Marx was right. This progressive tax truly represents "a despotic inroad" which is "economically insufficient and untenable," thus "necessitating further inroads" upon the establishment of American liberty. Therefore, it would be profitable to discern how the graduated income tax has worked to subtly erode the economic, legal, and moral pillars upon which our nation has long rested.

Attacks on Income and Economy

Especially as April fifteenth comes and goes, taxpayers across the country ache from the powerful one-two combination of inflation and graduated taxation. Throughout the economy, there have appeared signs of a sustained rate of double-digit inflation. This unfortunate reality, coupled with the currently steep rates of the graduated income tax, works as a double poison which is slowly crippling private enterprise. This is no small cause for concern. It is crucial that we perceive how this combination subtly erodes our economic substance. Such accurate perception is the prerequisite for proper action. And both are desperately needed to prevent our reeling economy from going down for the count. Let us then briefly

examine the economic consequences of our graduated income tax in this age of inflation.

First of all, it is imperative that we recognize the current understanding and explanation of inflation for what it is: an economic myth. All are agreed that inflation is a dreadful evil which short-changes the moneyholders. (The mainstream economists even assent to this fact.) All the while, however, these economists wag their tongues at the alleged "causes" of inflation: big business or labor unions. (Which side is blamed usually depends, of course, on the individual economist's own special interests.)

The accusations of these economists produce much legislation but little change in the inflation rate. Well, that's not quite true; the rate inevitably rises. So, everyone struggles to stay one step ahead of inflation. They hope to make a little profit or just break even. In order to do this, however, their money-income must steadily rise at or above the present inflation rate. Such income increases are maintained at no small cost to both labor and management alike. Social conflict also inevitably rises.

The manner in which mainstream economists ignore the actual cause of this economic calamity is as baffling as it is reprehensible. The history of economic thought must be unknown to these men, or else it has

been rewritten. Whatever the case, the issue will remain obscure until it is clearly understood that the government's expansion of the currency and credit is truly the cause of inflation. (Actually, such expansion should be identified as inflation, properly defined.) Thus, we wait for the ebb of economic ignorance and watch as moneyholders continue to get shortchanged in the meantime.

If this reality only affected moneyholdings, it would be bad enough. However, insult is added to injury when people fill out their income tax returns and discover that their brutal struggle to stay even with inflation has lifted them into higher and more confiscatory rates of taxation. If inflation were not harsh enough, the graduated rate of income tax serves only to rub salt into their economic wounds. Such abuse inescapably wreaks havoc on an individual's incentive to produce.

Inflation Speeds the Erosion

Actually, the inflation is not necessary for the graduated income tax to effectively erode the nation's economic foundation. It only serves to expedite the process. But the government betrays both its impatience and immoral intention by continually boosting the rate of inflation. Throughout the economy, the crunch is felt by all. The whole time, the ravenous reapers of revenue in Washington clean up.

One might think that Americans have always been subjected to this annual headache. Clearly, such is not the case. In fact, a Constitutional amendment was necessary before the graduated income tax could be legally loosed upon the American taxpayers in 1913. This fact alone serves to confirm one's suspicion that such a revenue measure was far from the intention of the founding fathers. In fact, prior to the amendment, it was commonly understood that such a tax flew in the face of the direct and proportioned taxes called for in the Constitution. Specifically, the progressive income tax marked a distinct break from the established principle of nondiscriminating uniformity in taxation. This principle had long been recognized as crucial to the balance and stability of the American market economy. It also was understood to be a necessary means to protect private property and sustain voluntary exchange.

The first century of American independence saw the majority of revenues coming from tariffs and duties. Taxation, when it occurred, was slight and proportioned so as to distribute the tax burden impartially. This all changed in 1913, when the relatively young income tax was apportioned upon a graduated scale. The break from tradition has been widening as the graduated scale has become steeper.

What was it that motivated such a distinctive break from the Constitution? It would be profitable to briefly examine the arguments put forth in favor of the graduated scale.

"The rich should pay a greater proportion of taxes!" "Only such a measure will actually bring about greater equality of sacrifice!" Generally speaking, these arguments in favor of the graduated income tax have been exposed for what they are: expressions of egalitarian ideology. There were very few arguments which gained any credence in economic circles as providing "scientific justification" for this social dogma of reform.

Punishing Those Who Have Been Most Productive

One such case ostensibly providing rational grounds was the argument from "the decreasing marginal utility of successive acts of consumption."¹ In crude terms, this theory asserted that the rich entrepreneur, after making a cool million, would tend to value \$10,000 less than would a typical American breadwinner. Such arguments, however, are rendered invalid by a proper understanding of marginal utility and subjective value. (This understanding goes all the way back to the last century when Boehm-

Bawerk exposed the inadequate distinction between "use value" and "exchange value."²) And recently, even the most dedicated econometricians have abandoned the hope of being able to calculate and compare different subjective utilities between individuals. Such utility measurements are in fact as undesirable as they are unscientific! Therefore, the ultimate foundation for the graduated income tax seems to have been the dogma of social equality.

What, then, are the economic consequences of implementing this social dogma by establishing a progressive income tax? Quite simply, this graduated tax structure works to burden the economy in general and the most productive members in particular. This is so because there is a heavier, disproportionate tax upon those who earn the higher incomes. And in a market economy, the more productive people make the higher incomes. Thus, a greater proportion of capital is diverted from the most productive channels of the marketplace. Instead of funding productive investments, this disproportionate amount of income will find its way into the conspicuously consumptive hands of the federal government.

The graduated income tax will

¹Friedrich A. Hayek, *The Constitution of Liberty* (South Bend, Ind.: Gateway Editions, 1972), p. 309.

²Eugen von Boehm-Bawerk, *Capital and Interest* (South Holland, Ill.: Libertarian Press, 1959), II, p. 160.

only serve to discourage initiative while dissolving incentive. For what man would be overly anxious to pool capital resources into a more productive combination if his profits will only serve to lift him into a steeper tax bracket which offsets his gains? Only the confident, daring, or masochistic would be interested. I think we can then accurately conclude that the graduated income tax is at work, even now, slowly consuming our substance and eroding the economic base of our independent republic. This parasite is as unnatural as it is unnecessary. Here Americans have gravely erred. We have sold our birthright of liberty for a mess of "progressive" pottage.

The Distortion of Disproportion

The market order has often been depicted by its opponents as resting upon the competitive savagery of the *law of the jungle*, where only the strong survive. An examination of this disparaging allusion is not within the scope of this essay. Whether or not this was ever true, it could be more safely asserted that, with the dramatic reversal in social thought in this past century, we are now living in a society ensnared in a *jungle of law*. The irony of it all is discomfiting. The turning point came with an exchange of legal principles.

For centuries, the conflict raged in Europe between serfs and lords,

peasants and monarchs. The issue at stake: the nature of the individual and his rights before the law. The outcome of the conflict marked a decisive victory for human liberty. "The equality of all men before the law" represented a most significant step in the progress of justice.

What did it all mean for America? The founding fathers viewed this hard-fought acquisition as the legal pillar which would support the republic. "Equality before the law" meant that where an individual stood before the court, he could be assured that his guilt or innocence would be determined without regard to his economic status. The law would judge all men impartially. As Benjamin Franklin stated: "The same for every member of the society; and the poorest continues to have an equal claim to them with the most opulent, whatever difference time, chance, or industry may occasion in their circumstances."

While the United States enjoyed legal stability within its land, European nations began toying with the notion of the progressive income tax. They seemed disinterested in understanding the legal struggle that their ancestors had undergone to establish impartiality within the rule of law. In 1891 Prussia began its social experiment with the graduated income tax. Many Americans and Europeans perceived the danger. Dissent was raised by many

who argued that "the sacred principle of equality before the law" was "the only barrier against the encroachment on private property."³ However, the argument fell on deaf ears as the progressive rate was too insignificant to render any force to the argument against graduated rates in principle.

In the meantime, American and British social reformers were sounding the battle cry for greater "equality of sacrifice." With the opposition's arguments rendered ineffective by the very smallness of the tax burden, these reformers did their homework. Within less than twenty years of Prussia's experiment, Great Britain succumbed to the progressive temptation.

America soon followed. So within one generation, the legal lessons learned and the advances made, after the centuries of struggle, were forgotten. It was felt that a majority, by the mere fact of its numerical strength, could apply a burden to the wealthier minority without being affected itself by an equal load.

At that point, any remainder of legal clarity was distorted beyond recognition. Granted, the graduated burden was seemingly light. However, any attempt to impose a limit in the future would be arbitrary and, inevitably, only temporary.

Thus, once the floodgate was opened, there no longer existed any principle which could prevent the trickle from becoming a deluge.

So much was lost so quickly. Where the law had once been characterized by impartiality and predictability, it was now an arbitrary standard which was shifted by the will of the majority. A man's relation to the law was now greatly influenced, if not determined, by his economic status.

What can this produce but a conflict society? Suppose, after all, one man is taxed at one rate and his neighbor at a lower rate. Now this does not exactly create social harmony; rather it breeds suspicion and envy. So much of this confusion is brought about by a progressive income tax.

The Oppression of Progression

The redistribution of income and property by progressive taxation is now universally recognized as a proper means to attain social justice. It has been argued in this essay that such a policy is at once economically unproductive and legally unjust. In addition, it is morally reprehensible, contradicting the principles which established the nation upon the foundation of freedom and justice.

These principles were formulated by men who comprehended that a nation had to be built and sustained by individuals who understood both

³Hayek, *op. cit.*, p. 310.

self-discipline and self-development. Anything less would not endure. So long as their actions did not violate the rights of another, men were free to pursue happiness according to the dictates of their own conscience. Hence, men learned that individual enterprise and self-reliance were gifts of God which were to be cultivated and utilized. As they were developed, the American people prospered.

In the midst of their prosperity, a subtle shift began to occur. The change was imperceptible at first. The results of the change, however, were most distinct. Perhaps the prosperity led to economic fatness, and fatness in turn led to moral flabbiness. Whatever the causes, the effects remain with us. Where there was once individual enterprise and self-reliance, there is now a growing dependence upon the state and federal governments. Accompanying this shift came a growing distrust directed toward the more productive members of the society.

This distrust has blossomed into open hostility. With the instrumentality of the progressive tax structure, this hostility has led to an

economic and legal assault upon the wealth of these productive members. Prior to 1913, such hostility surely existed. But once a disproportionate tax was permitted to burden some more than others, the government then became the means of economic, legal, and moral oppression.

When a discriminating income tax is allowed to become the means of legal plunder, the spark of envy within the classes of men is fanned into a raging fire. No longer is the state able to restrain the fruits of covetousness; now it works to produce them. From the spark of envy to a conflagration of confiscation, the graduated income tax has led to democratic tyranny.

The progressive income tax has come upon us gradually. It began with a seemingly harmless maximum rate of 7 per cent. Yet within less than a generation, this rate climbed higher than 90 per cent. Of course "progressive" is a misnomer. "Aggressive" might be closer to the truth. But alas, perhaps "regressive" would be best, as this graduated tax policy has taken America back centuries—down the road to serfdom. 

Frederic Bastiat

IDEAS ON



LIBERTY

THE STATE is and ought to be nothing whatever but *community force* organized, not to be an instrument of oppression and mutual plunder among citizens, but, on the contrary, to guarantee to each his own, and to cause justice and security to reign.

Government Regulation of Mass Media Communication

PEACEFUL RELATIONS among people depend on voluntary social cooperation. And the success of social cooperation rests in large part on ease of communication. With the development, many millennia ago, of primitive language and, in time, of the written word, interpersonal communication and cooperation could begin. Much more sophisticated and efficient ways of relaying ideas and knowledge have since been developed and communication techniques have changed radically since the time of footrunning couriers and town criers.

Our modern mass media of communication have been made possible by countless inventions and im-

provements made by unnumbered individuals over the years. Printing techniques and the production of paper, books and newspapers have been considerably improved. Today's very remarkable radio, TV, print and film industries are products of extremely complicated capital-intensive electrical, electronic and photographic technologies and equipment. Readers, listeners and viewers everywhere want these mechanical techniques of communication to be continually improved still more. They also want the quality of the material published, produced and broadcast to be upgraded so as to satisfy better their own personal interests.

Mrs. Greaves is a member of the senior staff of The Foundation for Economic Education and the author of the two-volume *Basic Reader and Syllabus—Free Market Economics*. For many years she has assembled material on national high school and college debate topics.

This essay deals with the subject of the current college debate resolutions.

1. What information do people want to communicate and to have communicated to them? One thinks first off of personal messages, letters and daily newspapers. But communication involves much more

than that. Access to theoretical, factual and historical knowledge accumulated throughout the centuries is most important. People also want to learn what others have been doing recently. They want reports on current events with comments, often critical of specific persons and their actions. They want to learn what their government is doing, or may do. They are interested in political events. They want to know about laws, proposed or enacted, and about actual or likely administrative decisions. They want reports on judicial procedures and court trials. They want to be able to petition their government. They want reports on business, production, trade and other economic activities. They want to know likely production costs, as well as what prices producers and retailers are asking for goods and services. They want to hear weather reports and forecasts. They want information on new products and scientific developments. They want entertainment. They follow competitive sports closely. They want to know about social events, as well as disasters, accidents, crimes. People now rely on mass media communication facilities for all these and many other kinds of information and entertainment.

2. What forms of communication are used to transmit all this material? The traditional mass media of

communication are television, radio, print and/or film. But ideas, knowledge, factual data and entertainment are also transmitted by other means. Personal messages are delivered by hand, through the mails, by word of mouth and by telephone. Printed messages and commentaries appear in books, newspapers, pamphlets and on billboards. Radio and television offer news of all kinds, sports and entertainment, films, fictional and documentary, interviews with prominent personalities, advertising and much more. Modern loud speakers, often with radio and/or TV hook-up, enable speakers to be heard by hundreds, thousands, even millions, from outdoor lecture platforms or even a soap box, as well as in theaters or auditoriums.

Although not usually classified as communications media, schools and universities are among the most important means for transmitting from one generation to another the vast body of theoretical knowledge and factual data accumulated over centuries. And businessmen everywhere look to daily prices and stock market reports for information about anticipated prices and future demands for products throughout the world.

3. How have communications media changed over the years?

Inventors and investors have substantially modified and improved communication facilities. Many more

individuals may now transmit more messages to more people more quickly and more easily than ever before. We no longer need rely on direct word of mouth communication or hand-to-hand transmission of original messages.

Improvements in distribution came first. By wagon, coach, pony express, train, automobile and plane, messages could be delivered much faster than men could run, over much longer distances. Printing presses, rag and woodpulp papers, book binding equipment, strong glues, etc., improved the publishing of printed books and newspapers. With the development of electricity, photography, electronics, transistors, and so forth, the telegraph, ticker tape, telephone, radio, television, teletype, communication satellites, etc., became possible, permitting spoken words and pictures to be sent through the air. Using these modern techniques, any arrangement of words and photos may be transmitted promptly and accurately all around the world. Books, newspapers, statistics, films, radio broadcasts, TV shows, and the like, may be transmitted in precise and accurate reproduction.

Lies, distortions, propaganda and misinterpretations of truth are relayed just as faithfully as are truths, accurate data and reliable knowledge. The media themselves are merely tools created by individuals

to facilitate communication. The media are not selective; they may be used for good or evil.

4. How can we best assure that the media transmit truths, not lies?

The eagerness to know and to communicate often conflicts with the desire of individuals to live in privacy and to keep unpleasant matters hidden. Yet freedom of the press has been traditional in this country. Generally speaking, reporters have been free to write as they chose, so long as they were responsible for what they wrote. The broadcasting of libelous (defamatory) statements that destroy a person's reputation was generally considered a form of theft. Yet, since the trial of journalist John Peter Zenger (1697-1764) in colonial New York, a derogatory statement that was true was not considered libelous; to defend himself against charges of libel, an author had only to demonstrate his statement was true.

With recent technological advances, freedom of press principles have been expanded to apply to radio, TV, even films and all printed matter, as well as traditional newspapers. However, the principle of reporter responsibility has been diluted. Since *New York Times v. Sullivan* (1964), reporters have been free to publish almost anything, true or false, about "public figures," confident that they could not be

charged with libel unless "actual malice" were proved. Some reporters now refuse to reveal the sources on which they base a story, claiming they promised anonymity to obtain information to satisfy their readers' "right to know." Some reporters have lost their jobs as a result. Some have even been jailed. Marie Torre, William T. Farr, Daniel Schorr, M. A. Farber are a few who refused to reveal sources.

However, the principle of a free press is not simply protecting the freedom of reporters to publish what they choose. How about the readers' "right to know" the source of a story, so as to judge bias and reliability in a particular instance? How about the constitutional right (Amendment VI) of a person being accused "to be confronted with the witnesses against him"? What will happen if reporters may write what they choose without any obligation to demonstrate its truth or to reveal sources? What assurance will the public then have of the reliability of news reporting?

5. Suppose the federal government assumed responsibility for the quality and reliability of communications by strengthening its regulation of the media? Government officials, like private individuals, would prefer at times not to be in the public eye; they would like to hide their mistakes, misjudgments

and indiscretions. Yet private reporters want to uncover and publicize precisely the information government officials are most intent on concealing. Thus reporters and officials frequently become adversaries. If more power is given government, the officials gain the upper hand and can threaten recalcitrant reporters with reprisals. Classification of government documents as SECRET or CONFIDENTIAL (viz. the Pentagon Papers, released in 1971 by Daniel Ellsberg) may sometimes be used simply to avoid government embarrassment. Such a situation could lead, on the one hand, to censorship with the concealment of any information unfavorable to the government and, on the other hand, to propaganda with the release of pro-government handouts only.

6. How does the federal government now influence the communications media? The federal government now exercises considerable control over the private media, often by the back door—through FCC requirements with respect to licensing, radio-TV programming, allotment of time to public service and news programs, equal time provisions in political campaigns, free time for persons to answer criticism under the "fairness doctrine," advertising limitations, and so on. Government may also interfere through antitrust regulations, labor-

It is a sad fact that some people try to exploit their fellow men's plight by offering them patent medicines. . . . It would not impair the operation of the market if the authorities were to prevent such advertising. . . . But whoever is ready to grant to the government this power would be inconsistent if he objected to the demand to submit the statements of churches and sects to the same examination. Freedom is indivisible. As soon as one starts to restrict it, one enters upon a decline on which it is difficult to stop. If one assigns to the government the task of making truth prevail in the advertising of perfumes and tooth paste, one cannot contest it the right to look after truth in the more important matters of religion, philosophy, and social ideology.

LUDWIG VON MISES, *Human Action*

management relations, the SEC, CIA and FBI surveillance activities, etc. Government directly subsidizes some communications—through USIA, Radio Free Europe, CETA, the poverty program, aid to the arts, etc. Government is also concerned, necessarily, with publicity given court cases, for it may contribute to, or hamper, fair trials for defendants. All in all, the influence of the federal government over the media is considerably more pervasive than appears at first glance.

7. What authority should the federal government have to regulate communications media? The First Amendment to the Constitution provides that the Congress shall "make no law . . . abridging the freedom of speech, or of the press

. . ." Generally speaking, the principles of a free press should prevail throughout the communications industry. Radio, television, printing, film production, etc., should all be completely private enterprises, financed entirely by the savings of private investors. They should be subject to free and open competition on the market, free to experiment, to try out new ideas, dependent for survival, like any other enterprise, on satisfying consumers.

In a completely free system, the communications media would rely for news of production costs and the demand for goods and services on pricing information communicated through the market. Government's obligation to them would be the same as to any other private enterprise—to protect them from

those who would use force, fraud or threat of either to destroy life and property.

In war, truth inevitably becomes *The First Casualty*, as Phillip Knightley demonstrates in his book of that title. For patriotic and military reasons, reporters then usually submit willingly to censorship. But once war ends, freedom of the press principles should prevail. The communications media should then become once more the eternally vigilant "watchdog," reporting the news as accurately and as responsibly as possible.

Thomas Jefferson had profound confidence in a free press. He wrote, "Were it left to me to decide whether we should have a government without newspapers, or newspapers without a government, I should not

hesitate to prefer the latter. . . . Reason and free inquiry are the only effectual agents against error." If all our communications media today—not only radio, TV, film and printing industries, but also schools, libraries, churches, theaters, advertisers, politicians, and so on—were relieved of the hampering effects of government regulations, controls, red tape and excess taxes, they would have to become more responsible to the ever-changing wishes of consumers, or go out of business. Those enterprises that succeeded best in presenting sound principle, truth and lively entertainment to their customers, in free and open competition with all other enterprises, would become increasingly more effective and vigorous communicators. 

DEBATE TOPICS OF RECENT YEARS

Government Regulation of Mass Media
Communications

Foreign Policy

Employment Opportunities

Energy

Federal Law Enforcement—Investigation
and Prosecution of Felony Crimes

Consumer "Protection" or Consumer Sovereignty

Mrs. Greaves has a limited supply of her suggested study questions and references for each of these topics, available on request while the supply lasts. Send requests (specify topic or topics desired) to:

The Foundation for Economic Education, Inc.
30 South Broadway
Irvington-on-Hudson, N.Y. 10533

HOW TO PRODUCE HUMAN BEINGS



A FEATURE of our tour of a collective farm in China was a visit to the home of a worker. To my astonishment, our host had five children.

I wondered if he was aware of the policy of the State Council's family planning department. The chairwoman, Vice Premier Chen Muhua, summed up that policy in this clear statement: "The planned economy of socialism should make it possible to regulate the reproduction of human beings so that the population growth keeps in step with the growth of material production."

Five children in one family is *not* in harmony with the current level of material production in the People's Republic of China. In fact, the gov-

ernment's plan to equalize them is based on the production of no more than two children per couple—and one, or even none, is preferred.

At my request, our tour guide put this information into a question to our farmer-host. He listened carefully, smiled proudly, and replied that the official policy on *his* collective farm of 26,000 members is to permit the production of children until a son is born. He and his wife had produced four daughters before the son arrived. Then both were sterilized.

This policy on the production of human beings in China varies from province to province and, apparently, from collective to collective. Also the "child production allotment" appears to be larger on collective farms than in collective factories. Increasingly, however, the

Dr. Russell, Professor of Management, University of Wisconsin at La Crosse, also gains economic insight from his observation of people and conditions around the world.

philosophy now followed in rural Guizhou Province is becoming the norm for the nation: "The party organizations at all levels have called on the masses to resolutely deal blows to the criminals . . . [who] have used the masses' old ideas," (i.e., more sons, more bliss) to sabotage socialist population control measures.

Traditions die hard, however, in any society. Prime Minister Indira Gandhi also discovered this truth when she encouraged the use of force to sterilize people who refused to comply with her plans to decrease the population in India. Her successor as prime minister, Maraji Desai, once told me that Mrs. Gandhi's compulsory sterilization policies had far more to do with her political defeat than did the charges of corruption against her administration and family.

Rewards and Penalties

In India and China, a combination of both "carrot and stick" measures are used in the attempt to keep the production of human beings in harmony with state plans. For example, free birth control devices, abortions, and sterilizations are readily available to all. These control measures are always actively promoted and are sometimes even enforced against reluctant participants. In some cities in China, e.g., Peking, the production of a third child may

bring a fine of 10 per cent of pay for up to 14 years. One-child and no-child families in China are often rewarded by the government with *more* housing space and better job opportunities. These cooperating parents may also get special credits added to their retirement pensions.

Similar reward and punishment measures are used (in reverse) in western nations where the production of children is positively encouraged. For example, in Sweden the low birth rate is of great concern to the government. The allocation of scarce housing is one of several ways the government uses to *reward* the producers of more Swedish babies. During my two visits to Stockholm in the 1960s I found that the waiting time for an apartment was from four to ten years. But a woman could move to the top of the waiting list for scarce and low-rent housing if she became pregnant. That's a most persuasive production bonus in a society where there's a housing shortage.

In France with its declining birth rate, a friend of mine in Paris is paid more (directly and indirectly) by the government for his five children than he's paid (take home) by his employer. He once joked to me that his family is a two-income family; his wife is paid for producing more children while he's paid for producing more lectures.

In New York City, the payment of

various direct and indirect subsidies to families with dependent children usually adds up to considerably more than the parent could earn at any available job. And so on, in every nation of the world, with the government applying both carrot and stick to increase or decrease the production of human beings according to state plans.

Motivation

There is a strong tendency by most persons in *any* society to take the job that offers the most material goods and services for the least effort. And quite frequently in various western nations, the government pays more for the production of children than the market pays for the production of goods and services.

This "reward principle" applies to the production of anything and everything, at all times, and in all nations. For example, when the state planners in Russia wanted more food produced, they permitted private farming, market pricing, and high profits. The socialist planners knew with certainty that the Russian farmers would respond to the profit motive in precisely the same way the managers of General Motors respond to the same motive. Both will produce more of the wanted products. In Poland, I observed people standing in line for three hours at the no-profit government stores while other people were

getting immediate service in the "private sector" of the economy that operates on the profit motive.

This motivation to increase production, i.e., the basic desire of mankind to accumulate products and services for survival and comfort, is not restricted to any particular economic system. It is an inherent—not an acquired—characteristic. It came with the first human being, and every one of us today was born with it in our genes. Even the persons who use force in an effort to suppress this motivating principle "to get ahead" are themselves thereby trying to get ahead of the rest of us.

This acquisitive characteristic is responsible for all progress, including art by the old masters. The philosopher who argues how the "surplus" production should be distributed seems happily unaware that the surplus was produced by persons who expected to gain *something* from it personally. What did they expect to gain? Ask any producer, including yourself. While the answers will vary widely, they will all involve self-interest (including self-glorification and immortalization) in one way or another.

As my minister sincerely denounced the "root of all evil" in his sermons, I continued to help him in his search for a larger church that paid its pastor more money. I recommended him because he was a

high producer and a good man in every sense of the word. He, too, wanted (and I think, deserved) more of the world's products and services.

What do you want more of? Babies? Tobacco? Chrysler cars? The secret of how to get them produced is known to everyone, in Russia as in the United States. Just pay a bigger bonus in one form or another, including the government's support of prices higher than the market would tolerate.

Leave to the Individual the Choice and Its Consequences

What do you want less of? Babies? Rental housing and apartments? Investment in machinery? The secret of how to decrease production is also known to everyone, in China as in the United States. Just penalize such production in one way or another, including the government's setting of prices lower than the market would offer.

Personally, I'm not in favor of our government's rewarding or penalizing the producers of any product, most especially the producers of human beings. That's a bit too close

to "playing God" for my taste. Perhaps we collectively (through our government) would be well advised neither to reward nor to penalize anyone for having or not having babies. Perhaps that decision should be left with the individuals who are *directly* concerned, and with no one else.

In retrospect, I just can't imagine that any government planning agency would have permitted me (unit number 11) to be added to the existing 10 children already produced by a dirt-poor family in the Virginia mountains. Even the worst of the bureaucratic planners couldn't make such an obvious blunder as that.

I think of that when I take the government-granted income tax deduction for my own children. If I ask the government to reward me with tax rebates (and other subsidies) for producing human beings, I have no moral ground to stand on when the government planners decide to penalize me for it. If they have the right to do the one, then most definitely they have the right to do the other. 

The Right to Choose

IDEAS ON



LIBERTY

It must be obvious that liberty necessarily means freedom to choose foolishly as well as wisely; freedom to choose evil as well as good; freedom to enjoy the rewards of good judgment, and freedom to suffer the penalties of bad judgment.

BEN MOREELL, "Survival of the Species"

Inflation

If the supply of caviar were as plentiful as the supply of potatoes, the price of caviar—that is, the exchange ratio between caviar and money or caviar and other commodities—would change considerably. In that case, one could obtain caviar at a much smaller sacrifice than is required today. Likewise, if the quantity of money is increased, the purchasing power of the monetary unit decreases, and the quantity of goods that can be obtained for one unit of this money decreases also.

When, in the sixteenth century, American resources of gold and silver were discovered and exploited, enormous quantities of the precious metals were transported to Europe. The result of this increase in the quantity of money was a general tendency toward an upward movement of prices. In the same way, today, when a government increases the quantity of paper money, the result is that the purchasing power of the monetary unit

begins to drop, and so prices rise. This is called *inflation*.

Unfortunately, in the United States, as well as in other countries, some people prefer to attribute the cause of inflation not to an increase in the quantity of money but, rather, to the rise in prices.

However, there has never been any serious argument against the economic interpretation of the relationship between prices and the quantity of money, or the exchange ratio between money and other goods, commodities, and services. Under present day technological conditions there is nothing easier than to manufacture pieces of paper upon which certain monetary amounts are printed. In the United States, where all the notes are of the same size, it does not cost the government more to print a bill of a thousand dollars than it does to print a bill of one dollar. It is purely a printing procedure that requires the same quantity of paper and ink.

Ludwig von Mises, 1881-1973, was one of the great defenders of a rational economic science, and perhaps the single most creative mind at work in this field in our century.

Found among the papers of Dr. Mises were transcripts of lectures he delivered in Argentina in 1959. These have now been edited by his widow and are available as a Regnery/Gateway paper-backed book. This article, one of the lectures, is here reprinted by permission of the publishers. All rights reserved.

The book, *Economic Policy: Thoughts for Today and Tomorrow*, also may be purchased at \$4.95 from The Foundation for Economic Education, Inc., Irvington-on-Hudson, N.Y. 10533.

In the eighteenth century, when the first attempts were made to issue bank notes and to give these bank notes the quality of legal tender—that is, the right to be honored in exchange transactions in the same way that gold and silver pieces were honored—the governments and nations believed that bankers had some secret knowledge enabling them to produce wealth out of nothing. When the governments of the eighteenth century were in financial difficulties, they thought all they needed was a clever banker at the head of their financial management in order to get rid of all their difficulties.

Some years before the French Revolution, when the royalty of France was in financial trouble, the

king of France sought out such a clever banker, and appointed him to a high position. This man was, in every regard, the opposite of the people who, up to that time, had ruled France. First of all he was not a Frenchman, he was a foreigner—a Genevese. Secondly, he was not a member of the aristocracy, he was a simple commoner. And what counted even more in eighteenth century France, he was not a Catholic, but a Protestant. And so Monsieur Necker, the father of the famous Madame de Staël, became the minister of finance, and everyone expected him to solve the financial problems of France. But in spite of the high degree of confidence Monsieur Necker enjoyed, the royal cashbox remained empty—Necker's greatest mistake having been his attempt to finance aid to the American colonists in their war of independence against England *without raising taxes*. That was certainly the wrong way to go about solving France's financial troubles.

No Secret Source of Funds

There can be no secret way to the solution of the financial problems of a government; if it needs money, it has to obtain the money by taxing its citizens (or, under special conditions, by borrowing it from people who have the money). But many governments, we can even say *most* governments, think there is another

method for getting the needed money; simply to print it.

If the government wants to do something beneficial—if, for example, it wants to build a hospital—the way to find the needed money for this project is to tax the citizens and build the hospital out of tax revenues. Then no special “price revolution” will occur, because when the government collects money for the construction of the hospital, the citizens—having paid the taxes—are forced to reduce their spending. The individual taxpayer is forced to restrict either his consumption, his investments or his savings. The government, appearing on the market as a buyer, *replaces* the individual citizen: the citizen buys less, but the government buys more. The government, of course, does not always buy the same goods which the citizens would have bought; but on the average there occurs no rise in prices due to the government’s construction of a hospital.

I choose this example of a hospital precisely because people sometimes say: “It makes a difference whether the government uses its money for good or for bad purposes.” I want to assume that the government *always* uses the money which it has printed for the best possible purposes—purposes with which we all agree. For it is not the *way* in which the money is spent, it is the way in which the government *obtains* this

money that brings about those consequences we call inflation and which most people in the world today do not consider as beneficial.

For example, without inflating, the government could use the tax-collected money for hiring new employees or for raising the salaries of those who are already in government service. Then these people, whose salaries have been increased, are in a position to buy more. When the government taxes the citizens and uses this money to increase the salaries of government employees, the taxpayers have less to spend, but the government employees have more. Prices in general will not increase.

But if the government does not use tax money for this purpose, if it uses freshly printed money instead, it means that there will be people who now have more money while all other people still have as much as they had before. So those who received the newly-printed money will be competing with those people who were buyers before. And since there are no more commodities than there were previously, but there *is* more money on the market—and since there are now people who can buy more today than they could have bought yesterday—there will be an additional demand for that same quantity of goods. Therefore prices will tend to go up. This cannot be avoided, no matter what the use of

this newly-issued money will be.

And most importantly, this tendency for prices to go up will develop step by step; it is not a general upward movement of what has been called the "price level." The metaphorical expression "price level" must never be used.

When people talk of a "price level," they have in mind the image of a level of a liquid which goes up or down according to the increase or decrease in its quantity, but which, like a liquid in a tank, always rises evenly. But with prices, there is no such thing as a "level." Prices do not change to the same extent at the same time. There are always prices that are changing more rapidly, rising or falling more rapidly than other prices. There is a reason for this.

Early Beneficiaries

Consider the case of the government employee who received the new money added to the money supply. People do not buy today precisely the same commodities and in the same quantities as they did yesterday. The additional money which the government has printed and introduced into the market is not used for the purchase of *all* commodities and services. It is used for the purchase of certain commodities, the prices of which will rise, while other commodities will still remain at the prices that prevailed before the new

money was put on the market. Therefore, when inflation starts, different groups within the population are affected by this inflation, in different ways. Those groups who get the new money first, gain a temporary benefit.

When the government inflates in order to wage a war, it has to buy munitions, and the first to get the additional money are the munition industries and the workers within these industries. These groups are now in a very favorable position. They have higher profits and higher wages; their business is moving. Why? Because they were the first to receive the additional money. And having now more money at their disposal, they are buying. And they are buying from other people who are manufacturing and selling the commodities that these munition makers want.

These other people form a second group. And this second group considers inflation to be very good for business. Why not? Isn't it wonderful to sell more? For example, the owner of a restaurant in the neighborhood of a munitions factory says: "It is really marvelous! The munition workers have more money; there are many more of them now than before; they are all patronizing my restaurant; I am very happy about it." He does not see any reason to feel otherwise.

The situation is this: those people

to whom the money comes first now have a higher income, and they can still buy many commodities and services at prices which correspond to the previous state of the market, to the condition that existed on the eve of inflation. Therefore, they are in a very favorable position. And thus inflation continues step by step, from one group of the population to another. And all those to whom the additional money comes at the early stage of inflation are benefited because they are buying some things at prices still corresponding to the previous stage of the exchange ratio between money and commodities.

Others Must Lose

But there are other groups in the population to whom this additional money comes much, much later. These people are in an *unfavorable* position. Before the additional money comes to them they are forced to pay higher prices than they paid before for some—or for practically all—of the commodities they wanted to purchase, while their income has remained the same, or has not increased proportionately with prices.

Consider for instance a country like the United States during the Second World War; on the one hand, inflation at that time favored the munitions workers, the munition industries, the manufacturers of guns, while on the other hand it

worked against other groups of the population. And the ones who suffered the greatest disadvantages from inflation were the teachers and the ministers.

As you know, a minister is a very modest person who serves God and must not talk too much about money. Teachers, likewise, are dedicated persons who are supposed to think more about educating the young than about their salaries. Consequently, the teachers and ministers were among those who were most penalized by inflation, for the various schools and churches were the last to realize that they must raise salaries. When the church elders and the school corporations finally discovered that, after all one should also raise the salaries of those dedicated people, the earlier losses they had suffered still remained.

For a long time, they had to buy less than they did before, to cut down their consumption of better and more expensive foods, and to restrict their purchase of clothing—because prices had already adjusted upward, while their income, their salaries, had not yet been raised. (This situation has changed considerably today, at least for teachers.)

There are therefore always different groups in the population being affected differently by inflation. For some of them, inflation is not so bad;

they even ask for a continuation of it, because they are the first to profit from it. We will see, in the next lecture, how this unevenness in the consequences of inflation vitally affects the politics that lead toward inflation.

Under these changes brought about by inflation, we have groups who are favored and groups who are directly profiteering. I do not use the term "profiteering" as a reproach to these people, for if there is someone to blame, it is the government that established the inflation. And there are always people who *favor* inflation, because they realize what is going on sooner than other people do. Their special profits are due to the fact that there will necessarily be unevenness in the process of inflation.

Inflation as a Tax

The government may think that inflation—as a method of raising funds—is better than taxation, which is always unpopular and difficult. In many rich and great nations, legislators have often discussed, for months and months, the various forms of new taxes that were necessary because the parliament had decided to increase expenditures. Having discussed various methods of getting the money by taxation, they finally decided that perhaps it was better to do it by inflation.

But of course, the word "inflation" was not used. The politician in power who proceeds toward inflation does not announce: "I am proceeding toward inflation." The technical methods employed to achieve the inflation are so complicated that the average citizen does not realize inflation has begun.

During one of the biggest inflations in history, in the German Reich after the First World War, the inflation was not so momentous during the war. It was the inflation *after* the war that brought about the catastrophe. The government did not say: "We are proceeding toward inflation." The government simply borrowed money very indirectly from the central bank. The government did not have to ask how the central bank would find and deliver the money. The central bank simply printed it.

Today the techniques for inflation are complicated by the fact that there is checkbook money. It involves another technique, but the result is the same. With the stroke of a pen, the government creates *fiat* money, thus increasing the quantity of money and credit. The government simply issues the order, and the fiat money is there.

The government does not care, at first, that some people will be losers, it does not care that prices will go up. The legislators say: "This is a wonderful system!" But this wonder-

ful system has one fundamental weakness: it cannot last. If inflation could go on forever, there would be no point in telling governments they should not inflate. But the certain fact about inflation is that, sooner or later, it must come to an end. It is a policy that cannot last.

In the long run, inflation comes to an end with the breakdown of the currency—to a catastrophe, to a situation like the one in Germany in 1923. On August 1, 1914, the value of the dollar was four marks and twenty pfennigs. Nine years and three months later, in November 1923, the dollar was pegged at 4.2 trillion marks. In other words, the mark was worth nothing. It no longer had *any* value.

Some years ago, a famous author wrote: "In the long run we are all dead." This is certainly true, I am sorry to say. But the question is, how short or long will the short run be? In the eighteenth century there was a famous lady, Madame de Pompadour, who is credited with the dictum: "Après nous le déluge" ("After us will come the flood"). Madame de Pompadour was happy enough to die in the short run. But her successor in office, Madame du Barry, outlived the short run and was beheaded in the long run. For many people the "long run" quickly becomes the "short run"—and the longer inflation goes on the sooner the "short run."

How long can the short run last? How long can a central bank continue an inflation? Probably as long as people are convinced that the government, sooner or later, but certainly not too late, will stop printing money and thereby stop decreasing the value of each unit of money.

The Flight from Money

When people no longer believe this, when they realize that the government will go on and on without any intention of stopping, then they begin to understand that prices tomorrow will be higher than they are today. Then they begin buying at any price, causing prices to go up to such heights that the monetary system breaks down.

I refer to the case of Germany, which the whole world was watching. Many books have described the events of that time. (Although I am no German, but an Austrian, I saw everything from the inside: in Austria, conditions were not very different from those in Germany; nor were they much different in many other European countries.) For several years, the German people believed that their inflation was just a temporary affair, that it would soon come to an end. They believed it for almost nine years, until the summer of 1923. Then, finally, they began to doubt. As the inflation continued, people thought it wiser to buy everything available, instead of keeping

money in their pockets. Furthermore, they reasoned that one should not give loans of money, but on the contrary, that it was a very good idea to be a debtor. Thus inflation continued feeding on itself.

And it went on in Germany until exactly August 28, 1923. The masses had believed inflation money to be real money, but then they found out that conditions had changed. At the end of the German inflation, in the fall of 1923, the German factories paid their workers every morning in advance for the day. And the workingman who came to the factory with his wife, handed his wages—all the millions he got—over to her immediately. And the lady immediately went to a shop to buy something, no matter what. She realized what most people knew at that time—that overnight, from one day to another, the mark lost 50% of its purchasing power. Money, like chocolate on a hot oven, was melting in the pockets of the people. This last phase of German inflation did not last long; after a few days, the whole nightmare was over: the mark was valueless and a new currency had to be established.

Lord Keynes, the same man who said that in the long run we are all dead, was one of the long line of inflationist authors of the twentieth century. They all wrote against the gold standard. When Keynes attacked the gold standard, he called

it a "barbarous relic." And most people today consider it ridiculous to speak of a return to the gold standard. In the United States, for instance, you are considered to be more or less a dreamer if you say: "Sooner or later, the United States will have to return to the gold standard."

Yet the gold standard has one tremendous virtue: the quantity of the money supply, under the gold standard, is independent of the policies of governments and political parties. This is its advantage. It is a form of protection against spendthrift governments. If, under the gold standard, a government is asked to spend money for something new, the minister of finance can say: "And where do I get the money? Tell me, first, how I will find the money for this additional expenditure."

A Restraint on Spending

Under an inflationary system, nothing is simpler for the politicians to do than to order the government printing office to provide as much money as they need for their projects. Under a gold standard, sound government has a much better chance; its leaders can say to the people and to the politicians: "We can't do it unless we increase taxes."

But under inflationary conditions, people acquire the habit of looking upon the government as an institution with limitless means at its dis-

posals: the state, the government, can do anything. If, for instance, the nation wants a new highway system, the government is expected to build it. But where will the government get the money?

One could say that in the United States today—and even in the past, under McKinley—the Republican party was more or less in favor of sound money and of the gold standard, and the Democratic party was in favor of inflation. Of course not a paper inflation, but of silver.

It was, however, a Democratic president of the United States, President Cleveland, who at the end of the 1880s vetoed a decision of Congress, to give a small sum—about \$10,000—to help a community that had suffered some disaster. And President Cleveland justified his veto by writing: "While it is the duty of the citizens to support the government, it is not the duty of the government to support the citizens." This is something which every statesman should write on the wall of his office to show to people who come asking for money.

I am rather embarrassed by the necessity to simplify these problems. There are so many complex problems in the monetary system, and I would not have written volumes about them if they were as simple as I am describing them here. But the fundamentals are precisely these: if you increase the quantity of money,

you bring about the lowering of the purchasing power of the monetary unit. This is what people whose private affairs are unfavorably affected do not like. People who do not benefit from inflation are the ones who complain.

A Worldwide Plague

If inflation is bad and if people realize it, why has it become almost a way of life in all countries? Even some of the richest countries suffer from this disease. The United States today is certainly the richest country in the world, with the highest standard of living. But when you travel in the United States, you will discover that there is constant talk about inflation and about the necessity to stop it. But they only talk; they do not act.

To give you some facts: after the First World War, Great Britain returned to the prewar gold parity of the pound. That is, it revalued the pound upward. This increased the purchasing power of every worker's wages. In an unhampered market the nominal *money* wage would have fallen to compensate for this and the workers' *real* wage would not have suffered. We do not have time here to discuss the reasons for this. But the unions in Great Britain were unwilling to accept an adjustment of wage rates to the higher purchasing power of the monetary unit, therefore *real* wages were

raised considerably by this monetary measure. This was a serious catastrophe for England, because Great Britain is a predominantly industrial country that has to import its raw materials, half-finished goods, and food stuffs in order to live, and has to export manufactured goods to pay for these imports. With the rise in the international value of the pound, the price of British goods rose on foreign markets and sales and exports declined. Great Britain had, in effect, priced itself out of the world market.

The unions could not be defeated. You know the power of a union today. It has the right, practically the privilege, to resort to violence. And a union order is, therefore, let us say, not less important than a government decree. The government decree is an order for enforcement for which the enforcement apparatus of the government—the police—is ready. You must obey the government decree, otherwise you will have difficulties with the police.

The Impact of Unions

Unfortunately, we have now, in almost all countries all over the world, a second power that is in a position to exercise force: the labor unions. The labor unions determine wages and the strikes to enforce them in the same way in which the government might decree a minimum wage rate. I will not dis-

cuss the union question now; I shall deal with it later. I only want to establish that it is the union policy to raise wage rates *above* the level they would have on an unhampered market. As a result, a considerable part of the potential labor force can be employed only by people or industries that are prepared to suffer losses. And, since businesses are not able to keep on suffering losses, they close their doors and people become unemployed. The setting of wage rates above the level they would have on the unhampered market always results in the unemployment of a considerable part of the potential labor force.

In Great Britain, the result of high wage rates enforced by the labor unions was lasting unemployment, prolonged year after year. Millions of workers were unemployed, production figures dropped. Even experts were perplexed. In this situation the British government made a move which it considered an indispensable, emergency measure: it *devalued* its currency.

The result was that the purchasing power of the money wages, upon which the unions had insisted, was no longer the same. The *real* wages, the commodity wages, were reduced. Now the worker could not buy as much as he had been able to buy before, even though the nominal wage rates remained the same. In

this way, it was thought, *real* wage rates would return to free market levels and unemployment would disappear.

This measure—devaluation—was adopted by various other countries, by France, the Netherlands, and Belgium. One country even resorted twice to this measure within a period of one year and a half. That country was Czechoslovakia. It was a surreptitious method, let us say, to thwart the power of the unions. You could not call it a real success, however.

Indexation

After a few years, the people, the workers, even the unions, began to understand what was going on. They came to realize that currency devaluation had reduced their real wages. The unions had the power to oppose this. In many countries they inserted a clause into wage contracts providing that money wages must go up automatically with an increase in prices. This is called *indexing*. The unions became index conscious. So, this method of reducing unemployment that the government of Great Britain started in 1931—which was later adopted by almost all important governments—this method of “solving unemployment” no longer works today.

In 1936, in his *General Theory of Employment, Interest and Money*, Lord Keynes unfortunately elevated

this method—those emergency measures of the period between 1929 and 1933—to a *principle*, to a fundamental system of policy. And he justified it by saying, in effect: “Unemployment is bad. If you want unemployment to disappear you must inflate the currency.”

He realized very well that wage rates can be too high for the market, that is, too high to make it profitable for an employer to increase his work force, thus too high from the point of view of the total working population, for with wage rates imposed by unions above the market level, only a part of those anxious to earn wages can obtain jobs.

And Keynes said, in effect: “Certainly mass unemployment, prolonged year after year, is a very unsatisfactory condition.” But instead of suggesting that wage rates could and should be adjusted to market conditions, he said, in effect: “If one devalues the currency and the workers are not clever enough to realize it, they will not offer resistance against a drop in real wage rates, as long as nominal wage rates remain the same.” In other words, Lord Keynes was saying that if a man gets the same amount of sterling today as he got before the currency was devalued, he will not realize that he is, in fact, now getting less.

In old fashioned language, Keynes proposed cheating the workers. In-

stead of declaring openly that wage rates must be adjusted to the conditions of the market—because, if they are not, a part of the labor force will inevitably remain unemployed—he said, in effect: “Full employment can be reached only if you have inflation. Cheat the workers.” The most interesting fact, however, is that when his *General Theory* was published, it was no longer possible to cheat, because people had already become index conscious. But the goal of full employment remained.

Full Employment

What does “full employment” mean? It has to do with the unhampered labor market, which is not manipulated by the unions or by the government. On this market, wage rates for every type of labor tend to reach a level where everybody who wants a job can get one and every employer can hire as many workers as he needs. If there is an increase in the demand for labor, the wage rate will tend to be greater, and if fewer workers are needed, the wage rate will tend to fall.

The only method by which a “full employment” situation can be brought about is by the maintenance of an unhampered labor market. This is valid for every kind of labor and for every kind of commodity.

What does a businessman do who wants to sell a commodity for five

dollars a unit? When he cannot sell it at that price, the technical business expression in the United States is, “the inventory does not move.” But it *must* move. He cannot retain things because he must buy something new; fashions are changing. So he sells at a lower price. If he cannot sell the merchandise at five dollars, he must sell it at four. If he cannot sell it at four, he must sell it at three. There is no other choice as long as he stays in business. He may suffer losses, but these losses are due to the fact that his anticipation of the market for his product was wrong.

It is the same with the thousands and thousands of young people who come every day from the agricultural districts into the city, trying to earn money. It happens so in every industrial nation. In the United States they come to town with the idea that they should get, say, a hundred dollars a week. This may be impossible. So if a man cannot get a job for a hundred dollars a week, he must try to get a job for ninety or eighty dollars, and perhaps even less. But if he were to say—as the unions do—“one hundred dollars a week or nothing,” then he might have to remain unemployed. (Many do not mind being unemployed, because the government pays unemployment benefits—out of special taxes levied on the employers—which are sometimes nearly as high

as the wages the man would receive if he were employed.)

Because a certain group of people believes that full employment can be attained only by inflation, inflation is accepted in the United States. But people are discussing the question: Should we have a sound currency with unemployment, or inflation with full employment? This is in fact a very vicious analysis.

Clarifying the Problem

To deal with this problem we must raise the question: How can one improve the condition of the workers and of all other groups of the population? The answer is: by maintaining an unhampered labor market and thus achieving full employment. Our dilemma is, shall the market determine wage rates or shall they be determined by union pressure and compulsion? The dilemma is *not* "shall we have inflation or unemployment?"

This mistaken analysis of the problem is argued in England, in European industrial countries and even in the United States. And some people say: "Now look, even the United States is inflating. Why should we not do it also."

To these people one should answer first of all: "One of the privileges of a rich man is that he can afford to be foolish much longer than a poor man." And this is the situation of the United States. The financial pol-

icy of the United States is very bad and is getting worse. Perhaps the United States can afford to be foolish a bit longer than some other countries.

The most important thing to remember is that inflation is not an act of God, that inflation is not a catastrophe of the elements or a disease that comes like a plague. Inflation is a *policy*—a deliberate policy of people who resort to inflation because they consider it to be a lesser evil than unemployment. But the fact is that, in the not very long run, inflation does *not* cure unemployment.

Inflation is a policy. And a policy can be changed. Therefore, there is no reason to give in to inflation. If one regards inflation as an evil, then one has to stop inflating. One has to balance the budget of the government. Of course, public opinion must support this; the intellectuals must help the people to understand. Given the support of public opinion, it is certainly possible for the people's elected representatives to abandon the policy of inflation.

We must remember that, in the long run, we may all be dead and certainly will be dead. But we should arrange our earthly affairs, for the short run in which we have to live, in the best possible way. And one of the measures necessary for this purpose is to abandon inflationary policies. ⊕

THE
ROTTING
FABRIC
OF
TRUST

As we drove from New Delhi to Agra to see India's famous Taj Mahal, we passed through extremely primitive villages. There was not a petrol can, broken umbrella or empty bottle to be seen. We thought, "Perhaps a Time Machine has carried us back 1000 years or more." In one dusty hamlet we saw an Indian woman wearing a crude anklet of silver. The reason for this abysmal squalor struck us. That silver was all her savings and no one was going to take it from her. She didn't trust her neighbors and they didn't trust anyone either. There could be no banks, and businessmen found it almost impossible to borrow. Progress was at a standstill and had been for centuries because an all-important ingredient was missing in that economy, the fabric of trust between men, that enables them to work together willingly toward productive ends.

When men work with tools and equipment—economists call these capital—they can produce more than when they work with bare hands. But to produce capital it takes a willingness to save and to invest those savings. And men will save little and invest less unless they trust their fellow men as individuals and believe that their prop-

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erty and savings will be safe and that the money of the realm will hold its buying power. These are the warp and woof of the fabric of trust.

Aggravated Inflation

In the United States today, due to government-caused expansion of the supply of money and credit, inflation is raging at a rate of about 13 per cent a year, double what it was two years ago. If this continues, the dollar will lose half of its present buying power in six years. That present buying power is only a fifth of what it was in 1933. Those conditions are not conducive to saving. The rate of saving and of capital investment is five per cent a year, the lowest among major modern nations.

Such misuse of power by government sets a bad example to many who then lash back at government and often at others too. The government should set an example of trustworthiness. Its courts punish counterfeiters, embezzlers and thieves. To find the government itself engaged in similar actions is demoralizing. A government that inflates and destroys the buying power of its money pours, as it were, a destructive acid over the economy's fabric of trust which rots the fabric and seriously damages the economy.

Just how suspicious Americans are of their government's money can be seen by the fact that millions of

them are putting more and more of the savings they have left into gold, silver, diamonds, rare coins, stamps and paintings and antique furniture, to name just some items. All of these they increasingly look upon as preferable to banking their money, the buying power of which melts away like an ice cube in July. The degree of distrust can be gauged by the fact that the prices of these non-income producing "stores of value" have been bid up much higher than wholesale or consumer price levels have risen. Whereas price levels today are five times higher than in 1933, the price of gold is 29 times higher, of silver at least 70 times and of precious gems 20 to 60 times higher. These prices rise out of distrust and fear more than they do from speculation.

Inflation is rotting away the fabric of trust which helped so much to make this nation economically strong. Fear is rendering a growing portion of our savings as unproductive as that Indian woman's anklet. President Carter has said we must lower our standard of living. He and Congress, and preceding administrations too, by their inflationary policies, have been bringing on that lowering process for some time. Let us hope that we never regress to conditions in those Indian villages, but we are headed in that direction. That precious fabric of trust is disintegrating before our eyes. ☯

WITCH-HUNTING FOR ROBBER BARONS:

The Standard Oil Story

AMONG the great misconceptions of the free economy is the widely-held belief that "laissez faire" embodies a natural tendency toward monopoly concentration. Under unfettered capitalism, so goes the familiar refrain, large firms would systematically devour smaller ones, corner markets, and stamp out competition until every inhabitant of the land fell victim to their power. Just as popular is the notion that John D. Rockefeller's Standard Oil Company of the late 1800s gave substance to such an evil course of events.

Regarding Standard Oil's chief executive, one noted historian writes, "He (Rockefeller) iron-handedly ruined competitors by cutting prices until his victim went bankrupt or sold out, whereupon

higher prices would be likely to return."¹

Two other historians, co-authors of a popular college text, opine that "Rockefeller was a ruthless operator who did not hesitate to crush his competitors by harsh and unfair methods."²

In 1899, Standard refined 90 per cent of America's oil—the peak of the company's dominance of the refining business. Though that market share was steadily siphoned off by competitors after 1899, the company nonetheless has been branded ever since as "an industrial octopus."

Does the story of Standard Oil really present a case *against* the free market? In my opinion, it most emphatically does not. Furthermore, setting the record straight on this issue must become an important weapon in every free market advocate's intellectual arsenal. That's

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the purpose of the following remarks.

Theoretically, there are two kinds of monopoly: coercive and efficiency. A coercive monopoly results from, in the words of Adam Smith, "a government grant of exclusive privilege." Government, in effect, must take sides in the market in order to give birth to a coercive monopoly. It must make it difficult, costly, or impossible for anyone but the favored firm to do business.

The United States Postal Service is an example of this kind of monopoly. By law, no one can deliver first class mail except the USPS. Fines and imprisonment (coercion) await all those daring enough to compete.

In some other cases, the government may not ban competition outright, but simply bestow privileges, immunities, or subsidies on one firm while imposing costly requirements on all others. Regardless of the method, a firm which enjoys a coercive monopoly is in a position to harm the consumer and get away with it.

An efficiency monopoly, on the other hand, earns a high share of a market because it does the best job. It receives no special favors from the law to account for its size. Others are free to compete and, if consumers so will it, to grow as big as the "monopoly."

An efficiency monopoly has no

legal power to compel people to deal with it or to protect itself from the consequences of its unethical practices. It can only attain bigness through its excellence in satisfying customers and by the economy of its operations. An efficiency monopoly which turns its back on the very performance which produced its success would be posting a sign, "COMPETITORS WANTED." The market rewards excellence and exacts a toll on mediocrity.

It is my contention that the historical record casts the Standard Oil Company in the role of efficiency monopoly—a firm to which consumers repeatedly awarded their votes of confidence.

The oil rush began with the discovery of oil by Colonel Edwin Drake at Titusville, Pennsylvania in 1859. Northwestern Pennsylvania soon "was overrun with businessmen, speculators, misfits, horse dealers, drillers, bankers, and just plain hell-raisers. Dirt-poor farmers leased land at fantastic prices, and rigs began blackening the landscape. Existing towns jammed full overnight with 'strangers,' and new towns appeared almost as quickly."³

In the midst of chaos emerged young John D. Rockefeller. An exceptionally hard-working and thrifty man, Rockefeller transformed his early interest in oil into a partnership in the refinery stage of the business in 1865.

Five years later, Rockefeller formed the Standard Oil Company with 4 per cent of the refining market. Less than thirty years later, he reached that all-time high of 90 per cent. What accounts for such stunning success?

On December 30, 1899, Rockefeller was asked that very question before a governmental investigating body called the Industrial Commission. He replied:

I ascribe the success of the Standard to its consistent policy to make the volume of its business large through the merits and cheapness of its products. It has spared no expense in finding, securing, and utilizing the best and cheapest methods of manufacture. It has sought for the best superintendents and workmen and paid the best wages. It has not hesitated to sacrifice old machinery and old plants for new and better ones. It has placed its manufactories at the points where they could supply markets at the least expense. It has not only sought markets for its principal products, but for all possible by-products, sparing no expense in introducing them to the public. It has not hesitated to invest millions of dollars in methods of cheapening the gathering and distribution of oils by pipe lines, special cars, tank steamers, and tank wagons. It has erected tank stations at every important railroad station to cheapen the storage and delivery of its products. It has spared no expense in forcing its products into the markets of the world among people civilized and uncivilized. It has had faith in American oil, and has brought together millions of money for the purpose of making it what

it is, and holding its markets against the competition of Russia and all the many countries which are producers of oil and competitors against American oil.⁴

A Master Organizer of Men and Materials

Rockefeller was a managerial genius—a master organizer of men as well as of materials. He had a gift for bringing devoted, brilliant, and hard-working young men into his organization. Among his most outstanding associates were H. H. Rogers, John D. Archbold, Stephen V. Harkness, Samuel Andrews, and Henry M. Flagler. Together they emphasized efficient economic operation, research, and sound financial practices. The economic excellence of their performance is described by economist D. T. Armentano:

Instead of buying oil from jobbers, they made the jobbers' profit by sending their own purchasing men into the oil region. In addition, they made their own sulfuric acid, their own barrels, their own lumber, their own wagons, and their own glue. They kept minute and accurate records of every item from rivets to barrel bungs. They built elaborate storage facilities near their refineries. Rockefeller bargained as shrewdly for crude as anyone before or since. And Sam Andrews coaxed more kerosene from a barrel of crude than could the competition. In addition, the Rockefeller firm put out the cleanest-burning kerosene, and managed to dispose of most of the residues like lubricating oil, paraffin, and vaseline at a profit.⁵

Even muckraker Ida Tarbell, one of Standard's critics, admired the company's streamlined processes of production:

Not far away from the canning works, on Newton Creek, is an oil refinery. This oil runs to the canning works, and, as the newmade cans come down by a chute from the works above, where they have just been finished, they are filled, twelve at a time, with the oil made a few miles away. The filling apparatus is admirable. As the newmade cans come down the chute they are distributed, twelve in a row, along one side of a turn-table. The turn-table is revolved, and the cans come directly under twelve measures, each holding five gallons of oil—a turn of a valve, and the cans are full. The table is turned a quarter, and while twelve more cans are filled and twelve fresh ones are distributed, four men with soldering cappers put the caps on the first set. Another quarter turn, and men stand ready to take the cans from the filler and while they do this, twelve more are having caps put on, twelve are filling, and twelve are coming to their place from the chute. The cans are placed at once in wooden boxes standing ready, and, after a twenty-four-hour wait for discovering leaks, are nailed up and carted to a nearby door. This door opens on the river, and there at anchor by the side of the factory is a vessel chartered for South America or China or where not—waiting to receive the cans which a little more than twenty-four hours before were tin sheets lying on flatboxes. It is a marvellous example of economy, not only in materials, but in time and in footsteps.⁶

Market Competition Protects the Public

Socialist historian Gabriel Kolko, who argues in *The Triumph of Conservatism* that the forces of competition in the free market of the late 1800s were too potent to allow Standard to cheat the public, stresses that "Standard treated the consumer with deference. Crude and refined oil prices for consumers declined during the period Standard exercised greatest control of the industry . . ."⁷

Standard's service to the consumer in the form of lower prices is well-documented. To quote from Professor Armentano again:

Between 1870 and 1885 the price of refined kerosene dropped from 26 cents to 8 cents per gallon. In the same period, the Standard Oil Company reduced the [refining] costs per gallon from almost 3 cents in 1870 to .452 cents in 1885. Clearly, the firm was relatively efficient, and its efficiency was being translated to the consumer in the form of lower prices for a much improved product, and to the firm in the form of additional profits.⁸

That story continued for the remainder of the century, with the price of kerosene to the consumer falling to 5.91 cents per gallon in 1897. Armentano concludes from the record that "at the very pinnacle of Standard's industry 'control,' the costs and the prices for refined oil reached their lowest levels in the history of the petroleum industry."⁹

John D. Rockefeller's success, then, was a consequence of his superior performance. He derived his impressive market share not from government favors but rather from aggressive courting of the consumer. Standard Oil is one of history's classic efficiency monopolies.

But what about the many serious charges leveled against Standard? Predatory price cutting? Buying out competitors? Conspiracy? Railroad rebates? Charging any price it wanted? Greed? Each of these can be viewed as an assault not just on Standard Oil but on the free market in general. They can and must be answered.

Predatory price cutting

Predatory price cutting is "the practice of deliberately underselling rivals in certain markets to drive them out of business, and then raising prices to exploit a market devoid of competition."¹⁰

Professor John S. McGee, writing in the *Journal of Law and Economics* for October 1958, stripped this charge of any intellectual substance. Describing it as "logically deficient," he concluded, "I can find little or no evidence to support it."¹¹

In his extraordinary article, McGee scrutinized the testimony of Rockefeller's competitors who

claimed to have been victims of predatory price cutting. He found their claims to be shallow and misdirected. McGee pointed out that some of these very people later opened new refineries and successfully challenged Standard again.

Beyond the actual record, economic theory also argues against a winning policy of predatory price cutting in a free market for the following reasons:

1. *Price is only one aspect of competition.* Firms compete in a variety of ways: service, location, packaging, marketing, even courtesy. For price alone to draw customers away from the competition, the predator would have to cut substantially—enough to outweigh all the other competitive pressures the others can throw at him. That means suffering losses on every unit sold. If the predator has a war-chest of "monopoly profits" to draw upon in such a battle, then the predatory price cutting theorist must explain how he was able to achieve such ability in the absence of this practice in the first place!

2. *The large firm stands to lose the most.* By definition, the large firm is already selling the most units. As a predator, it must actually step up its production if it is to have any effect on competitors. As Professor McGee observed, "To lure customers away from somebody, he (the predator) must be prepared to serve

them himself. The monopolizer thus finds himself in the position of selling more—and therefore losing more—than his competitors.”¹²

3. *Consumers will increase their purchases at the “bargain prices.”* This factor causes the predator to step up production even further. It also puts off the day when he can “cash in” on his hoped-for victory because consumers will be in a position to refrain from purchasing at higher prices, consuming their stockpiles instead.

4. *The length of the battle is always uncertain.* The predator does not know how long he must suffer losses before his competitors quit. It may take weeks, months, or even years. Meanwhile, consumers are “cleaning up” at his expense.

5. *Any “beaten” firms may reopen.* Competitors may scale down production or close only temporarily as they “wait out the storm.” When the predator raises prices, they enter the market again. Conceivably, a “beaten” firm might be bought up by someone for a “song,” and then, under fresh management and with relatively low capital costs, face the predator with an actual competitive cost advantage.

6. *High prices encourage newcomers.* Even if the predator drives everyone else from the market, raising prices will attract competition from people heretofore not even in the industry. The higher the prices

go, the more powerful that attraction.

7. *The predator would lose the favor of consumers.* Predatory price cutting is simply not good public relations. Once known, it would swiftly erode the public’s faith and good will. It might even evoke consumer boycotts and a backlash of sympathy for the firm’s competitors.

In summary, let me quote Professor McGee once again:

Judging from the Record, Standard Oil did not use predatory price discrimination to drive out competing refiners, nor did its pricing practice have that effect. Whereas there may be a very few cases in which retail kerosene peddlers or dealers went out of business after or during price cutting, there is no real proof that Standard’s pricing policies were responsible. I am convinced that Standard did not systematically, if ever, use local price cutting in retailing, or anywhere else, to reduce competition. To do so would have been foolish; and, whatever else has been said about them, the old Standard organization was seldom criticized for making less money when it could readily have made more.¹³

Buying out competitors

The intent of this practice, the critics say, was to stifle competitors by absorbing them.

First, it must be said that Standard had no legal power to coerce a competitor into selling. For a pur-

chase to occur, Rockefeller had to pay the *market* price for an oil refinery. And evidence abounds that he often hired the very people whose operations he purchased. "Victimized ex-rivals," wrote McGee, "might be expected to make poor employees and dissident or unwilling shareholders."¹⁴

Kolko writes that "Standard attained its control of the refinery business primarily by mergers, not price wars, and most refinery owners were anxious to sell out to it. Some of these refinery owners later reopened new plants after selling to Standard."¹⁵

Buying out competitors can be a wise move if achieving economy of scale is the intent. Buying out competitors merely to eliminate them from the market can be a futile, expensive, and never-ending policy. It appears that Rockefeller's mergers were designed with the first motive in mind.

Even so, other people found it profitable to go into the business of building refineries and selling to Standard. David P. Reighard managed to build and sell three successive refineries to Rockefeller, all on excellent terms.

A firm which adopts a policy of absorbing others solely to stifle competition embarks upon the impossible adventure of putting out the recurring and unpredictable prairie fires of competition.

Conspiracy to fix prices

This accusation holds that Standard secured secret agreements with competitors to carve up markets and fix prices at higher-than-market levels.

I will not contend here that Rockefeller never attempted this policy. His experiment with the South Improvement Company in 1872 provides at least some evidence that he did. I do argue, however, that all such attempts were failures from the start and no harm to the consumer occurred.

Standard's price performance, cited extensively above, supports my argument. Prices fell steadily on an improving product. Some conspiracy!

From the perspective of economic theory, collusion to raise and/or fix prices is a practice doomed to failure in a free market for these reasons:

1. *Internal pressures.* Conspiring firms must resolve the dilemma of production. To exact a higher price than the market currently permits, production must be curtailed. Otherwise, in the face of a fall in demand, the firms will be stuck with a quantity of unsold goods. Who will cut their production and by how much? Will the conspirators accept an equal reduction for all when it is likely that each faces a unique constellation of cost and distribution

advantages and disadvantages?

Assuming a formula for restricting production is agreed upon, it then becomes highly profitable for any member of the cartel to quietly cheat on the agreement. By offering secret rebates or discounts or other "deals" to his competitors' customers, any conspirator can undercut the cartel price, earn an increasing share of the market and make a lot of money. When the others get wind of this, they must quickly break the agreement or lose their market shares to the "cheater." The very reason for the conspiracy in the first place—higher profits—proves to be its undoing!

2. *External pressures.* This comes from competitors who are not parties to the secret agreement. They feel under no obligation to abide by the cartel price and actually use their somewhat lower price as a selling point to customers. The higher the cartel price, the more this external competition pays. The conspiracy must either convince all outsiders to join the cartel (making it increasingly likely that somebody will cheat) or else dissolve the cartel to meet the competition.

I would once again call the reader's attention to Kolko's *The Triumph of Conservatism*, which documents the tendency for collusive agreements to break apart, sometimes even before the ink is dry.

Railroad rebates

John D. Rockefeller received substantial rebates from railroads who hauled his oil, a factor which critics claim gave him an unfair advantage over other refiners.

The fact is that most all refiners received rebates from railroads. This practice was simply evidence of stiff competition among the roads for the business of hauling refined oil products. Standard got the biggest rebates because Rockefeller was a shrewd bargainer and because he offered the railroads large volume on a regular basis.

This charge is even less credible when one considers that Rockefeller increasingly relied on his own pipelines, not railroads, to transport his oil.

The power to charge any price wanted

According to the notion that Standard's size gave it the power to charge any price it wanted, bigness per se immunizes the firm from competition and consumer sovereignty.

As an "efficiency monopoly," Standard could not coercively prevent others from competing with it. And others did, so much so that the company's share of the market de-

clined dramatically after 1899. As the economy shifted from kerosene to electricity, from the horse to the automobile, and from oil production in the East to production in the Gulf States, Rockefeller found himself losing ground to younger, more aggressive men.

Neither did Standard have the power to compel people to buy its products. It had to rely on its own excellence to attract and keep customers.

In a totally free market, the following factors insure that no firm, regardless of size, can charge and get "any price it wants":

1. *Free entry.* Potential competition is encouraged by any firm's abuse of the consumer. In describing entry into the oil business, Rockefeller once remarked that "all sorts of people . . . the butcher, the baker, and the candlestick maker began to refine oil."¹⁶

2. *Foreign competition.* As long as government doesn't hamper international trade, this is always a potent force.

3. *Competition of substitutes.* People are often able to substitute a product different from yet similar to the monopolist's.

4. *Competition of all goods for the consumer's dollar.* Every businessman is in competition with every other businessman to get consumers to spend their limited dollars on him.

5. *Elasticity of demand.* At higher prices, people will simply buy less.

It makes sense to view competition in a free market not as a static phenomenon, but as a dynamic, never-ending, leap-frog process by which the leader today can be the follower tomorrow.

Rockefeller was greedy

The charge that John D. Rockefeller was a "greedy" man is the most meaningless of all the attacks on him but nonetheless echoes constantly in the history books.

If Rockefeller wanted to make a lot of money (and there is no doubting he did), he certainly discovered the free market solution to his problem: produce and sell something that consumers will buy and buy again. One of the great attributes of the free market is that it channels greed into constructive directions. One cannot accumulate wealth without offering something in exchange!

At this point the reader might rightly wonder about the dissolution of the Standard Oil Trust in 1911. Didn't the Supreme Court find Standard guilty of successfully employing anti-competitive practices?

Interestingly, a careful reading of the decision reveals that no attempt was made by the Court to examine

Standard's conduct or performance. The justices did not sift through the conflicting evidence concerning any of the government's allegations against the company. No specific finding of guilt was made with regard to those charges. Although the record clearly indicates that "prices fell, costs fell, outputs expanded, product quality improved, and hundreds of firms at one time or another produced and sold refined petroleum products in competition with Standard Oil,"¹⁷ the Supreme Court ruled against the company. The justices argued simply that the competition between some of the divisions of Standard Oil was less than the competition that existed between them when they were separate companies before merging with Standard.

In 1915, Charles W. Eliot, president of Harvard, observed: "The organization of the great business of taking petroleum out of the earth, piping the oil over great distances, distilling and refining it, and distributing it in tank steamers, tank wagons, and cans all over the earth, was an American invention."¹⁸ Let the facts record that the great Standard Oil Company, more than any other firm, and John D. Rockefeller, more than any other man, were responsible for this amazing development. ☼

—FOOTNOTES—

¹Thomas A. Bailey, *The American Pageant: A History of the Republic*, 2 vols., 8th ed. (Boston: D. C. Heath and Company, 1966), 2:52.

²Gilbert C. Fite and Jim E. Reese, *An Economic History of the United States*, 2nd ed. (Boston: Houghton Mifflin Company, 1965), p. 367.

³D. T. Armentano, *The Myths of Antitrust: Economic Theory and Legal Cases* (New Rochelle, N.Y.: Arlington House, 1972), p. 64.

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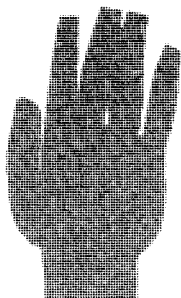
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The Invisible Hand 1980



PITIFUL helpless giant.

Is that what America is becoming, wracked by inflation, energy constrictions and an unfolding recession? If so, it's all, I submit, for want of understanding the ramifications of one little word: profits.

The immediate problem may have started last March when a 26 per cent advance in fourth-quarter 1978 corporate profits (over fourth-quarter 1977 profits) was greeted by Administration spokesmen as a "catastrophe," as putting "business on trial," as "unnecessarily high."

Then, later in the year, the assault turned on "already enormous" oil profits. In a television address to the American people, President Carter demanded a "windfall profits

tax" to curb those who would "cheat the public and . . . damage the nation" via "unearned billions of dollars."

Catastrophe? Unearned? Cheat? Damage? What goes on here?

This is not the place to engage in extensive statistical rebuttal. Enough to say that inflation causes plant and equipment to be under-depreciated and inventories under-valued, due to IRS rules and regulations. Profits become overstated, exaggerated. Remove the resulting phantom profits, and corporate profits are indeed what they have been for a long time, a "catastrophe"—a catastrophic low: for example, a 5.5 per cent return on assets in 1978 against 7.6 per cent 10 years prior. So talk nowadays of "record profits" is really an inflationary mirage, a national delusion.

One result of this prolonged profit

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famine has been a drop of the current Dow Jones Industrial Average by more than half in real terms since hitting 1,000 in February 1966. Another result has been prolonged weakening in the rates of personal saving, business investment and productivity growth—rates now about the lowest in the Western industrial world, even though they represent pathways to job creation and rising living standards, and offsets to inflationary pressures.

Enough to say, too, that oil profits, when measured as a return on sales or equity, were less than industrial profits as a whole in 1978, that, as President Carter himself concedes, oil price controls—read oil *profit* controls—have failed, that they have caused domestic oil production to lag almost every year since they were first imposed in 1971.

Profit Controls

Why, then, the masochism in denying ourselves desperately-needed domestic oil supplies via a tax on “windfall profits”? After all, it is profits, or rather, the lure of profits that induces production, not prices. The bigger the lure, as a rather strict rule, the greater the production. This logic is now officially recognized for heavy oil—why not for *all* oil?

And in view of the overall anti-“big profits” campaign (super-

market operators and meatpackers have also been singled out), with its veiled implication that perhaps profit itself is somehow unethical, the larger question is: Just what is profit and how, if at all, is it earned?

Critics from antiquity on have equated profit with greed and selfishness. In a typical vein, Cicero wrote in his *De Officiis*: “Those who buy to sell again as soon as they can are to be accounted as vulgar; for they can make no profit except by a certain amount of falsehood, and nothing is meaner than falsehood.” In 1704 Bernard de Mandeville saw profit as vile in origin but positive in effect in his *Fable of the Bees: Private Vices, Public Benefits*. Mandeville’s idea was that not only wealth but also the arts and sciences—indeed all civilization—is the result of not the nobility of man but rather his baser nature. In other words, Mandeville labeled as vices normal longings for the good things of life—luxury, comfort, well-being and all the other pleasures stemming from man’s natural wants. And more recently, to cite another example, in the introduction to the Modern Library 1937 edition of Adam Smith’s classic *Wealth of Nations* (1776), Max Lerner called Smith “an unconscious mercenary in the service of the rising capitalist class,” and held that he gave “a new dignity to greed and a new sanctification to the predatory impulses.”

In truth, profit does extend beyond business and finance. It is, frankly, gain, advantage, self-interest; and it applies to every man, woman and child—even to the altruist, who seeks to profit others. It can parade under other colors—wages, salaries, fees, interest, tuition, rent and so on. It can be seen in the winning of nonfinancial rewards—say, the captaincy of a football team, a prize in a bridge tournament, a jury's verdict of "not guilty." (Conversely, not winning these things involves losses in one degree or another.)

A Natural Motive

The profit-and-loss idea can be readily inferred from the writings of philosophers from Aristotle to Santayana, of psychologists from Freud to Skinner. It can be seen in all human motivation, in every human action, said Austrian economist Ludwig von Mises, holding that profit and loss are ultimately psychic phenomena.

Broadly speaking, I think that what every individual really wants is, in the word of early 20th century labor leader Samuel Gompers, "more"—more as the individual sees it. More happiness as a rule. And more is but another name for profit. Again, I think that given the primordial economic law of scarcity, of the universal urgency to allocate limited resources, including time,

man *must* seek the most for the least, to maximize gain, to minimize loss. Profit-seeking is part of human nature. Nobody is exempt.

Adam Smith saw the immensity and pervasiveness of human incentive, of self-interest, of the profit motive in human affairs when he wrote in *The Wealth of Nations*: "It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages."

This is not to glorify profit. Like sex, the profit drive is subject to abuse. When profit overrides individual rights as in fraud or force, obviously the social fabric is torn. The mugger in Central Park, for example, is obeying his self-interest but to the detriment of his fellow man.

But in any free exchange both parties profit or expect to profit, else the exchange would not take place. Advantage is two-way. Gain is mutual. Moreover, it invariably involves service to the other or others, and it is immediately reciprocated. It is, in this sense, the Golden Rule in action. The exchangers—buyers and sellers—are saying to each other, in the words of Adam Smith: "Give me that which I want, and you shall have this which you want."

The profit motive is also a great civilizer. It promotes not only civility and individual responsibility but division of labor and specialization, social cooperation and still more exchanges. Hence productivity improvement emerges as does in time an economic surplus beyond mere provisioning of necessities. Hence the surplus permits the flowering of charity, religion, music, painting, literature, education, science. Hence—if I may accelerate the thought—Western Civilization.

So Montaigne and Marx had it all wrong when they argued one man's profit involves another man's loss, that production for profit is at variance with production for use.

The Market at Work

The fact is that the prospect of profit—along with its magnitude—motivates and activates producers, steering production into those uses most demanded by consumers, i.e., into products broadly considered to be the most useful. This is supply and demand in action, the market place at work. As University of Chicago economist Yale Brozen and others have noted, production for profit is production for use.

Indeed, the genius of the free enterprise system is that it can take the profit motive—this innate, incapable and potentially destructive human trait of self-interest—and peacefully, harmoniously and, above

all, voluntarily convert it into constructive channels of human effort, cooperation, service and advancement. Are profits, then, earned? Most assuredly, yes.

In this light the concept of a "windfall" profits tax on oil becomes, however inadvertently, a great deception—a tax ultimately borne not by the companies but by the American consumer, a tax that will hamper the discovery and development of new domestic oil supplies. Windfall? Again, it is the U.S. Government itself that has repressed oil prices, beginning in 1971.

To be sure, repressing and decontrolling prices and then taxing "windfall" gains are done under the name of the public interest. But self-interest in a market system usually advances the public interest more than those who profess to serve the public interest (apart from their own inevitable personal interest). As Adam Smith observed, the individual "neither intends to promote the public interest nor knows how much he is promoting it. . . . By . . . directing (his) industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention."

Energy availability. Inflation alleviation. Economic growth. Profit motive. All are of one piece. ☸



The administration of a republic is supposed to be directed by certain fundamental principles of right and justice, from which there cannot, because there ought not to, be any deviation; and whenever any deviation appears, there is a kind of stepping out of the republican principle, and an approach toward the despotic one. —Thomas Paine

* * *

JUSTICE is the only foundation upon which a society of free and independent people can exist. Justice is a concrete, recognizable, and objective principle. It is not a matter of opinion.

In our day and age the word justice is rarely used in political and economic discussions. The entire reason for the existence of communities, laws, governments and court systems has been forgotten.

But if life and property are to be protected and secured, which is the purpose of society, then justice *must* be the rule. To quote Paine again, "A republic, properly understood, is a sovereignty of justice."

According to a 1931 Webster's dictionary, justice is the "quality of being just; impartiality." Just is "conforming to right; normal; equitable." A 1961 Webster's dictionary says justice is "The principle of rectitude and just dealings of men with each other—one of the cardinal virtues. Administration of law . . ." A 1975 edition of a Grolier Webster dictionary says justice is "Equitableness; what is rightly due; lawfulness. . . ."

Since 1931 a new meaning of the word justice has been added, that of lawfulness, which is not only erroneous, but deceitful and misleading. Justice is not based on law;

rather, law ought to be based on justice. It is only common sense, for men lived and worked together before laws were formed. Generally laws are passed to formalize what has preceded under common practice, what has stood the test of time as being just and equitable. Laws are common practice put down in black and white for all to see and know.

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The ancient philosophers said that justice is speaking the truth and paying your debts, giving to each man what is proper to him, doing good to friends and evil to enemies. Therefore, there must be something more basic, more fundamental than laws on which to found justice. In fact, the French jurist Charles de Montesquieu (1689-1755) ably contended that "before laws were made, there were rela-

tions of possible justice. To say that there is nothing just or unjust but what is commanded or forbidden by positive laws, is the same as saying that before the describing of a circle all the radii were not equal."

Minding One's Own Business

The Greek philosophers had the simplest definition of justice. To Plato (c. 428-348 B.C.), in *The Republic*, Book IV, justice is simply "doing one's own business, and not being a busybody. . . . A man may neither take what is another's, nor be deprived of what is his own. . . . This is the ultimate cause and condition of the existence of all" other virtues in the State, "and while remaining in them is also their preservative."

In Book XII of Plato's *Laws*, the conclusion is drawn that "by the relaxation of that justice which is the uniting principle of all constitutions, every power in the state is rent asunder from every other." In other words, without justice the threads of society unravel and society disintegrates into barbarism.

Aristotle (384-322 B.C.) in *Nicomachean Ethics*, Book V, gives greater perception to what justice is. It "is found among men who share their life with a view to self-sufficiency, men who are free. . . . Therefore *justice is essentially something human.*" (Emphasis added.) In other words, free men may choose to

be just or unjust. Justice, as an ethical term, is voluntary; "... a man acts unjustly or justly whenever he does such acts voluntarily." When wrong is done and done voluntarily, it then becomes an act of injustice. In short, "All virtue is summed up in dealing justly," said Aristotle.

More concretely, Aristotle claims, in *Rhetoric*, Book I, "Justice is the virtue through which everybody enjoys his own possessions in accordance with the law; its opposite is injustice, through which men enjoy the possessions of others in defiance of the law." There is the problem of using the law to legalize theft and to redistribute the property of one group to another group, but for the time being, we must assume Aristotle means the use of laws that are rightful and just. For when he says "justice has been acknowledged by us to be a social virtue, and it implies all others," he has laid the foundation of a just society.

Furthermore, Aristotle maintains that "legal justice is the discrimination of the just and the unjust." And, "Of political justice part is natural, part legal—natural, that which everywhere has the same force and does not exist by people's thinking this or that." Natural justice must precede law and form the basis of law thereon.

In the sixteenth century Michel de Montaigne (1533-1592), in his *The Essays*, eloquently said: "The justice

which in itself is natural and universal, is otherwise and more nobly ordered, than that other justice, which is special, national, and constrained to the ends of government." He continues, "There cannot a worse state of things be imagined, than where wickedness comes to be legitimate, and assumes with the magistrate's permission, the cloak of virtue. . . . The extremest sort of injustice, according to Plato, is where that which is unjust, should be reputed for just."

Hobbes on Natural Justice

In Thomas Hobbes' (1588-1679) *Leviathan*, further ground is laid on which to base natural justice. The names just and unjust, says Hobbes, when they are attributed to men's actions, signify conformity or non-conformity to reason. Therefore, "Justice . . . is a rule of reason by which we are forbidden to do anything destructive to our life, and consequently a law of nature."

Then Hobbes leads beautifully into the virtue of just actions: "That which gives to human actions the relish of justice is a certain nobleness or gallantness of courage, rarely found, by which a man scorns to be beholding for the contentment of his life to fraud, or breach of promise. This justice of the manners is that which is meant where justice is called a *virtue*; and injustice, a *vice*."

Earlier it was established that justice is the social virtue on which a just society is constructed. Hobbes adds to this not only by tying virtues to the laws of nature, but to moral philosophy as well. "Now the science of virtue and vice is moral philosophy; and therefore the true doctrine of the laws of nature is the true moral philosophy. . . . For moral philosophy is nothing else but the science of what is good and evil in the conversation and society of mankind." Thus, Hobbes establishes the fact that a *just society is a moral society*.

Saint Augustine (354-430) in *The City of God*, Book XIX, declares "Where, therefore, there is no true justice there can be no right. For that which is done right is justly done, and what is unjustly done cannot be done by right." Hence, justice precedes "rights."

Joseph Joubert eloquently phrased justice as truth in action.

Since practicing the virtue of justice is voluntary, man ought to have the courage to stand up and fight for what is right and against what is wrong. Cato the Younger said it this way: ". . . a man has it in his power to be just, if he have but the will to be so, and therefore injustice is thought the most dishonorable because it is least excusable."

Another way to consider what justice is, is to compare it with injustice. For example, in *Utilitarianism*,

John Stuart Mill (1806-1873) states that ". . . it is just to respect, unjust to violate, the *legal rights* of any one." Second, ". . . injustice consists in taking or withholding from any person that to which he has a *moral right*." Third, "It is universally considered just that each person should obtain that (whether good or evil) which he *deserves*." Fourth, "It is confessedly unjust to break faith with any one: to violate an engagement, either expressed or implied. . . ." Fifth, "It is, by universal admission, inconsistent with justice to be partial."

A Moral Issue

Mill, too, sees justice as a moral issue. He concludes: "Whether the injustice consists in depriving a person of a possession, or in breaking faith with him, or in treating him worse than he deserves, or worse than other people who have no greater claims, in each case the supposition implies two things—a wrong done, and some assignable person who is wronged. Injustice may also be done by treating a person better than others; but the wrong in this case is to his competitors, who are also assignable persons. . . . Justice implies something which it is not only right to do, and wrong not to do, but which some individual person can claim from us as his moral right."

Thomas Paine's *Dissertations*

speaking about justice where the public good is concerned. He maintains that, "The foundation-principle of public good is justice, and wherever justice is impartially administered, the public good is promoted; for as it is to the good of every man that no injustice be done to him, so likewise it is to his good that the principle which secures him should not be violated in the person of another, because such a violation weakens *his* security, and leaves to chance what ought to be to him a rock to stand on."

The great American constitutional lawyer of the nineteenth century, Lysander Spooner, wrote a pamphlet entitled: *Natural Law, or The Science of Justice*, which succinctly summarizes what justice is:

The science of mine and thine—the science of justice—is the science of all human rights; of all a man's rights of person and property; of all his rights to life, liberty, and the pursuit of happiness.

It is the science which alone can tell any man what he can, and cannot, do; what he can, and cannot, have; what he can, and cannot, say, without infringing the rights of any other person.

It is the science of peace; and the only science of peace; since it is the science which alone can tell us on what conditions mankind can live in peace, or ought to live in peace, with each other.

These conditions are simply these: viz., first, that each man shall do, towards every other, all that justice requires him to do; as, for example, that he shall pay

his debts, that he shall return borrowed or stolen property to its owner, and that he shall make reparation for any injury he may have done to the person or property of another.

The second condition is, that each man shall abstain from doing to another, anything which justice forbids him to do; as, for example, that he shall abstain from committing theft, robbery, arson, murder, or any other crime against the person or property of another.

So long as these conditions are fulfilled men are at peace, and ought to remain at peace, with each other. But when either of these conditions is violated, men are at war. And they must necessarily remain at war until justice is re-established.

Through all time, so far as history informs us, wherever mankind have attempted to live in peace with each other, both the natural instincts, and the collective wisdom of the human race, have acknowledged and prescribed, as an indispensable condition, obedience to this one only universal obligation: viz., that each should live honestly towards every other.

The ancient maxim makes the sum of man's legal duty to his fellow men to be simply this: "*To live honestly, to hurt no one, to give to every one his due . . .*"

Never has such a complex subject as justice been treated so clearly and simply. To summarize justice thus far: Justice means that each must be accountable for his own actions, entitled to the reward of his labor, and responsible for the consequences of his wrong doings.

The love of justice should be in-

stilled in every man, woman and child—all should wish to see justice done. For without justice the rule of men (dictatorship), not of law, assumes power. Without justice, society disintegrates into barbarism, where courts of law are administered by favor and pull instead of objective law, and without objective laws, the individual is at the mercy of the ruling power and its agents. The ancient atrocities return, such as no trial by jury, confiscatory taxes on life and property, the purchasing of judges, legislators, and sheriffs; all previous forms of the prior administration of justice become part of the current machinery which administers not justice, but injustice or tyranny.

In short, all that is good rests on justice. Where there is no justice, there is no morality—no right or wrong—anything goes and usually does. Justice is a social virtue to be practiced by individuals. Justice demands that the individual reward or recognize good and condemn evil. To practice justice one should know a man for what he is and treat him accordingly, whether he be honest, dishonest, friend or thief. The good should be rewarded, the bad punished.

The Highest Goal

Society cannot place before it a higher or nobler goal than the administration of justice. Thus, here is

a bit of advice from *Conversations with Goethe*, March 22, 1825: "A great deal may be done by severity, more by love, but most by clear discernment and impartial justice."

Once the meaning of justice has been established, next comes the understanding of freedom and liberty, which are crucial because only under freedom can the individual achieve his highest potential and pursue his happiness.

To speak of liberty and freedom is to speak first of natural laws or the right of nature. Hobbes lays an excellent foundation of natural laws or rights. He affirms that the right of nature is the liberty each man has to use his own power for the preservation of his own life, and his own judgment and reason are the best means for achieving it.

The first law of nature, according to Jean Jacques Rousseau (1712-1778), results from man's nature. "His first law is to provide for his own preservation, his first cares are those which he owes to himself; and, as soon as he reaches years of discretion, he is the sole judge of the proper means of preserving himself. . . ."

Therefore, if man's first obligation is to provide for his own life, he must live under the proper conditions in which to sustain his life, namely, liberty. By liberty is understood the absence of external impediments, the absence of opposition.

Hayek on Liberty

In *The Constitution of Liberty*, Nobel-prize winner Friedrich A. Hayek points out that liberty is a negative concept like peace. "It becomes positive only through what we make of it. It does not assure us of any particular opportunities, but leaves it to us to decide what use we shall make of the circumstances in which we find ourselves. . . ." He continues, "Liberty not only means that the individual has both the opportunity and the burden of choice; it also means that he must bear the consequences of his actions and will receive praise or blame for them. Liberty and responsibility are *inseparable*." (Emphasis added.)

To expound further, Mill explains that one cannot take away another's freedom no matter how sincerely one tries to protect another. Only by our own hands can any positive and lasting improvement in our lives be worked out. And through "the influence of these two principles all free communities have both been more exempt from social injustice and crime, and have attained more brilliant prosperity, than any others. . . ."

Further, ". . . any restriction on liberty reduces the number of things tried and so reduces the rate of progress. In such a society freedom of action is granted to the individual, not because it gives him greater satisfaction but because if allowed to

go his own way he will on the average serve the rest of us better than any orders we know how to give."

In short, liberty is the only object which benefits all alike and should provoke no sincere opposition. Liberty "is not a means to a higher political end. It is itself the highest political end," says Lord Acton. It is required for security in the pursuit of the highest objects of private life and civil society.

Morality Requires Freedom

If liberty is to live upon one's own terms and slavery is to live at the mercy of another's, then it follows that to live under one's own terms means the individual has a choice of actions. He can be virtuous or not; he can be moral. Therefore, morality requires freedom. Thus, only free men can be just men!

In his *The Road to Serfdom*, Hayek ties liberty to morality. Since morals are of necessity a phenomenon of individual conduct, to be moral one must be free to make choices. Where man is forced to act by coercion, the ability to choose has been pre-empted. Only under liberty and freedom can man be moral. As a result, only "where we ourselves are responsible for our own interests . . . has our decision moral value. Freedom to order our own conduct in the sphere where material circumstances force a choice upon us, and responsibility for the arrangement

of our own life according to our own conscience, is the air in which alone moral sense grows and in which moral values are daily recreated in the free decision of the individual. Responsibility, not to a superior, but to one's conscience, the awareness of a duty not exacted by compulsion . . . and to bear the consequences of one's own decision, are the very essence of any morals which deserve the name."

The facts have been established thus far that man must live under liberty to become as productive, as noble, and as just as he can, since liberty is the condition under which morality thrives. Also, only the individual knows what is best for himself. And finally, liberty does not provide opportunities, but leaves the individual free to choose those actions which he thinks will best suit him and to bear the consequences of those actions.

The Price of Freedom

There is one more thing to consider about freedom and liberty—the price. Tocqueville remarked, "Some abandon freedom thinking it dangerous, others thinking it impossible." But there is a third reason. Some abandon freedom thinking it too expensive. Freedom is not free. "Those who expect to reap the blessings of freedom, must, like men, undergo the fatigues of supporting it," noted Paine.

"Freedom is the most exacting form of civil government—it is, in fact, the most demanding state of all for man. That is because freedom demands—depends upon—self-discipline from both the governed and the governing. The foundation of freedom is self-government and the foundation of self-government is self-control," explains author Rus Walton, of *One Nation Under God*. Freedom requires more, however. It requires a strong and vigilant defense. "The greater the threat of evil, the stronger that defense must be. That which is right does not survive unattended; it, too, must have its defenders. . . ."

Is liberty worth the effort? According to Frederic Bastiat, all you have to do is look at the entire world to decide. That is, which "countries contain the most peaceful, the most moral, and the happiest people? Those people are found in the countries where the law least interferes with private affairs; where government is least felt; where the individual has the greatest scope, and free opinion the greatest influence; where administrative powers are fewest and simplest; where taxes are lightest and most nearly equal, and popular discontent the least excited and the least justifiable; where individuals and groups most actively assume their responsibilities, and, consequently, where the morals of . . . human beings are constantly im-

proving; where trade, assemblies, and associations are the least restricted; . . . where mankind most nearly follow its own natural inclinations; . . . in short, the happiest, most moral, and most peaceful people are those who most nearly follow this principle: although mankind is not perfect, still, all hope rests upon the free and voluntary actions of persons within the limits of right; law or force is to be used for nothing except the administration of universal justice."

What this means to us today is that our society, so filled with government regulations and laws, has taken away many of our liberties. For example, we cannot go into some businesses without being licensed,

taxed, and regulated. We are presumed guilty (of dishonesty) until proven innocent (which is impossible). Our reputations are continually under attack and, for the most part, stand for nothing. Honesty and integrity, once the backbone of our society, have been replaced by government regulations and promises. Under this system of injustice all of us are losing our liberties, wealth, and happiness.

What better way to summarize the spirit of liberty and freedom and justice than to quote Tocqueville, who said, "I should have loved freedom, I believe, at all times, but in the time in which we live I am ready to worship it." 

Justice vs. Charity

JUSTICE is the execution of the law which treats all men equally. In its exercise the state has the monopoly of the use of force. . . . The state has the power of the sword to execute justice.

IDEAS ON



LIBERTY

Some feel that this idea of justice is a cold, heartless concept. They want the state to produce social and economic justice as well. They want justice to include a more equal distribution of the goods of this world. They want charity and sympathy to be effected by the power of the law. In the process of broadening the meaning of justice to include these political activities, real justice is destroyed. The use of force to take from some to give to others is the very opposite of justice. Economic equality or economic redistribution cannot be effected by force apart from an unequal, and thus unjust, treatment of individual citizens. When this becomes the policy of the state, justice no longer prevails.

FRANCIS E. MAHAFFY, "Social Justice"

Reflections on History

WHEN Jacob Burckhardt, the Swiss historian of art and culture, died in 1897, he left a series of classroom lecture notes that he considered unready for book publication. It was only as he was dying that he gave permission to his heirs to bring them out if they saw fit. The notes were originally published in Germany in 1905, but it was not until some forty years later, in the middle of a war against the very totalitarianism that Burckhardt had predicted, that the first English translation was made.

The original American title, as of 1943, was *Force and Freedom*; Reinhold Niebuhr and others seized upon the book at once for its astoundingly accurate prophecies about the coming of the Goliath State. The odd thing was that Burckhardt, no Hegelian, did not

believe in historical determinism. His fluid conception of history could have done wonders to counteract the Marxism and neo-Marxism that have bemused so many of our intellectuals. But his influence has been limited, and his name has been pretty much forgotten.

Now, as part of a program that is seeing many neglected classics restored to contemporary use, the Liberty Fund of Indianapolis has republished *Force and Freedom* as *Reflections on History* (Liberty Classics, 7440 North Shadeland, Indianapolis, Indiana 46250, 354 pages, \$9.00 cloth; \$4.00 paper), with a beautifully comprehensive introduction by Gottfried Dietze. What immediately strikes the reader is that Burckhardt, a man of the nineteenth century, explains the 1980 headlines as no modern com-

mentator has succeeded in doing. Take his discussion of Islam, for example. In the West, he says, state and church have not fused into "one oppressive whole." But in Islam the fusion took place. "The whole of culture," he wrote, "was dominated, shaped and colored by it. Islam has only one form of polity, of necessity despotic, the consummation of power, secular, priestly, and theocratic. . . . This aridity, this dreary uniformity of Islam, which is so terribly limited on the religious side, probably did more harm than good to culture, if only because it rendered the peoples affected by it quite incapable of going over to another culture."

If our editorialists had known about Burckhardt, they would not have been caught so short by the apparition of the Ayatollah Khomeini. And if our policy makers in Washington had absorbed some of Burckhardt's wisdom, they would never have been deluded into thinking that detente with a totalitarian power could ever come to anything.

Consequences of Intervention: A Subtle Understanding

Burckhardt did not believe in historical "laws." But if nothing was fated, how could he have been such a good prophet? Only by a subtle understanding of the word "if." Despotism would result "if" the State were to be permitted to absorb all

the activities of men. But such absorption leads to stagnation and decay. History, as Burckhardt observed, is filled with overturns and interruptions. Great men can make a difference, for good or for ill. One whole chapter in *Reflections on History* is given over to a discussion of luck. It was lucky that the Greeks conquered Persia and the Romans Carthage, unlucky that Athens was defeated by Sparta. It was unlucky that Caesar was murdered before he had time to consolidate the Roman Empire into "an adequate political form." In the eighth century it was lucky that Europe held Islam at bay. (Query: can we count on luck a second time around?)

Marx defined history as the history of class struggles. Burckhardt said "nonsense" to Marx and to Marx's master Hegel. In Burckhardt's estimation, history was a result of the interaction of State, religion, and culture, and could take protean forms. Sometimes culture (as determined by social power) dominated the scene, sometimes it was religion. There could be totalitarianisms that were atheistic; on the other hand, there could be theocracies as despotic as any secular tyranny.

The Criminality of Rulers

Burckhardt regarded force as evil, but he had no illusions about its inevitable exercise. Great men were

quite capable of great crimes in consolidating a state, and genius and madness often went together. A justification for the crimes of great men seemed to lie in the fact that by them "an end could be put to the crimes of countless others." "The greatest example," said Burckhardt, "is offered by the Roman Empire, inaugurated by the most frightful methods . . . and completed by the subjection of East and West in rivers of blood." The end result of Roman crimes was the "creation of a common world culture, which also made possible the spread of a world religion, both capable of being transmitted to the Teutonic barbarians of the *Volkerwanderung* as the future bond of a new Europe."

But even though good may have come from the evil of Roman methods of conquest, Burckhardt refused to condone violence. The results of violence could be overcome as men strove "to turn mere power into law and order." But not every destruction entails generation. Sometimes, so Burckhardt observed, "a people which has been too brutally handled will never recover." Asia, so it appeared to Burckhardt, has been broken by the two periods of Mongol rule.

The Plague of Centralization

Burckhardt's ideal civilization was one in which culture and religion established unseen but effective

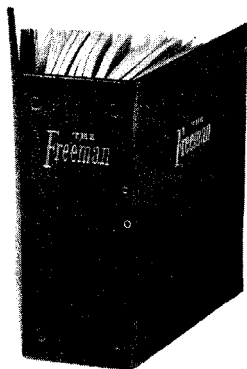
boundaries which the State did not dare to pass. His own Switzerland was a case in point. As Gottfried Dietze points out in his introduction, Burckhardt was a product of the aristocratic Swiss city of Basel, which had somehow escaped the leveling and centralizing effects of the French Revolution and the Napoleonic conquests.

Burckhardt admired the Germany of Goethe, a land of small principalities and culture-loving courts. He considered Bismarck an evil genius, and regarded the Franco-Prussian War as the beginning of the end of everything he had admired in the Germany where he had studied under Ranke. Since Germany, under Bismarck, had taken politics as its principle, it would have, so Burckhardt said, to continue on that course. Dietze mentions a letter Burckhardt wrote to a friend during the Franco-Prussian War in which the prediction was made that the learned gentry of Germany would have a rude awakening when they saw the spiritual sterility that would come with Prussian centralization.

The Italy that Burckhardt loved as a student and historian of art was pre-Garibaldi and pre-Cavour. After all, the Renaissance took place in small independent principalities and cities, not in a land that made "unification" a virtue. Burckhardt stopped writing for publication

when it became apparent that the centralizers were going to win everywhere. He had enjoyed writing about "beautiful things" in his *The Civilization of the Renaissance in Italy* (1860) and *The History of the Renaissance* (1867). But after the Franco-Prussian War he became, as Ernst Cassirer said, a "pathologist"

of a civilization that he saw on the downgrade. It was because he felt he could no longer cheer his readers that he wanted his reflections on world history to remain unpublished. He wanted his gloomy prognostications to be limited to a restricted audience. Luckily for us, he relented at the last. 



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Fred Schnaubelt

BILLBOARDS, FREEDOM OF SPEECH AND PROPERTY RIGHTS

"When I think of cities in the West, it makes me want to cry with longing. The beautiful advertising—those bright lights! That's where the life is!"

Each time the Courts, various City Councils, or the legislature attempt to further abridge freedom of speech and regulate advertising, I am reminded of the words above, spoken by an East Berlin student.¹ The essence of what he is saying—the very heart of his cry—is that billboards, and other forms of advertising, are signs of life. They are the signs of human interaction,

economic vitality, and the need for information.

Envision in your mind's eye for a moment life in East Germany—the gray buildings, drab colored clothing, people walking the streets with shoulders slumped and heads hung low.

In contrast, now think of New York, Broadway, the great white way! It becomes readily apparent that advertising is the hallmark of a vital economy. Advertising is information, and it is the constant flow of information that is so essential to a marketplace in which millions of people act—selling, buying, trading, bartering, constantly shifting information about.

It may be very difficult for some of us to sympathize with the view of the East Berlin student for we have grown up with advertising and take

Mr. Schnaubelt, a former real estate broker, is now a San Diego City Councilman. His emphasis as an elected official is on "individual liberty and the free market—to encourage private solutions to problems and to educate people about economics."

¹Steven Kelman, "Letter from East Germany," *The New Yorker* (September 30, 1972), p. 88.

it for granted. Today many people even feel that advertising takes advantage of us: "It is claimed that advertising waylays people forcing them to buy things they would not otherwise buy, that it preys on the fears and psychological weaknesses of people, that it is misleading with its juxtaposition of beautiful women and the commercial product, fooling the gullible into believing that if they buy the product the woman is somehow a part of the deal; that it is silly with its contests, marching bands, and jingles and is an insult to our intelligence."² Others feel that advertising with its garish messages in the form of billboards destroys the natural beauty around us.

But what is so surprising, given our exposure to advertising, is how little aware we are of the many *positive* values that it represents in our lives.

When we strip away the jingles, the parables, the catchy phrases, the appeals to our vanity, what is left is *information*. Billboards substitute cheaply provided information for expensive search costs. One should hardly have to tell jurists and legislators that information is a valuable resource: knowledge is power. And yet, outdoor advertising occupies a slum dwelling in the township of informational economics.

Information is not costless for we

live in a changing world. Firms must constantly determine what to produce, in what quality and quantity. Additionally, they must inform consumers about their products and services in the least expensive manner.

It used to be that even economists did not understand the informational function of advertising and thought it useless. Economist Yale Brozen explains: "These ideas emerged among economists in the 1930's from a two-dimensional analysis of an hypothetical static world with costless information and unchanging tastes, technology, and resources (including population). In such a world, advertising performs no useful function. Advertising expenditures in these circumstances waste capital."³

But as economic models began to more resemble the "real" world, this view began to broaden. In a real-life economy "information is a valuable resource: knowledge is power."⁴

The case becomes clearer if we try to imagine what life would be like in a world without advertising.

Picture yourself driving down a freeway late at night—hungry, sleepy, and nearly out of gas. There

²Yale Brozen, "The FTC's Outmoded Campaign Against Advertising," *Reason* (June 1973), p. 18.

³George Stigler, "The Economics of Information," *Journal of Political Economy*, 69 (1961), 213, cited in Brozen, *op. cit.*, p. 19.

²Walter Block, "A Libertarian Perspective on Advertising," *Reason* (October 1972), p. 16.

are no billboards anywhere, and all you can do is hope to recognize some lights off the freeway in time to exit. Or maybe you should exit anyway and wander the streets in hope of finding an open station. But, no, even though your gas indicator is sinking fast, you decide to continue. You become more and more tense mile after mile, as there are no signs of life. You wonder how much longer your gas will hold out, and is it true that a car always has another three miles after the needle hits the "empty" mark? You wonder how much longer you can keep your eyes open without a cup of coffee.

You are about to give up when suddenly you notice a glow around the next curve. You press the accelerator with great anticipation, and rounding the curve you see it, looming before you—a sight to behold! Your heart begins to quicken with relief. Suddenly you are wide awake. For around that curve is a huge brightly lit billboard that boasts, "Holiday Inn, 2 miles. Food, Gas."

It is an easy thing to construct a scenario like the one above to make a point. It is more difficult, however, to explain the threat to our liberty that arises when government attempts to control the very essence of that liberty—our freedom to express our ideas regardless of the form in which we might choose to express them.

When you come right down to it, banning billboards or even regulating their use is a violation of individual rights. And there are three specific consequences arising from government interference of this kind.

First of all, let us look at freedom of speech as it relates to billboards and other kinds of advertising.

Freedom of Speech

Jefferson and Madison properly perceived that ideas must have a marketplace and that our First Amendment is the guarantor of that marketplace and the protector of dissenters who offer new or different ideas. All ideas are potentially inciting, provocative, and controversial, but to deny them a forum through a distorted interpretation of the First Amendment strikes at the very foundation that the First Amendment was designed to protect. All too often, when courts and juries have been forced to deal with ideas that are perceived as "offensive" or "threatening" or "too provocative," they have succumbed to the hysteria of the times—or, as some courts have phrased it, "Modern Thought"—and trampled on First Amendment guarantees.

The First Amendment is not a tool of the press. It is a tool of the people. It is not nearly so much a protector of the media as it is a protector of the people's right to know, their right to

hear the ideas of others, and their right to have their ideas heard without interference from the government.

While most people might be willing to concede that freedom of speech is of great importance, many of them fail to make the connection when this principle is applied to commercial speech.

Clearly, First Amendment rights should be universally applied to all segments of the marketplace of ideas—to all media where those ideas might appear whether they be newspapers, magazines, “underground” publications, radio, television, or . . . billboards.

The First Amendment guarantees people freedom to choose the medium they prefer in which to express their ideas (be those ideas social, political, religious, or commercial).

Recently, the newspapers and television have been somewhat remiss in their defense of the First Amendment when it applies to billboards. Perhaps their owners do not really believe billboard companies should have freedom of speech. Or, perhaps it's because the outdoor advertising industry takes in millions of dollars in advertising revenues each year in direct competition with those television and newspaper corporations. I do not know.

But whatever the case, the real test of the media's commitment to

freedom of speech, especially for newspapers, is determined by the conviction and forcefulness by which their editorials defend the outdoor advertising firm's right to exist. And that defense should be with the same fervor (as an absolute First Amendment right) that they defend their own freedom of the press.

Secondly, consider the economic consequences of banning or regulating billboards.

Narrowing the Choices

Economically, what forcefully eliminating billboards does is to narrow the range of choice for people who want to advertise. The market has naturally supplied many different ways in which advertisers can get their messages across. Eliminating or regulating billboards narrows the competition between various advertising sources. It does away with an extremely profitable part of the market as well as a certain number of jobs related to this part of the market. In other words, regulating billboards will have the same effect as regulating any other part of the economy. Government will only succeed in upsetting the balance of the market—giving some people competitive advantages that they may not have had in an unregulated situation.

In the third place, forbidding billboards or regulating their use is a blatant violation of property

rights—the right of individuals to use their own property as they see fit. The right to property is essential if our right to our own lives and the right to our own liberty is to be exercised.

Most billboards stand on private property. Not to allow the owners of this property to use it as they wish is a punishment. It is unfair to deprive owners of the income from their property or to tell them how their property should be used.

Much of the pressure to get rid of billboards is exerted on the basis of aesthetic preference. Some people believe that billboards are offensive in appearance. But, in fact, this is a very poor point from which to argue, especially if it results in limiting the freedoms of other persons. We don't like or want *every* product or service available to us in the free market. And our preferences help to determine what is freely offered or introduced in the future. But in a free marketplace we have a choice. And that choice can only exist as long as

no one is making coercive judgments (even if they are aesthetic).

But there is something else that should be considered here. We should ask ourselves why that which is created by human beings—those symbols of thriving human life—should be so despised by the very people whom they serve. We should also ask ourselves why it is that people fail to recognize the fact that billboards tend to exist only in places where they are useful—namely, along those thoroughfares where people who might need the information they provide can see them.

The complaint of the East Berlin student was that none of the life associated with advertising existed in his country. In the final analysis, it was not really the lack of advertising that he was complaining about—but the lack of things that advertising represented and that only a truly free society can provide. 

The Crusade Against Excellence

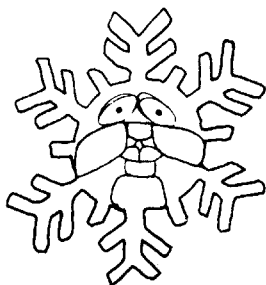
THE processes of civilization are impaired when insincere politicians, seeking votes at any price through boob appeal, or hucksters, looking solely at ratings, reenact Gresham's law in a new area. Gresham admonished that "bad money drives out good" and, by the same token, uncritical worship of boob appeal stops the flow of information and inspiration to those capable of creative innovation.

IDEAS ON



LIBERTY

William J. Staley



Saying NO to a Snow Job

It is reported in Greek lore that Diogenes sought with a lantern in broad daylight trying to find an honest man. If he were to return today he might find the search for a businessman who refuses government assistance in times of distress to be almost as fruitless an effort. But it wouldn't be totally futile were Diogenes to visit the SugarCreek Ski Hills in Bellbrook, Ohio.

It is heartening when examples of men and women acting on sound principle come to our attention. William J. Staley is such an individual. As the owner of the SugarCreek Ski Hill, Bill Staley is facing a financial crisis because of a lack of snow this past winter. The cause of his troubles seems completely beyond his control; can he be blamed for poor management decisions because he didn't anticipate a mild winter? And even if he had superior forecasting abilities, there is not much a ski industry entrepreneur can do to compensate for a lack of snow.

What follows is an open letter written by Mr. Staley, a participant in a 1979 FEE Summer Seminar, in response to suggestions that the federal government provide low interest loans to help ski operators faced with financial problems. It is an inspiring example that self-reliance is still alive in the United States.

Dear _____:

This letter is in response to your request for information to be submitted to the Small Business Administration—the end view being low interest government loans.

First, let me introduce myself. I am the owner of SugarCreek Ski Hills, Inc., in Bellbrook, Ohio. SugarCreek is a medium sized backyard ski area, grossing seven hundred fifty thousand to one million dollars per year from all sources. Over the fifteen years of our existence, we have grown slowly—via the rope tow, T-bar, poma route—installing our first chair lift in 1977. There have been good years, the late sixties and late seventies, and monumental monstrosities, such as 1972 thru 1975.

Today is Thursday, January 17, 1980. Out my window I see ugly patches of ice separated by green grass and blotches of mud, all of which translate to a disaster area. The weekend weather forecast is for completely marginal snow-making and if anything can be salvaged, it may cover the weekend payroll, certainly no more. The unpaid bills stacked on my desk are no longer accommodated by the proverbial "hat" in which they are thrown—no hat is that big. In short—and to extract a quote from your letter—I

am not "one of those fortunate operators who are doing well."

My position is probably no different than hundreds of operators east of the Mississippi—add or subtract a zero here and there to reflect the relative size of operation. Our dilemma is the same. We have a problem and, somehow, it must be solved. I applaud any effort to help. *However*—parenthetically and emphatically—Washington, D.C. is the wrong answer. Wrong for two reasons:

1. Involvement with Washington is a disastrous short-run solution that will ultimately extract payment far exceeding any benefit received. Resultant spillover regulation, intervention and red tape can literally be expected to drive the cost of skiing completely out of the market place—beleaguered and bankrupt operators with it.

2. Any help received from Washington (low interest loans, guarantees, etc.) can only be gained at the expense of every taxpayer in the country—widows, orphans, poor people, and all of those millions of people who don't give a damn about skiing. We would never think of "begging" them for a dollar, but we are willing to surreptitiously steal it from them via special legislation, preferential treatment, and the like. Washington has no money to give

that it has not taken from someone else.

So the issues are practical and moral. Government help ends self-help and ultimately devours the efficacy and the spirit of its supposed beneficiary. What then is the alternative? I can only give you mine.

1. Immediate and candid communication with my bank/bankers and suppliers.

2. An absolute, twenty-four hour per day commitment to providing every hour of skiing to my customers in the remaining days of this winter. There should be six to eight weeks left, so the jury is still out.

3. A willingness to go all the way to resolve the current crisis—personal notes, personal guarantees, and complete absorption of my personal estate into the financial mix.

4. A resolve to solve my own problems with those where a mutuality of interest exists—skiers, suppliers,

employees, family and friends—but in no case with innocent bystanders.

Finally, we must realize that we are a capitalistic free enterprise economy, where success and failure are earned—not granted or bestowed—whether by King Arthur of King Bureaucrat. If we are willing to reap the rewards of profitable enterprise, a corollary responsibility is accepting the agony of defeat. In no way can we justify shifting that responsibility to someone else.

If our planning has been deficient, our calculated risk miscalculated, our illusions of grandeur a little too grand, and our lust for growth a little arrogant—we can at least accept the responsibility for our plight. We must say, with Cassius, "The fault dear Brutus is not in the stars, but in ourselves." We got ourselves into this mess. We will get ourselves out.

Respectfully,
William J. Staley

Mr. Staley's stand against Federal aid calls to mind a lesson learned from one of his constituents by Davy Crockett during a campaign for reelection to Congress.

A violation of the Constitution, said the man, about a grant of aid to the victim of a fire. A copy of Crockett's tale, "Not Yours to Give," is available on request from The Foundation for Economic Education, Inc., Irvington-on-Hudson, N.Y. 10533.

Ben Barker



the Psychology of Cultism

CULTS are not a new phenomenon: they may be as old as man—or even animal herds. Cults may form around an individual, an object, an animal, or a concept. Invariably, the members of the cult ascribe magical powers to their object of worship—powers to manipulate the environment to protect the cult members against evil spirits, the devil, natural disasters, bankruptcy, illness, or whatever.

The core concept in cultism is a followership dependent upon someone or something *outside itself* to assist it in coping with a threatening external environment. The more inadequate and inferior the follower feels himself to be, the more magical and mystical the omnipotence pro-

jected onto the leader. However, it is a mistake to focus on the leader or object of veneration. The leader is usually merely a resourceful individual perceptive enough to recognize the varied types of helplessness in those about him who offers to take away those feelings. That his offer is frequently overstated and illusory is beside the point. The point is that the followers willingly take the bait—hook, line and sinker.

Many were shocked by the submissive, dependent, compliant followers of Charles Manson who carved x's in their foreheads and chanted on the Los Angeles County Courthouse steps. They were even more shocked to learn that some men and women had brutally annihilated other human beings on Manson's satanic command. Then there were the ill-fated followers of Jim Jones whose beliefs led them to a rotting death in the steamy jungles

Along with years of experience as a hospital emergency department physician, Dr. Barker recently completed a psychiatric residency at Camarillo State Hospital in California. This article, from a speech prepared for medical staff personnel, bears a wider hearing.

of Guyana. Numerous other examples could be cited. Where do they all come from? We shake our heads and wonder, while physicians and other societal leaders continue to reinforce exactly the type of behavior that will produce more cultists.

The Roots of Dependency

What are the roots of dependency in human behavior? The answer should be obvious. Each of us began life as a totally dependent parasite encased in a constant-temperature liquid environment with our nutritional needs satisfied effortlessly. Through some miracle, the maternal host does not set up an appropriate foreign body rejection reaction and the fetus enjoys this total dependency state for some 40-odd weeks before expulsion.¹

It is presumptuous to assume that this experience precedes awareness. Single-cell living forms demonstrate avoidance behavior to noxious stimuli. Are they aware? If they are, then is it not reasonable to suppose the fetus to be at least as aware? For me, though, the strongest evidence that the intrauterine life is experienced as pleasurable is the sustained effort adults make to recreate a similar experience through environmental manipulation. "To be

waited on hand and foot" by spouse, servant, child, and others has long been associated with "all the things money can buy."

Once expelled from the uterus, the infant must struggle to meet some of his own needs. The struggle is multi-faceted, beginning with an immature autonomic nervous system which must stabilize his internal environment in the face of a shifting external environment. Mother assists in this process by attempting through appropriate nurturing techniques to minimize the fluctuations of heat, cold, air circulation, and the like upon the infant. He remains extremely dependent upon her even though the biological umbilical cord has been ruptured. A more profound attachment persists which defies logical analysis.

In a slow, incomprehensible, years-long process, mother gradually weans the infant from his dependence on her. One of her tools is to promote his interaction with other adults, sibling and peers. Obviously, no two parents accomplish this task in exactly the same way nor do any two individuals react identically to the same stimulus. However, there are cultural similarities in the process which conspire to create more than surface similarities in the same generation of offspring.

Herein rests the central point of

¹Cf. S. Ferenczi, "Stages in the Development of the Sense of Reality," *Outline of Psychoanalysis*, by J. S. Van Tessler, page 112.

my thesis: the cultural factors which have produced so many dependent, submissive followers among our youth are also behind the decline and fall of the United States as a force of geopolitical significance. Excessive dependency is endemic in our society and those who are in positions of power and prestige—including many in my profession—encourage and perpetuate this dependency.

An Age of Specialization

We live in an age of specialization so extreme that most of us are truly helpless outside our specialties. Our "system" thus has become an incredibly complex web of interacting specialties which provides great comfort when all is going well but reduces us to extreme helplessness in times of crisis. Examples abound: Supermarkets are very convenient unless trucks stop delivering. Automobiles are a nice way to get around unless there is no gasoline. Washing machines are dandy unless yours breaks down and the repairman has a two-week waiting list.

The trade-off in our age of technological marvels is this: We gain convenience and security but may sacrifice self-reliance and independence. For example, antibiotics are available over-the-counter in many countries and individuals are free to take the responsibility for the management of their own illnesses.

But here in the United States, we do not have that freedom. In fact, patients here have been so programmed to depend upon physicians that we must take responsibility for *all* their bumps, bruises and sniffles—hardly leaving us with adequate time to care for those who truly require our skilled services.

Our cult of dependency medicine has been so successful that disenfranchised followers are literally suing us out of business. They are impatient and demanding that all diseases be cured—and cured now! In turning over the responsibility for their health to us, they gave us an illusory omnipotence. Our fallibility crushes this illusion and their response is vindictive anger. Discredited cult leaders are adjudged harshly by their disappointed followers.

The Drug Cult

Perhaps the largest cult of all that our profession has had a hand in is the drug cult. By that, I don't mean the "Superfly" white El Dorado Cadillac jockey who drives his exotic automobile through Harlem or Watts nor do I refer to the Mafia Godfather, the French Connection mystery men or the Colombian cocaine millionaires. I'm talking about the "drugstore cult"—the widespread dependence of American citizens on the soothing syrups and pills available on the shelves of

drugstores, supermarkets, newsstands and elsewhere. It is the cult that has pushed Valium into the number one all-time best-seller spot.

Our undergraduate, professional and post-graduate medical education is drug oriented and drug saturated, hence our primary weapon against illness is, of course, pharmacological. Was it not fitting and symbolic that so many at Jonestown were put out of their misery by an injection from a doctor? They trusted him to do the *right* thing.

Not only medicine but many other careers and skills have enthroned science and the scientific technique. Our educational systems perpetuate the myths of science *ad nauseam*. How much of the science and math shoved down your throats in high school, college, and medical school were really useful to you either in specialty training or in practice? Admit that much of your schooling is pure ritual and you will see that "education" itself has become a cult. College graduates enter the real world with magical expectations, waving their hard-earned degrees in the wind. When their skills are not snapped up, they are disillusioned and angry.

Schooling as Religion

In attempting to achieve power over the environment, students have literally endowed the schooling process with the status of religious

veneration and plugged themselves into it. The teachers and professors are the high priests and the process is supposed to mystically and mysteriously protect the follower from risk or harm if the prescribed rituals are followed. Believe it or not, many who educate themselves into overcrowded fields simply return to school for another degree. Others of the educated cultists simply change cults.

Basically, then, we see that the psychology of cultism is simply the persistence of the parent/child relationship beyond an appropriate time. Followers or members feel helpless or overwhelmed by an environment they perceive as threatening and respond to this feeling by embracing a concept or leader to whom they ascribe magical power.

This is a sign of excessive dependency; and excessive dependency in a society can come either from inadequate parental directing toward self-reliance, individual rejection of such directing, or programming from external sources which directs towards dependency. Additionally, the environment may become truly so threatening that dependency upon an authority or higher power source may be appropriate, in war, say, or in specific subcultures as depicted in the film, "The Godfather." Modern technology also shares the guilt, for it has contrived to capture a formerly active and

mobile social order and transformed it into a sedentary spectator society.

The principal villain in this transformation process is television. By and large, it is a dehumanization process which tends to dull the senses and produce emotional zombies who respond primarily to subliminal and repetitive advertisement slogans. What then occurs is much akin to disuse atrophy: the spirit within dwindles like melting wax and the mind dulls. The products of this process suffer endemic obesity and emotional indifference to their actual environment.

What Jim Jones and his ilk have offered to these unfortunates is an antidote to the poisonous, dehumanizing processes induced by the age of technology. Few who leap for the bait really care that the antidote itself is toxic, for what they have been experiencing is a living death and any escape hatch is acceptable, even if it leads into an endless maze. The visible result is the phenomena of cults so alive in the land today.

In a society of people programmed almost from birth to follow-the-leader, it is inevitable that some will fall into the clutches of mad leaders. That is but one of the many consequences of the loss of self-reliance and of independent judgment in American citizens. Before joining in an emotional condemnation of "cults," perhaps it would be best to under-

stand that a cult is but a system of worship or ritual. It is a system of belief gone pathological, to be distinguished from religious beliefs which inculcate independence.

Freedom of Worship

The freedom to worship God after your own manner of belief is as valuable to the spirit of independence as is freedom of speech. These freedoms, guaranteed by the First Amendment to the Constitution, are about all we have left of the dream of the Founding Fathers and should not be carelessly dismissed.

Genuine religious beliefs have the special quality of satisfying intellectual and emotional needs simultaneously. They account for unequal life fates, promise release from illness and suffering, and offer hope for a better life. They are, indeed, a special, poorly understood, potentially adaptive set of ego defense mechanisms. Do we psychiatrists have a socially sanctioned right to intervene in religious beliefs, particularly when we know so little about the influence of religion on psychopathology?

If we deprive someone of his religion, what substitute do we have for him? And ought we to impose such a substitute? Physicians for years have ignored nutrition, exercise, and relaxation as techniques for combating or preventing illnesses. Indeed, we have ignored preventive

medicine itself. We are, for the most part, disease-oriented high priests in a cult of science and technology which is leading us all into a fate which appears particularly unattractive. Chronic stress-related diseases plague both us and our patients (hypertension, strokes, heart attacks, colitis, ulcers, asthma, and so forth), yet we persist in disregarding the spiritual element in man and rely solely upon chemical potions and invasive techniques to combat diseases.

Perhaps God *does* exist. Perhaps He was around before Plato and Aristotle. Perhaps He spoke to Moses and Paul and many others. Perhaps His Holy Spirit *is* within each human being and resists the sadness of a mechanized, depersonalized, technological social order. Media manipulators who sensationalize the fates of unfortunate cultists cannot destroy the source of all life which beats within each of our breasts and breathes freely of the air that His plants provide.

The psychology of cultism is but one indication of an intrinsic desire in each of us to offer veneration to the Creator. This process becomes pathological only if the surrogate leader is mad, as with Jim Jones, or when the path followed leads into a blind maze, as with scientific technology. Almost every day another "accepted" scientific fact is discredited in yet another labora-

tory experiment. It appears, then, that science offers no final solutions or ultimate explanations. Is our own worship of the microscope and the wonders of microbiology, neurochemistry and physiology as misplaced as the blind faith that Jones's followers had in him?

Blind Departures from Basic Principles of Freedom

This nation was founded upon principles taken from the Judeo-Christian ethic and as long as these prevailed, we grew and prospered. Now, there is no prayer in the schools and unionized, socialist teachers insidiously program our youth. Mindless violence and senseless trivia beam at us from the television, our newspapers are full of lies and scantily clad females posing for underwear ads. Heroin is the opiate of the ghetto, alcohol of the middle class community, and cocaine of the wealthy. Valium, which we supply, is abused by all social classes.

We correctly perceive the sea as a dangerous, hostile environment for man and few would attempt to navigate it for any significant distance without the benefits of a buoyant and protective superstructure. What many fail to realize is that man's journey on dry land is at least as hazardous. In neglecting the spiritual aspects of our own existences, and of our patients' as well,

we are up a creek without either boat or paddles.

Cults, worthless dollars, gasoline shortages and dependent patients are the long-term consequences of too many of us learning to rely on Big Brother. The processed foods we eat and drink are as suspect as the poisoned potion was in Guyana—it simply takes longer for them to kill us.

Erich Fromm tells us that all human beings are religious in one way or another, religion being "any system of thought and action which . . . gives the individual the frame of orientation and object of devotion he needs."² The psychology of cultism is all around us, as men elect to place their faith and trust in other men,

their machines or their technological products.

As long as we pass on shallow values to our youth and let them see us worshipping at the altar of science, or the government, or the dollar, or gold—they will do likewise.

As long as we promote dependency in our patients, we are reinforcing the psychology of cultism. The white coat and the stethoscope are counter-productive when used as talismans in a cult of science. We should learn and teach self-reliance and preventive medicine principles, for when these attitudes and values are mixed with genuine faith in the Creator, we may return to being a nation of healthy and sane individuals rather than a society of drugged, dependent sheep and we may finally reverse the decline of the United States as a force of geopolitical significance. 

²Ashok Rao, M.D., and Jennifer A. Katze, M.D., "The Role of Religious Belief in a Depressed Patient's Illness," *Psychiatric Opinion*, June, 1979, pp. 39-43.

How State Help Destroys Self-Help

It is time to cut through the underbrush of detail and face up to the basic question in this issue of state help versus self-help. What kind of society do we want? One of independent self-reliant citizens, prepared to take care of themselves and their families, asking from the state only to leave them alone and get off their backs? Or a society of government pensioners, willing to sign away their political and economic liberty in exchange for ever bigger handouts? Which is the more desirable type of citizen—the chronic recipient of relief or the sturdy hardworking Amish farmer who had his horses confiscated and sold by order of some local bureaucrat because he wanted to contract out of both the benefits and the payments involved in the social security system?

IDEAS ON



LIBERTY

WILLIAM HENRY CHAMBERLIN



PARENT POWER: Can It Help Public Education?

THE SHORTCOMINGS of the public schools have become common news fare. The typical complaints are that the schools don't teach, students' test scores are falling, the schools are overrun with drugs and violence, and too much money is being wasted on administration and "frills." Moreover, public disenchantment with the schools is causing homeowners to vote down ordinary tax measures for school support.

Most of the proposed remedies include more Federal funds for education, better teacher training, and renewed emphasis on the basic skills of reading and writing. Now a new proposal is being heard. It's a demand for "parent power" in running the schools.

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"Parent power" is an idea that sounds logical and reasonable. It means that parents should have a voice in school policy decisions and perhaps should have something to say about curricula, choice of textbooks, and the hiring of teachers and administrators. This supposedly would make the people active participants in the educational process and might help cool the rising anger toward the schools. The parents, in sharing power over the schools, will have only themselves to blame if the schools "do not work."

Unfortunately, "parent power" appears to be another bad idea that may bring more confusion to public schooling. It's true that parents should have a strong voice in *choosing* their children's education. But parents, as a group, have no more

competence in *running the schools* than they might be expected to exhibit in running other enterprises. It makes no more sense to involve groups of parents in the management of schools than it would to include them in the management of supermarkets, auto repair garages, clothing stores, or lumberyards.

A second problem with "parent power" is that control of public education is shifting to the professional educational establishment. While members of this group may pay lip service to the concept of parent power, they really hope to bypass parents completely in choosing educational philosophy and objectives. The professional educators in the public school system want parents as compliant allies, but not as policy-makers and directors.

The Power of the Market

There *is* an effective way of exercising parent power, however, and that is through the market place. Since there is no real "market" in public education, one has to look at commercial enterprises to see how parents and other citizens exercise proper forms of control.

With supermarkets and other retail establishments, parents have effective power of control because they possess *power of choice* in making purchases. No sensible parent, as a shopper, really cares who is chosen

as manager of a local supermarket or what policies are selected in running the store. Parents, as store customers, have complete confidence that the store's management will try to provide goods and services at reasonable prices. If the store fails to do this, the customers do not solve their problem by demanding a role in the management of the store. They simply transfer their shopping to a store that they consider more satisfactory. Meanwhile, the management that failed to please them is eventually succeeded by persons who may try harder to win them back.

But imagine the chaos and confusion that might result if parents attempted to "reform" the retail establishment by joining in its management! First, there would be public meetings, often with angry declarations about the needs and rights of the people. The current managers would attempt to defend themselves and would argue that they had met most of the standards for running a business of that type. There would be demands for publicity and advertising programs, new ideas, better training of employees, and the like. Finally, committees would be appointed to "study" the store's activities and to make further recommendations. Meanwhile, the employees of the establishment would gather their forces and vow to strike if any changes were made in their current compensation and privileges.

Under such conditions, the retail establishment would be fortunate to survive at all. Yet that's how parents and other groups try to "reform" the public schools. There is a persistent belief that something constructive is being done when people meet to discuss issues and to demand changes in the schools. The advocates of such measures are often critical of parents who refuse to become involved in these "reform" programs. Such parents are even accused of not caring about their children or of abdicating their responsibilities to the oncoming generation. If they really cared, the accusation goes, they would attend school improvement meetings or work as volunteers to help in the learning process.

Supporters and Reformers

Parent groups to "reform" the schools often fall into two categories. In one category are the conciliatory people who usually support worthwhile community and church projects. The administrators and teachers easily manage to win these people over and to put them to work in various "school improvement" activities. These people will help the schools with private fund-raising campaigns, athletic programs, and special development projects. Without realizing it, they are subsidizing the public school system with labor and services that otherwise would

have to be supplied by all the taxpayers.

There is another category of parents that employs abrasive, adversary tactics to "change" the schools. This group is made up of punitive, critical people who believe that other people need constant intimidation and harassment in order to do their duty. They like to "shake up the schools" and to "make demands," using the tactics of labor organizers and radical demonstrators. As a rule, their abrasive tactics do succeed in forcing through certain changes in school policies, so they mistakenly believe that they have successfully exercised "parent power." All they've done, however, is to impose their own views and values on parts of a public system, often without the consent of others who also support the schools.

It is true that good parenting includes a strong interest in children's education. Many parents, in fact, are so critical of public education that they have transferred their children to private schools or have made special arrangements with tutors to offer what the public system fails to supply. If parents really were as unconcerned about education as they are accused of being, they would not have become so critical of public education.

But the parents who refuse to participate in "parent power" programs

may have sensed that it is a futile exercise. The public education system—which really should be called the “government” education system—is not likely to become more efficient in the future, even with more funds and more groups taking an interest in its operations. In fact, parents will be very fortunate if the public school system does not slide into deeper difficulties.

Schools Are Sacred

One problem with efforts to “reform” education is that the public school has occupied a sacred niche in the national consciousness. It is the free public school, so the argument goes, that has given everybody a basic level of literacy, taught democracy and equality to our society, and brought together the various classes. The person who would dare tamper with the public school risks being labeled a “closet fascist” who would rob the ordinary person of his right to an education. It is considered wrong and antidemocratic to look upon education as a commodity or to suggest that schools should operate with the efficiency of supermarkets.

This “sacred” status of public education grows out of our feeling for our children. A defender of the public system can throw us off balance immediately by reminding us of “our children’s future” or “the right of every child to a decent chance in

life.” Speaking before an educational reform group, an educator carefully explained that one “must view every child as a person of infinite value.” This immediately implies, of course, that it’s wrong even to mention such matters as cost-efficiency and limited budgets for public school systems.

This special, sacred status of the public school helps confuse parents when they’re meeting with educators and others to discuss the schools. It helps close off discussion of issues that ought to be raised. It helps perpetuate the belief that the schools really are serving society with considerable efficiency and need only more money and more public support to do the job that ought to be done. The people who run the system manage to assume the role of public benefactors while outside critics—even when they are parents—are cast as enemies of the children.

Closely related to the “sacred” status of the public school is the power of the professional educational establishment. This group now controls the public schools and makes most of the decisions about curricula, education policy, and standards. Some members of the educational establishment may call for “parent power,” but they do not want parents to exercise any *real* power in deciding how schools should be run. They want parents to

participate in ways that will create the *illusion* of power. In any showdown, however, effective decision-making power always will be exercised by professional educators, not parents.

The "Professionals"

Who are the members of the professional educational establishment? The teachers are the most visible group, of course, and they have organized into powerful unions which have become influential with Congress and state legislatures. However, the professional educators also include administrators, counselors, and people who create and market teaching systems and aids. Education also supports a large group of professionals who write and publish textbooks. The group must include, too, a large number of lecturers and consultants who participate in seminars and other education-related activities. Finally, the establishment is influenced by people who want to use public education as an instrument for social change and social engineering.

Most of these groups want parents only as their allies and assistants. Professional educators tend to view parents as a somewhat conservative group that can become troublesome and must be dealt with in a tactful manner. The long-term goal of most professional educators, however, is

to bypass parents by becoming independent of local voters and school boards. This can be done by centralizing all power over education at the state and Federal levels. Teachers' unions and other professional educational groups already are making considerable progress in reaching this goal.

Still another problem is that parents are not really in agreement about the goals of public education. Since the public schools have many constituencies, it is virtually impossible to meet the demands of all groups in a society that has become badly fragmented. For example, some groups of parents may demand that the schools require specific standards for graduation from high school and admission to state colleges. Other groups of parents, however, may insist that standards are harmful to them and will demand open admission to the state schools. There is really no way that all of the parents can have "their way."

Finally, most parents who try to improve public education will soon find themselves blocked by bureaucratic processes and political realities. Like most public institutions, the schools are bureaucracies established for specific public purposes. While it makes good political sense to portray the schools as being in everybody's service and "owned by all of us," the public schools would not exist at all without a

great deal of coercion and compulsion. For example, taxes to support the schools are taken from everybody, whether or not they receive any direct benefit in education. Compulsory standards are established by state boards and other agencies. Students are compelled to attend the schools in most states and, increasingly, the school administrators are required to retain students in classes even when they are disruptive and rebellious. Meanwhile, the proponents of various causes campaign endlessly to make certain subjects "compulsory" in the schools. It is doubtful that groups of parents would behave differently; indeed, in some communities parents have attempted to exercise power by making their own religious and social views "compulsory" in the local schools.

Still, even if parents were united in their views and the professional establishment really sought their participation, it's doubtful that an exercise of "parent power" would improve the schools. The professional educators may be self-aggrandizing and self-righteous, but they are at least correct in saying that schools should be run by professionals. As a group, parents can only be expected to be amateur managers, and they could even make the schools less effective if they attempted to take charge of them.

How, then, should "parent power"

really be exercised? What is needed is a *free market* in education. If such a market place existed, parents could exercise control by *the power of choice*. They would tend to seek out the schools that would best serve their children's needs (as determined by the parents) and they would shun the schools that did not serve them. In other words, parents would shop for education in the same way they now shop for food: by seeking out the supermarkets that offer them the best commodities at the most attractive prices.

It is argued that this is elitist and antidemocratic. But that argument exists only because the public school has so thoroughly dominated education that other forms of educational services haven't been tried to any great extent. However, the parochial schools have been operated with great success, and without becoming either elitist or antidemocratic. Now we are witnessing the rapid growth of evangelical Christian high schools which often enroll *paying* students from moderate income families. Even with public education available at no direct cost to the student, average citizens are turning from the public schools and choosing private institutions at rates which take large amounts of the family budget. One can only speculate about the types of schools that might be established if everybody had to contract for his own

children's education. Nobody really knows how this would work because it hasn't been tried.

Parental Neglect

It also is argued that some parents would not send their children to school at all if there were no public system. Some children would be allowed to grow up illiterate. This is probably true, although the public system has not succeeded in wiping out illiteracy in the United States. The real problem, in such cases, is parental neglect, and the public school system has no special capacity for dealing with such neglect.

Another argument is that education is too important and too special to be treated as a "commodity." A child's education is too precious to carry an ordinary price tag. Who can place a value on the education that may help produce a future Einstein? Education, it is argued, cannot be packaged and delivered like cans of food in a supermarket.

The fact is, parents can and should judge their children's educations by the standards of the market place. This is the efficient way to determine what types of education should be offered and how it should be delivered. In making such determinations, parents would have many things in mind, including the probable economic benefits of children's education. A market place in education would also reward the

more efficient school (and teachers) and would punish the poor schools.

What about the potentially brilliant scholar who might have been born into a poor family or into a family that is indifferent to his educational needs? One of the shortcomings of the public school system is that it sometimes mistreats or ignores the gifted child. However, society can provide for the gifted person simply by changing its views on education. Quite often, the brilliant person is capable of acquiring his own education and does indeed obtain it without completing high school or college. The handicap, if there is any, is in not having *educational credentials*. This can be overcome simply by eliminating diplomas and degrees as requirements for professional work.

Another criticism of a free market in education is that it would tend to become largely *vocational*. Most parents would simply educate their children for trades and careers. The traditional courses in history, languages, and social sciences would be largely neglected. Moreover, this vocational education would become obsolete in a few years and students would be left with nothing.

Nobody can really know what kinds of education parents would select if they had to choose it and also to pay directly for it. However, parents already spend money for training and education that have

nothing to do with vocational programs. For example, many parents send their children to private music and art classes without expecting them to become professional musicians or commercial artists. Parents do have considerable interest in helping their children obtain what is called a "well-rounded" education.

Some people have argued that a "voucher" system would help create a market in education. Under this system, families would receive vouchers for educational services which could be used at any accredited school. Milton Friedman, a staunch supporter of voucher programs, believes that this system would help improve public education and that both parents and students would shun the poor schools or the ones that could not maintain order.

A voucher method might be slightly better than the present system of supporting schools. It is not, however, a "free market" approach to education. It is still a form of government education, with the student receiving the subsidy rather than the tax money being sent directly to the school. Government and political factions would still use it to control the schools and to impose their own standards on "accredited" institutions. The voucher system also has the drawback of being a "third party" payment. The student or his family can "spend" the voucher only for education and

do not necessarily "value" it to any great extent. But the family that directly spends its own income for education is showing considerable value preference.

There is currently no widespread movement to give parents more power over the schools by releasing education to the free market. But a quiet revolution appears to be taking place in the attitude of the public toward education. In the past 15 years, private and parochial secondary schools have been gaining ground steadily, while many public school systems that were once considered exemplary have become troubled and ineffective. The growth of the private secondary schools is astonishing in view of the fact that students have the option of attending public schools without paying tuition. It's as if the government built free cars for everybody and still lost business to private producers who charged full market prices. This growth of private education must be embarrassing to the public educational system, and it is certain to raise future suggestions about the feasibility of a private system for everybody.

When that time comes, "parent power" may become more effective in controlling education. Right now, it does keep supermarket operators on their toes without requiring parents to become supermarket managers in the process!

FREE ENTERPRISERS ALL



PEOPLE using the words “free enterprise” usually associate them with business. So, too, does *Webster’s Seventh New Collegiate Dictionary*, which starts its definition this way: “freedom of private *business* to organize and operate for a profit . . .” (emphasis added).

This part of the definition is too narrow for two related reasons: First, it says nothing about the freedom of *individuals* to organize and operate for a profit; and second, it ignores that businesses are made up of individuals, which must be said because too many of us have come to depersonalize business in the same way we do government.

We speak of business and government as doing this or that as

though they have lives of their own independent of and apart from human action.

Many people have come to regard government as omniscient and believe it should regulate business. They want business regulated for a variety of reasons, but I suspect the most common are to hold down prices and to repress competition.

Government regulation, of course, doesn’t just happen. It is people—politicians and bureaucrats—consciously deciding to interfere in the relationships individuals develop with one another to satisfy wants and needs.

The regulators appear on the scene out of their own conceptions of what constitutes justice and injustice and in response to demands by groups whose favor they curry.

The destructive results of political

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interference in the marketplace are all about us. Yet, all about us, too, are continuing technological advances, and signs of wealth and prosperity.

The fear—and I think it is very real—is that people will mistake these material innovations and monuments as evidence that free enterprise is well and thriving.

Rather, I see these as demonstrating that private individuals intent on improving their own conditions are more creative than the misanthropes who have done their best to regulate us. It seems predictable that the regulators will someday catch up and succeed in creating total chaos because they have means—coercive authority—unavailable (and, indeed, undesirable) to individuals (beyond self-protection, including defense of property).

Even then, creativeness will not be fully stifled, because individuality and the drive of people to improve themselves and their conditions will not abate.

The evidence is ample that under the meanest and severest conditions, individuals will organize and operate to improve their circumstances. They need not be instructed or directed in this. They do this out of the most basic drive—survival.

Thus, free enterprise, or enterprise, is nothing more than unhampered individuals doing what is necessary to maintain their lives

and health. Whatever they do to accomplish this, so long as it is peaceful, is appropriate.

It is observable that, once people are capable of meeting basic needs, they will turn to an unknown and unimagined number of ways to effect entrepreneurial exchanges. In this respect, their activities may be identified as being both self-choosing (free) and self-organizing and self-operating (enterprise).

In essence, all of them, whether identified as employee, employer, or self-employed, are free enterprisers and are in the business of improving their own lots.

It is arbitrary, and imprecise, though perhaps convenient, to confine the term free enterprise to business. But it ignores that every productive person is engaged in business. It is simply that most people, for an unknown number of reasons and causes, have not organized and operated in business in the sense of being a partnership, corporation, or individually owned company.

Because many people do not organize and operate in the "conventional" business sense, this in no way diminishes their participation in free enterprise.

For example, throughout my working years I have sold my ability as a researcher, writer, and editor to others. These others have relied on my willingness to produce, just as I

have depended upon them to meet commitments made to me to induce me to accept employment.

I regard my employment as a partnership. My well-being, the well-being of those with and for whom I have worked, have been mutually dependent. There is not a single nongovernmental enterprise that could not be put out of business in short order if the people working in it withdrew their labor.

At any time, even now, I could withdraw my labor and organize and operate myself as a "business." But my business would be no different than it is today so long as I didn't change my occupation. My becoming and remaining self-employed would depend, of course, upon consumer demand and satisfactory service.

But this should ever be the way of the unhampered market.

Entry into the market should be uninhibited. Sellers—and all who work are sellers of their time and abilities—remain sellers just so long as what they have to offer is demanded. When auto sales decline, car makers lay off workers. The same can occur in any nongovernment business, industry, or profession.

Free enterprise, then, is the freedom of individuals to organize and operate for profit singly, in partnership, or however else they care to come together. The individual has as much right to think of himself as being a businessman, or being in business, as persons usually identified as being in "business." 

Serving Others

IN a free country such as ours, laws aren't designed to apply to specific individuals but to all of us equally. If we attempt to legislate against the particular man who squanders his wealth on riotous living and idle and nonproductive pleasures, we also automatically legislate against the overwhelming majority of the persons who use their wealth wisely for the benefit of all.

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.

BENJAMIN F. FAIRLESS

IDEAS ON



LIBERTY



The Idea of Equality

It is doubtful if any social concept in the entire history of man has been more fervently championed, more fiercely denounced, more misunderstood, more poorly defined, or more misrepresented than the idea of equality.

Many Christians proclaim all men "equal in the eyes of God." The United States was founded on the principle of "equality of rights." The basis of modern Western jurisprudence is "equality before the law." The rallying cry of the French Revolution was "Liberty, Equality, Fraternity." A central goal of communism and socialism is "economic equality." The American Civil Rights Movement seeks "equality of opportunity." And the modern women's movement champions "equal rights for women" and "equal pay for equal work."

While the meaning and compatibility of this multitude of "equalities" is far from clear, it is

obvious that they do not all mean the same thing. Just what *does* equality mean?

What is Equality?

For two things to be equal means for them to be identical in some respect. Thus if two trees are both precisely 6 feet tall, they are equal in height. If two men both earn precisely \$9,500 a year, they are equal in income. And if two people both have the same chance of winning a lottery, they have (in that respect) equality of opportunity.

However, while two things may be identical with respect to one or a limited number of attributes, no two physical objects can ever be identical with respect to *all* attributes. For example, all atoms differ in position, direction and history. And all human beings differ with respect to anatomy, biochemistry, temperament, knowledge, skills, goals, virtue and a thousand other characteristics.

Here we will primarily be concerned with three types of equality:

1. *Political equality*, a major goal of

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both the American and French revolutions, has *traditionally* meant equality of individual rights and equality of liberty. Stated simply, political equality means that the individual's right to life, liberty and property is respected and that government abstains from conferring any special advantage or inflicting any special harm upon one individual (or group) in distinction to another. Clearly, political equality is at best only approximated and never exists completely.

2. *Economic equality* means in essence that people have the same income or total wealth.

3. *Social equality* generally means either (a) equality of social status, (b) equality of opportunity, or (c) equality of treatment. Social equality is also increasingly coming to mean (d) equality of achievement.

Equality and Liberty

A little reflection will quickly demonstrate that economic and social equality can only be achieved at the expense of political equality. Because people differ in ability, drive, intelligence, strength and many other attributes it follows that, with liberty, people also will differ in achievement, status, income and wealth. A talented singer will command a higher income than a ditch-digger. A frugal, hardworking man generally will accumulate more wealth than an indolent spendthrift.

A brilliant scientist will command more respect than a skid row bum.

Nor are all of these differences of social and economic achievement the result of environment. Because people are individuals—genetically, biochemically, anatomically and neurologically—differences in strength, intelligence, aggressiveness and other traits will always exist. While environmental factors can and do exaggerate physical and mental differences between people, diversity and non-equality remain the natural biological order and hence are the natural social and economic order.

There is only one way to make all people even approximately economically or socially equal, and that is through the forcible redistribution of wealth and the legal prohibition of social distinction.

As Dr. Robert Nozick, of the Harvard Philosophy Department, has pointed out in *Anarchy, State and Utopia*, economic equality requires a continuous and unending series of government interventions into private transactions. Even if people's incomes are made equal once, they will quickly become unequal if they have the liberty to spend their own money. For example, many more people will choose to pay \$10 to hear Linda Ronstadt sing than will pay \$10 to hear me sing, and Linda Ronstadt will very quickly become far wealthier than I am.

Economic equality can thus only be maintained by totalitarian control of people's lives, and the substitution of the decisions of a handful of state authorities for the free choices of millions of men and women.

Political equality is fundamentally inimical to economic and social equality. Free men are not economically equal, and economically equal men are not free. Because the achievement of social and economic equality inherently requires the forcible interference with voluntary choice, I will subsequently refer to the doctrine that social or economic equality should be imposed upon a society as *coercive egalitarianism*.

Equality as an Ethical Ideal

In reality people are unequal: Americans are—on average—far wealthier than Russians, doctors tend to earn more than garbage collectors, and so on. But *should* people be unequal?

At its root, egalitarianism is an ethical doctrine. It is often asserted that "ethics is just a matter of opinion" and that "one moral system is just as good as any other." But in fact any ethical code can be judged by at least three criteria: (1) *is it logical*—have the basic concepts of the doctrine been meaningfully defined and are the arguments for it valid; (2) *is it realistic*—is it a doctrine which human beings can live

by, or does it require that people act in a way which is fundamentally contrary to their nature; and (3) *is it desirable*—are the consequences of adopting the doctrine what are claimed, or would they be something entirely different; and if people adopt this doctrine will it lead to the creation of a society in which they are happy and fulfilled, or will it lead to a society of hopelessness, repression and despair?

Let us now apply these criteria to the doctrine of coercive egalitarianism.

1. *Is coercive egalitarianism logical?* Egalitarianism states that all people should be equal, but few coercive egalitarians define "equality."

As stated previously, *complete* equality between people is an impossibility, so it can be rejected at once. But we are hardly better off when we speak of social or economic equality. Does "economic equality" mean equal income at a given age, for a given job, for a certain amount of work, or for a particular occupation? Does "equal wealth" mean identical possessions, possessions of identical value, or something entirely different? Does "social equality" mean equal status, equal popularity, equal opportunity, equal treatment, or what? All of these concepts of economic and social equality are distinctly different, and until they are defined, the doctrine of egalitarianism is illogical.

2. *Is coercive egalitarianism realistic?* People are different and have different values. To some happiness requires many material possessions, to others material possessions are relatively unimportant. To some people intelligence is a great value, to others strength or beauty are far more important. Because people differ both in their own characteristics and in the way in which they value traits in others, people will naturally discriminate in favor of some persons and against others.

Since variety and distinction are natural parts of the human condition, by demanding that people abandon such distinctions, coercive egalitarianism is contrary to human nature.

3. *Is coercive egalitarianism desirable?* Coercive egalitarianism, the doctrine of complete social and economic equality of human beings, logically implies a world of identical, faceless, interchangeable people. Such a world sounds much more like a nightmare than a dream, and indeed it is.

Perhaps no nation on earth has come closer to complete economic and social equality than Pol Pot's Cambodia. Under Pol Pot's regime entire populations were forcibly marched out of cities and everyone, regardless of age, sex, skills or previous social status, was forced to labor with primitive agricultural

implements on collective farms. In Pol Pot's Cambodia, everyone had to think, work and believe the same; dissenters were killed on the spot.

In northern Cambodia stands the remains of one of Pol Pot's "model villages." The houses are neat, clean and completely identical. Nearby sits a mass open grave with hundreds of human skeletons—the pitiful remains of those who displayed the slightest individuality. The village and mass grave are a fitting symbol of the fruits of coercive egalitarianism.

While coercive egalitarianism masquerades as an ethical doctrine, in fact it is the opposite. Ethics presumes that one can make a distinction between right and wrong for human beings. But coercive egalitarianism demands that we treat people equally, regardless of their differences, including differences in virtue. To demand that virtuous and villainous people—for example, Thomas Edison and Charles Manson—be treated equally, is to make ethical distinction impossible *in principle*.

In summary, coercive egalitarianism is illogical because it never defines precisely what "equality" consists of; it is unrealistic because it requires that we deny our values; and it is undesirable because it ultimately requires a society of human insects.

While coercive egalitarianism

fails as an ethical doctrine, many contentions based upon coercive egalitarianism nevertheless remain emotionally compelling to many people. Let us now examine some of those contentions.

Myths of Egalitarianism

1. *Social and economic inequality are a result of coercion, an accident of birth, or unfair advantage.* Let us consider these contentions one at a time.

It is certainly true that *some* inequality is a result of coercion in such forms as conquest, theft, confiscatory taxes or political power. But it is hardly true that all inequality is a result of coercion. A person can, after all, become wealthy or popular because he or she is highly talented or extremely inventive, and talent and invention coerce no one.

Being born wealthy certainly constitutes an advantage, but hardly an insurmountable or unfair one. Sociological studies in the United States and Europe show tremendous mobility between lower, middle and upper classes, despite advantages and disadvantages of birth. Except for all but the greatest fortunes, one's parents' wealth and success are no guarantee of one's own wealth or success. And there is nothing immoral about helping out one's own children as much as possible. Such aid takes away nothing to which anyone else is entitled.

Last, there is the argument that being born with below average intelligence, or strength, or attractiveness constitutes an "unfair disadvantage." Here egalitarianism reveals itself to be (in the words of Dr. Murray Rothbard) "a revolt against nature." We can either act rationally and rejoice in our diversity and make the most of the abilities we do have, or we can damn nature and hate everyone who is in any way better than we are and attempt to drag them down to our level. I leave it to you which is the more rational and humane policy.

2. *If people would only share the world's bounty equally, there would be enough for everyone, and no one need starve or be seriously deprived.* This contention is based upon two false assumptions: (a) that wealth is a natural resource, so one person's gain is another's loss; and (b) that if the world's wealth were equally redistributed it would remain constant.

Wealth in fact is a product of human productivity and invention. Some people are poor *not* because others are wealthy, but because the poor are insufficiently productive (often because of authoritarian political systems).

Any attempt to redistribute the world's wealth by force would also greatly diminish the total wealth in existence for at least three reasons: (a) large scale redistribution would

disrupt the world's productive machinery, (b) confiscation of wealth would destroy the incentive to produce more (why bother producing if it's going to be taken from you anyway), and (c) the process of redistribution would require an enormously costly and essentially parasitic bureaucracy. (Not to mention losses from shooting people who resist, and starvation from bureaucratic inefficiency and mistakes.)

The cure for poverty is more productivity, less state economic intervention, and an end to barriers to trade. The cure is not redistribution of wealth.

3. *It is better that everyone be poor than for some to have more than others.* Better for whom? For the middle class and wealthy stripped of their property? For the poor robbed of the possibility of ever improving their lot?

The production and accumulation of wealth is the benchmark of human progress. Wealth in the form of better communications systems, environmental control, pest control, improved transportation, better medical care, more durable and attractive clothing, more comfortable housing and so on, *ad infinitum*, improves the quality and increases the quantity of human life and makes possible leisure, science and art. To attack wealth is to attack an essential condition for the achievement of virtually every human

value from the fulfillment of physiological needs, to safety, to the pursuit of beauty and truth.

This argument reveals the ultimate and ugly motive of many egalitarians: A hatred of human ability per se. By that hatred they betray their human heritage and would condemn men to exist at the level of barbarians.

Free and Unequal vs. Coercive Egalitarianism

Equality of rights and equality under the law are preconditions for any just and humane society. But such political equality is the very antithesis of coercive egalitarianism.

Coercive egalitarianism asserts that people ought to be made equal *by force*, and that ability and virtue should be ignored or punished to bring all people down to the lowest common denominator.

The disabilities of others should evoke our compassion. But those disabilities do not justify the forced looting of the productive or the obliteration of liberty in the name of some undefined concept of equality.

The natural order of human society is diversity, variety and inequality. The fruits of that natural order are progress, productivity and invention. In the final analysis, virtue and compassion can only flourish in a world of men and women free and unequal. 



Frederic Bastiat: Harmonious Warrior

Ah! whenever you come to pronounce these words, I BELIEVE you will be anxious to propagate your creed, and the social problem will soon be resolved, for let them say what they will it is not of difficult solution. Men's interests are harmonious,—the solution then lies entirely in this one word—LIBERTY.

—Frederic Bastiat
Harmonies of Political Economy

* * *

LIKE a twisting, writhing snake, the Nive River cuts its tortuous descent down the treacherous northern slopes of the icy Pyrenees. It is a brutal course strewn with boulders. This is Basque country, home of picturesque, red-tiled villages and sturdy, independent mountainfolk. About four miles distant from the

Mr. Baker teaches in the school system in Lubbock, Texas.

Bay of Biscay the Nive merges with the Adour. Complacently perched upon the confluence of these rivers lies the medieval city of Bayonne. It is said that the bayonet originated here either in the 1490s or the 1650s. No one is really quite sure which. Napoleon once met with the emperor of Spain here. In fact, it was in Bayonne that he chose to force the abdication of Ferdinand VII in favor of the coronation of his own brother, Joseph Bonaparte. Other than that, history has seemed fairly content more or less to ignore Bayonne and its robust inhabitants.

The modern traveler who jets in from Paris or who motors down from Bordeaux understandably prefers to vacation in nearby Biarritz, a fashionable spa featuring beaches, golf courses, horse racing, and casinos. It is only the occasional tourist who makes his way to Bayonne to "see the sights": a

museum, an arsenal, a fortress. Tucked quietly away and isolated from the mainstream of French political and intellectual life to be found in the major metropolitan areas, Bayonne has seen little of and contributed even less to the rough-and-tumble world of Gallican intrigue and the ineffable ferment of bold, innovative ideas.

In 1801, however, there was born to the Bastiats of Bayonne an infant who would prove no stranger to the world of ideas. Frederic (for so the youth was named) fell early prey to the seductive lure of language, literature, and the humanities. Certain it was that he read and absorbed the works of the classical economists; Smith, Malthus, Ricardo, Say: all left their mark upon him in one way or the other. And Cobden, the political practitioner of the Economists, proved an able light to the eager mind across the Channel.*

An Ordered Universe of Majestic Harmony

Like Pythagoras before him, Bastiat saw in the world a "majestic harmony," a divine clockwork—not

the Pythagorean divinity of numerical sequence and mathematical structure, but a somewhat Newtonian beauty and order of "natural law" which channeled all "legitimate" actions into industrious, harmonious endeavor. These actions of productive men of goodwill, spurred by greed and enlightened self-interest, would be guided (in the terminology of Adam Smith) by an unseen or "invisible hand" to the unquestionable welfare of the commonwealth.

The marketplace, unhindered by counterproductive restraints and heavy-handed bureaucrats, was Bastiat's ideal. The bloody rebellions and palace revolts that rocked European society during the 1840s produced in him no illusions, no futile hopes for a better world; armies and gunplay were unacceptable answers to the stirrings of popular discontent. In Bastiat's mind there would be little use for barricades and power plays if only man worked in harmony with his colleagues. He believed that the market economy produced (and derived from) that essential goodwill between man and his fellow citizens.

An armed rebellion could never really be anything more than a substitution of one despotism for another. What was really needed was a radical alteration in the way people thought. As long as government was regarded as merely an

*Most strictly biographical information on Bastiat in this paper derives from the excellent 1860 "Notice of the Life and Writings of the Author" by Patrick James Sterling, F.R.S.E. prefaced in Frederic Bastiat, *Harmonies of Political Economy* (London: John Murray, 1860), ix-xi.

instrument for seizing the rewards and production of one's fellowman, then war and rebellion were all but inevitable, inherent defects of the establishment.

Issues Examined

Bastiat's life was one of struggle and intellectual combat. He was a prodigious pamphleteer, hurling epithets, anathemas, rebukes at his ideological foes. For Bastiat was a shameless popularizer dedicated to the eccentric notion that the commoner had the intelligence to understand the economic doctrines so hotly debated in the legislative halls of his day. Bastiat merely stripped them of the technocratic jargon, the intellectual pretense in which they had been for so long disguised.

Bastiat dreamed of producing a book which would present his philosophy as a unified, harmonious whole. In this he was not quite successful. He died before the work had been entirely finished. The ideological passions which hounded him, the disease which eventually killed him, spurred him to superhuman lengths. But when Bastiat finally succumbed, the *Harmonies* was woefully incomplete. Bastiat's literary remains have provoked endless debate, attracted numerous followers, and generated significant esteem among latter-day conservatives and libertarians. Of all his literary ef-

forts, Bastiat treasured most highly his stoically written *Harmonies*.

The first ten chapters of the *Harmonies* are all that appeared during the lifetime of the author. Bastiat had intended to expand and revise his work before death intervened in 1850. In it, Bastiat laid his foundation by classifying the "mechanism of society" into "natural" organization on the one hand and "artificial" organization on the other.

Within this taxonomy, the "natural organization" of society is predicated upon the "natural laws" of the marketplace. The "artificial organization" of the "social mechanism" is the restriction of nature's general laws by the intrusion of man-made law. This unnatural defiance of nature and its laws was bound to have adverse effects, Bastiat contended. The harmony inherent within a market society based upon a division of labor would, of necessity, be rendered impotent by the interference of "artificial" regulation.

Did man wish a favor of his fellow? Did he desire a change in the *status quo*? Then what recourse is available? Bastiat noted two: persuasion or the use of authoritarian force. And no amount of camouflage could obscure from Bastiat that law, whether legislated or decreed, was nothing else, in the final analysis, but raw, naked force masquerading under the cloak of respectability.

Legislation, he seems to tell us, is a weapon to which we ought to resort much less frequently.

Self-Interest at Work

Personal interest, long an anathema of the socialists and the café intellectuals, was, to Bastiat, the "mainspring of human society." But as expressed in the competition of the marketplace under the division of labor, cold necessity demands work, production, and want-satisfaction which all neatly coalesce and dovetail in social harmony. Few rules, no elaborate Utopias are necessary. Self-interest impels each to serve his fellowman.

Bastiat recognized two essential possibilities regarding human interaction. One was force and plunder; the other was peace and trade. Exchange was the basis of all society. It is dependent upon peaceful intentions. On the other hand, if society regards exchange, that uniquely human activity, with suspicion and disdain, then there is nothing left but plunder and fratricidal strife. Exchange is "natural"; it develops of itself. Whenever it becomes more onerous than useful, it will stop "naturally" because it will be in the interest of people to discontinue harmful practices.

Bastiat was particularly incensed by the various Utopian schemes of his day. Individually and collectively, Bastiat arraigned the prom-

ulgators of "primitive Equality" and took them to task for the unworkable communities which they prescribed as the remedy of erring man's social ills. Considerant, Louis Blanc, Cabet—were each in his turn subject to the ruthless scrutiny of Bastiat's withering analytic logic.

Utopian paradigms had no place in Bastiat's philosophy. In his own words:

Men of property and leisure!—whatever be your rank in the social scale, whatever step of the social ladder you may have reached by dint of activity, probity, order, and economy—whence come the fears which have seized upon you? The perfumed but poisoned breath of Utopia menaces your existence. (*Harmonies*, p. 189)

Property Defended

Property was not, as the socialists and communists tended to believe, heartless theft. Landowners are not reckless malefactors who have maliciously intercepted the benefits of nature intended for the equal use of all men. They are not, Bastiat insisted, usurpers from whom restitution is due. Guided by selfish ambition and greed, men of property are (perhaps unwittingly) necessary instruments in the hands of Providence for the distribution of the "useful effects" which they had often obtained at the mere whim of nature.

To the poor, to the "men of toil and

privations," he declared that all wealth, no matter in whose hands, inclines to the amelioration of all. No step of progress can be made but that each does not share in some small way. This the Divine Architect Himself, in the skillful arrangement of "the order of things," has so decreed. And to attack this providentially celebrated order, to assault it in any way, is not merely homicide, but suicide. Individual property is the underpinning of civilization (and thus the division of labor) itself.

To the men of philanthropy and "defenders of the suffering classes" Bastiat warned against the unwisdom of impugning all "received wisdom" and unsettling all established interests. What would become of human liberty if "artificial" or Utopian schemes were adopted and executed according to plan? In fact, does God want for wisdom and insight? Does Providence need you (Bastiat queried the reformers) to accomplish His sacred purposes? God does not trust to the communalistic craftiness of collectivist philosophers but to the principle of enlightened self-interest. This, and only this, is what accounts for civilization, productivity, community.

It is therefore fitting, Bastiat reasoned, that men's interests are indeed harmonious, provided, of course, that "right prevail." And right can only prevail if services are

freely and voluntarily exchanged, removed from the fear of confiscation and seizure. It is in this principle, then, that all proprietors (including the worker who is after all, "proprietor" of his own labor) and reformers of all schools ought to unite. If all men have the full right to their own services produced by their own labor (or that of their benefactors), then there can no longer be any question whatever of a collective right to education, employment, credit, or assistance.

To Bastiat there could not be any thought of "community" under communism. Community cannot exist under communism because the otherwise natural harmony of man is disrupted in a society of seizure by the arbitrary substitution of forcibly imposed political will for liberty and freedom. Such a community is at perpetual war with itself, a festering carcass of running sores, contagiously dangerous. Partisanship, not harmony, is its predictable legacy.

The Free Market

The only legitimate and feasible form of human interaction was *laissez faire*. It angered and exasperated Bastiat that the socialist had been thus far successful in tarring the market society with onerous and unpalatable insinuations. Liberty does not lead to monopoly, Bastiat argued. *Laissez faire* society is not

really the questionable collection of heartless felons and odious parasites portrayed by unthinking propagandists. Indeed, it is only in a society which has as its chief value property that "community" is at all possible. And all this, Considerant, Cabet, and Louis Blanc notwithstanding.

It bears noting that practically all Utopian schemes put into practice during the nineteenth century failed. Mostly they foundered upon the same rock which Bastiat had observed: that individual men have individual minds and individual wills of their own, deeply rooted in self-interest. When the Utopian communities were erected, they seldom lasted very long. Bickering over tasks, hours, and remuneration took its toll in these authoritarian hamlets. Even the so-called libertarian or anarchist Utopias dedicated to collectivist theory rarely endured beyond a few agonizing years.

What is one to think of the *Harmonies*? Bastiat generously invoked the Deity a trifle too often for scientific and analytical comfort. It was God who gave man his materials, talents, wants, desires, and values. God fashioned the conditions and laws by which man lived. Bastiat relied too heavily on such enlightenment concepts as "natural law," rarely bothering to pause and define his terms. One might, like Schumpeter, be tempted to write

Bastiat off, dismissing him as little more than a popular journalist passionately wedded to the elucidation of a technical subject beyond his ken. Blunders, contradictions, naive indiscretions—they are all there in full force lurking implicitly in the brashest terminology.

Yet. And yet. It is hard to fault an author, and an iconoclast at that, for adhering to *some* of the ideologies, ambiguities, and methodologies of his own day. It would be unduly harsh rigorously to insist that Bastiat be judged solely (if at all) by the criteria of the irreverent twentieth century.

Individual Sovereignty

It is perhaps enough to acknowledge his unwavering intellectual and moral support of the sovereign individual in an age of growing governmental paternalism. In Bastiat's own mind the germ of all "social harmonies" was included in two principles: liberty and property. The fratricidal strife, the domestic rivalry which characterized the "socialist commonwealth" was the civil dissonance inspired by statist "spoliation" and political oppression. There is no justice but the prevention of injustice, he averred; anything more or less than this cometh of evil.

The great tragedy of Frederic Bastiat was the genius that permitted him a glimpse of the work yet to be

done, and then, shown the glimmer of the Promised Land, denied entry. Crushed by the "mass of harmonies" that struggled for expression in his illimitable prose, the dying Bastiat had to content himself with the bitter bread of what might have been. It was cold comfort. The intelligence which allowed him the vision also permitted him the realization that his death could not be much longer evaded. He was possessed by the driving necessity to complete his work. The *Harmonies* was at once fiend and ideal; perhaps in the end it even destroyed him.

Much work yet remained. A study of man was needed, he felt, then an investigation of economics, then . . . then there was no longer any time. He had wanted to paint a picture; he succeeded only in penciling a sketch. But what a sketch it was!

By 1850 Bastiat knew he had little left. His breath came in tortured, painful gasps, and he could only with great difficulty force anything down his constricted throat. He battled valiantly to finish the *Harmonies* but his good moments were

now few and far between. These last days were filled with futile flight, searching for the right climate, the right resort, the right location, the elusive panacea that would restore his drained and pallid vitality.

Perhaps, thought his physicians, the fabled waters of the Pyrenees would do him some good. When that failed, he withdrew to Pisa in a desperate attempt to bolster his sagging health. But he fared no better there than in the Pyrenees. Mustering his ebbing reserves he journeyed to The Eternal City. He suffered there in Rome, broken and emaciated, an old man of forty-nine. It was his final struggle. On Christmas Eve he breathed his last. The long fight was over. 

Economic Harmonies and other books by and about Bastiat are available from The Foundation for Economic Education, Inc., Irvington-on-Hudson, N.Y. 10533. Ask for *Literature of Freedom* catalogue and order form.

Self-Interest, Competition, Harmony

IDEAS ON



LIBERTY

SELF-INTEREST is that indomitable individualistic force within us that urges us on to progress and discovery, but at the same time disposes us to monopolize our discoveries. **Competition** is that no less indomitable humanitarian force that wrests progress, as fast as it is made, from the hands of the individual and places it at the disposal of all mankind.

ON LIBERTY AND LIBERATION

FOR at least half a century now the word liberty has been declining in popular usage and the word liberation has been advancing. Today in the United States the word liberty has all but disappeared from public discourse, while liberation has become a fashionable term, enthusiastically invoked in political oratory, in everyday conversation, and in respected works of scholarship.

This is not a mere case of linguistic drift. The decline of liberty and the rise of liberation reveal the extent to which doctrinal myths and political folly have come to dominate our age. Americans are forgetting the meaning of liberty in pursuit of a phantom liberation. Over two centuries ago at Buckinghamshire Edmund Burke observed that, "The

people never give up their liberties but under some delusion." With mad abandon contemporary Americans are jettisoning many of their once-cherished freedoms and values as they seek an impossible form of liberation—from moral restraints, self-discipline, responsibility, work, necessity, competition, struggle, inequality, natural law, and the consequences of their own behavior. It is a senseless, tragic course which can lead only to subservience, dependency, and decadence. It is a delusion.

An imperative prerequisite to our survival as a free nation is that we recapture—in our hearts and minds, as well as in our politics—an understanding of the true nature of liberty. A love of liberty and a clear comprehension of the foundations upon which it rests will quickly dis-

pel every attraction of the false ideologies of liberation.

Liberty is a divine gift, one of the most priceless of God's bequests to man, and the natural, inalienable right of every person who enters the world. In simplest terms liberty may be defined as the freedom of the individual to shape his own destiny and to govern his own affairs. Of necessity this implies the freedom to choose one's associations, loyalties, beliefs, opportunities, and economic relationships, as well as the freedom to exercise control over the fruits of one's own labors.

Though liberty is God-given, mortal efforts are required to sustain and preserve it. Human institutions do not grant liberty, but they often usurp it. Individuals are born free, but they can willfully sell, abandon, or reject that birthright. For these reasons, liberty is never free. When not defended, it will not survive; when not exercised, it will atrophy.

Essentials of Liberty

Liberty can only endure when certain conditions are met. First, there must be *an absence of coercive actions* intended to impede the free exercise of will or to rob individuals of their labors and investments. Coercive force is justified only when it is imperative to the defense of liberty, i.e., when exerted to prevent a yet greater coercive act. Criminals and tyrants of every form stand

ready to destroy human freedom, to rob the property of others, to impose their will upon whole societies. Their influence must be checked if liberty is to prosper.

A second necessary condition for the survival of liberty is that individuals possess and are free to acquire the *positive means needed to pursue rational ends*. These means include material resources, talent, initiative, knowledge, energy, discipline, and a love of progress and freedom. Liberty does not consist of undirected, impotent, and senseless expressions of the human will; rather, it thrives as the individual acquires power to act and to focus his efforts in meaningful directions. Liberty requires power—not power over others, but power to effect personal progress, to change one's circumstances for the better.

Thirdly, the preservation of liberty requires that individuals manifest *moral commitment and self-restraint* in the choice and pursuit of their goals. Liberty means the absence of coercive restraints, but it does not mean the absence of all restraints. We cannot escape the consequences of our own behavior. The unrestrained pursuit of power means enslavement to ambition, the unrestrained pursuit of wealth means enslavement to avarice, the unrestrained pursuit of pleasure means enslavement to passions.

Without moral limits liberty de-

generates into license and license turns inevitably toward destructive ends. The moral authority which sets limits on the scope of an individual's actions must flow from within him, the product of conscience and reason; when imposed by a higher authority, however well-intentioned, moral laws are transformed into instruments of coercion and domination.

A Constitutional Structure

Keeping these conditions in mind, it is instructive to inquire into the kind of social structure which will foster liberty. In order to insure the first condition of liberty, a constitutional and legal framework must be erected and upheld, its principal end being to guard against all coercive challenges to personal liberty—whether from individuals, institutions, foreign armies, or from the state itself.

The threat to liberty of the state itself should be emphasized, for unless such a constitutional system is strictly self-limiting its administrative apparatus will grow in size and power until it comes to dominate the entire society according to its own vested interests. Consensus and consent are fundamental to the establishment and operation of a free government, but the goal sought is not so much "government of the people"—for this can imply that majorities deserve coercive power—as a

government of laws, administered as impersonally and fairly as possible.

By itself alone a constitutionally limited government will never suffice to insure the survival of human liberty. This is because government cannot bring about the second and third conditions of liberty discussed above—the power and means necessary for positive action and the moral limits within which liberty operates. Government can be an arbiter, but it can never be a provider. It can enforce protective laws, but it cannot produce virtuous people or act as a higher moral authority.

A cycle of futility results whenever the state attempts to provide the resources and human energy necessary for progress. Every resource a government provides to the individuals in a society must first be taken from those individuals. Because the process of injecting them back into the society will always incur a net loss, the result over time will be economic stagnation, declining initiative in society as a whole, depletion of real resources, debasement of currency, decline in productive capital, and the disintegration of social cohesiveness. The end of this cycle of futility is the dependency of the people on the government and the death of liberty. Liberty is certain to perish in any society which relies solely on government to create the conditions of liberty.

No matter how carefully structured and well-defined are the legal rights, checks, and balances of a constitutional system, this cycle of futility will at some point ensue unless the citizens of the commonwealth possess a strong spirit of independence and self-reliance, and the moral sensibilities to recognize true liberty when they see it. When the moral will and independence of the majority of a population decline, the checks and balances of any system will erode. No constitutional system can long endure if its legislators are not devoted to higher principles, if its judiciary is corrupt, if its administrators do not place integrity above all other qualities.

Moral Foundations

The constitutional framework of liberty must rest upon a firm foundation: the love of independence in the hearts of a people, their moral commitment, and the vast human and material resources which they possess and independently control. The institutions which transmit this foundation from generation to generation are almost all private: families, churches, corporations, firms, associations, publishers, newspapers, and the like. (Schools can also play a key role if they are under the control of those who pay for them, rather than under the central government.) Standing independent from the state, these in-

stitutions are the foundations of a society's liberty. If the state encroaches upon their domain and subsumes their functions, liberty declines. But so long as a people cherish the moral and material resources which give them the power to be independent and so long as the state is a strictly limited constitutional government of laws, liberty will prosper.

The increasingly difficult and unfortunate circumstances in which America finds itself today may be traced in large part to a general decline in liberty. Genuine freedom continues to diminish even as large numbers of Americans are seduced by the muddle-headed mythology of liberation, believing that it will somehow make them freer. Quite the opposite consequence will result, for the doctrine and practice of liberation constitute a direct assault on the conditions and structure of liberty.

In order to discern the destructive potential underlying the multitude of contemporary theories and programs advocating liberation, it suffices simply to ask: liberation from what? We learn to begin with that we are to be liberated from "artificial" self-restraints and moral limits—from the third condition of liberty discussed above.

Proponents of liberation preach that freedom is an unrestrained, limitless, spontaneous expression of

the human will, ignoring the reality that meaningful progress can only be made when disciplined efforts are rationally directed. Liberty is not a bundle of whims and passions. In order to promote this doctrine it is necessary to attack all the traditional and independent sources of morality: religion, family, private property, private schools, local control of education, corporate independence, and so forth. In this manner liberation seeks to undermine the very foundation of liberty.

"Effortless Abundance"

This is only the beginning. We are also to be liberated from work, want, necessity, and struggle. Thus, liberation ignores the second condition of liberty: that individuals must possess and acquire the positive instruments of action in order to be free. The assumption is that freedom—the power to act, choose, and progress—can somehow exist without effort and investment.

In the pursuit of this chimera goal of an effortless world of abundance for all, the advocates of liberation seek naturally to use the coercive power of the state in order to extract resources from others. In this manner liberation becomes a predatory doctrine which can only accomplish its ends by dismantling the constitutional checks of limited government and replacing it with an all-powerful bureaucracy devoted to

central planning, income redistribution, economic dictatorship, and totalitarian control over individual lives. And thus perishes the first condition of liberty—the absence of coercive power.

Liberation is a delusion which cannot lead to real freedom because it is based on principles and values fundamentally contradictory to true liberty. The consequences of the decline of liberty and the rise of liberation in America have never been described more eloquently than by William Simon:

There has never been such freedom before in America to speak freely . . . to publish anything and everything, including the most scurrilous gossip; to take drugs and to prate to children about their alleged pleasures; to propagandize for bizarre sexual practices: to watch bloody and obscene entertainment. Conversely, compulsion rules the world of work. There has never been so little freedom in America to plan, to save, to invest, to build, to produce, to invent, to hire, to fire, to resist coercive unionization, to exchange goods and services, to risk, to profit, to grow.

. . . Americans are constitutionally free today to do almost everything that our cultural tradition has previously held to be immoral and obscene, while the police powers of the state are being invoked against almost every aspect of the productive process.¹

It is not difficult to discern the logical

¹William Simon, *A Time for Truth* (New York: Berkely Press edition, 1979), p. 251.

end of this trend: America will be liberated of its liberty.

Prior to the American revolution the world was imbued with the notion that liberty was dangerous and irresponsible, that its establishment could lead only to anarchy, indolence, and the breakdown of society. The birth of the American republic and the astonishing release of human energy and productivity which resulted shattered this myth forever. America was both free and stable; it possessed both liberty and order.

The liberty of America became the cherished ideal of oppressed peoples everywhere. Liberty suddenly acquired a respectable name. Never thereafter was it possible for the enemies of freedom to attack it frontally. The most bitter opponents of genuine liberty came to portray their policies, programs, and ideologies as pathways to freedom.

Instead of liberty, however, the favorite watchword became liberation. Under this banner march the tyrannies of our time, from Soviet Russia with its wars of national liberation to the kaleidoscope of coercive political programs in America which invoke the mirage of liberation. The twentieth century has been a century of liberation—of a war on freedom fought in the name of freedom.

The irony of America's present course is that in the name of freedom from restraints, every source of independent power and morality is being undermined; in the name of freedom from work, want, and scarcity, the constitutional framework of liberty is being dismantled, attacked, and perverted past recognition. Beyond the irony stands the very real tragedy that in the name of freedom we are being led inexorably toward oppression and slavery.®

Preserve Our Defenses

INNOVATION, invention, change, all depend on the freedom of the individual to stand on his own feet. We can revert to communism very easily for it is the only system mankind has known throughout the far greater part of his existence. It is not a system to be attained by effort but one which returns to us when we dodge responsibility and fail to preserve our defenses; particularly our religious defenses. It is like the jungle awaiting silently around us ready to creep back and swallow up our feeble efforts the moment we cease struggling to hoe our vegetables and sow our grain. When it comes, it will not be an advance in evolution but a reversion to barbarism.

IDEAS ON



LIBERTY

Foreign Investment

SOME people call the programs of economic freedom a negative program. They say: "What do you liberals really want? You are against socialism, government intervention, inflation, labor union violence, protective tariffs. . . . You say 'no' to everything."

I would call this statement a one-sided and shallow formulation of the problem. For it is possible to formulate a liberal program in a *positive* way. If a man says "I am against censorship," he is not negative; he is *in favor* of authors having the right to determine what they want to publish without the interference of government. This is not negativism, this is precisely freedom. (Of course, when I use the term "liberal" with respect to the conditions of the economic system, I mean liberal in

the old *classical* sense of the word.)

Today, most people regard the considerable differences in the standard of living between many countries as unsatisfactory. Two hundred years ago, conditions in Great Britain were much worse than they are today in India. But the British in 1750 did not call themselves "undeveloped" or "backward," because they were not in a position to compare the conditions of their country with those of countries in which economic conditions were more satisfactory. Today all people who have not attained the average standard of living of the United States believe that there is something wrong with their own economic situation. Many of these countries call themselves "developing countries" and, as such, are asking for

PHOTO BY DAVID JARRETT



Ludwig von Mises, 1881-1973, was one of the great defenders of a rational economic science, and perhaps the single most creative mind at work in this field in our century.

Found among the papers of Dr. Mises were transcripts of lectures he delivered in Argentina in 1959. These have now been edited by his widow and are available as a Regnery/Gateway paperback book. This article, one of the lectures, is here reprinted by permission of the publishers. All rights reserved.

The book, *Economic Policy: Thoughts for Today and Tomorrow*, also may be purchased at \$4.95 from The Foundation for Economic Education, Inc., Irvington-on-Hudson, N.Y. 10533.

aid from the so-called developed or even overdeveloped countries.

Not Better Workers, but More Capital

Let me explain the reality of this situation. The standard of living is lower in the so-called developing countries because the average earnings for the same type of labor is lower in those countries than it is in some countries of Western Europe, Canada, Japan, and especially in the United States. If we try to find the reasons for this difference, we must realize that it is not due to an inferiority of the workers or other employees. There prevails among some groups of North American workers a tendency to believe that they themselves are better than

other people—that it is through their own merit that they are getting higher wages than other people.

It would only be necessary for an American worker to visit another country—let us say, Italy, where many American workers came from—in order to discover that it is *not* his personal qualities but the conditions in the country that make it possible for him to earn higher wages. If a man from Sicily migrates to the United States, he can very soon earn the wage rates that are customary in the United States. And if the same man returns to Sicily, he will discover that his visit to the United States did not give him qualities which would permit him to earn higher wages in Sicily than his fellow countrymen.

Nor can one explain this economic situation by assuming any inferiority on the part of entrepreneurs outside the United States. It is a fact that outside of the United States, Canada, Western Europe, and certain parts of Asia the equipment of the factories and the technological methods employed are, by and large, inferior to those within the United States. But this is not due to the ignorance of the entrepreneurs in those "undeveloped" countries. They know very well that the factories in the United States and Canada are much better equipped. They themselves know everything they must know about technology, and if they do not, they have the opportunity to learn what they must know from textbooks and technical magazines which disseminate this knowledge.

Once again: the difference is not personal inferiority or ignorance. The difference is the supply of capital, the quantity of capital goods available. In other words, the amount of capital invested per unit of the population is greater in the so-called advanced nations than in the developing nations.

A businessman cannot pay a worker more than the amount added by the work of his employee to the value of the product. He cannot pay him more than the customers are prepared to pay for the *additional* work of this individual worker. If he pays him more, he will not recover

his expenditures from the customers. He incurs losses and, as I have pointed out again and again, and as everybody knows, a businessman who suffers losses must change his methods of business, or go bankrupt.

Marginal Productivity

The economists describe this state of affairs by saying "wages are determined by the marginal productivity of labor." This is only another expression for what I have just said before. It is a fact that the scale of wages is determined by the amount a man's work increases the value of the product. If a man works with better and more efficient tools, then he can perform in one hour much more than a man who works one hour with less efficient instruments. It is obvious that 100 men working in an American shoe factory, equipped with the most modern tools and machines, produce much more in the same length of time than 100 shoemakers in India, who have to work with old-fashioned tools in a less sophisticated way.

The employers in all of these developing nations know very well that better tools would make their own enterprises more profitable. They would like to build more and better factories. The only thing that prevents them from doing it is the shortage of capital. The difference between the less developed and the more developed nations is a function

of time: the British started to save sooner than all other nations: they also started to accumulate capital and to invest it in business. Because they started sooner, there was a higher standard of living in Great Britain when, in all other European countries, there was still a lower standard of living. Gradually, all the other nations began to study British conditions, and it was not difficult for them to discover the reason for Great Britain's wealth. So they began to imitate the methods of British business.

Since other nations started later, and since the British did not stop investing capital, there remained a large difference between conditions in England and conditions in those other countries. But something happened which caused the headstart of Great Britain to disappear.

Investment Abroad

What happened was the greatest event in the history of the nineteenth century, and this means not only in the history of an individual country. This great event was the development, in the nineteenth century, of *foreign investment*. In 1817, the great British economist Ricardo still took it for granted that capital could be invested only within the borders of a country. He took it for granted that capitalists would not try to invest abroad. But a few decades later, capital investment

abroad began to play a most important role in world affairs.

Without capital investment, it would have been necessary for nations less developed than Great Britain to start with the methods and the technology with which the British had started, in the beginning and middle of the eighteenth century, and slowly, step by step—always far below the technological level of British economy—try to imitate what the British had done.

It would have taken many, many decades for these countries to attain the standard of technological development which Great Britain had reached a hundred years or more before them. But the great event that helped all these countries was foreign investment.

Foreign investment meant that British capitalists invested British capital in other parts of the world. They first invested it in those European countries which, from the point of view of Great Britain, were short of capital and backward in their development. It is a well-known fact that the railroads of most European countries, and also of the United States, were built with the aid of British capital. You know that the same happened in this country, in Argentina.

The gas companies in all the cities of Europe were also British. In the mid 1870s, a British author and poet criticized his countrymen. He said:

"The British have lost their old vigour and they have no longer any new ideas. They are no longer an important or leading nation in the world." To which Herbert Spencer, the great sociologist, answered: "Look at the European continent. All European capitals have light because a British gas company provides them with gas." This was, of course, in what seems to us the "remote" age of gas lighting. Further answering this British critic, Herbert Spencer added: "You say that the Germans are far ahead of Great Britain. But look at Germany. Even Berlin, the capital of the German Reich, the capital of *Geist*, would be in the dark if a British gas company had not invaded the country and lighted the streets."

British Capital in the U.S.

In the same way, British capital developed the railroads and many branches of industry in the United States. And, of course, as long as a country imports capital, its balance of trade is what the noneconomists call "unfavorable." That means that it has an excess of imports over exports. The reason for the "favorable balance of trade" of Great Britain was that the British factories sent many types of equipment to the United States, and this equipment was not paid for by anything other than shares of American corporations. This period in the history of

the United States lasted, by and large, until the 1890s.

But when the United States, with the aid of British capital—and later with the aid of its own procapitalistic policies—developed its own economic system in an unprecedented way, the Americans began to buy back the capital in stocks they had once sold to foreigners. Then the United States had a surplus of exports over imports. The difference was paid by the importation—by the repatriation, as one called it—of American common stock.

This period lasted until the First World War. What happened later is another story. It is the story of the American subsidies for the belligerent countries in, between, and after two world wars: the loans, the investments the United States made in Europe, in addition to lend-lease, foreign aid, the Marshall Plan, food that was sent overseas, and other subsidies. I emphasize this because people sometimes believe that it is shameful or degrading to have foreign capital working in their country. You have to realize that, in all countries except England, foreign capital investment played a considerable part in the development of modern industries.

If I say that foreign investment was the greatest historical event of the nineteenth century, you must think of all those things that would not have come into being if there

had not been any foreign investment. All the railroads, the harbors, the factories and mines in Asia, and the Suez Canal and many other things in the Western hemisphere, would not have been constructed had there been no foreign investment.

Safe from Expropriation

Foreign investment is made in the expectation that it will not be expropriated. Nobody would invest anything if he knew in advance that somebody would expropriate his investments. At the time when these foreign investments were made in the nineteenth century, and at the beginning of the twentieth century, there was no question of expropriation. From the beginning, some countries showed a certain hostility toward foreign capital, but for the most part they realized very well that they derived an enormous advantage from these foreign investments.

In some cases, these foreign investments were not made directly to foreign capitalists, but indirectly by loans to the foreign government. Then it was the government that used the money for investments. Such was, for instance, the case in Russia. For purely political reasons, the French invested in Russia, in the two decades preceding the First World War, about twenty billion gold francs, lending them chiefly to

the Russian government. All the great enterprises of the Russian government—for instance, the railroad that connects Russia from the Ural Mountains, through the ice and snow of Siberia, to the Pacific—were built mostly with foreign capital lent to the Russian government. You will realize that the French did not assume that, one day, there would be a communist Russian government that would simply declare it would not pay the debts incurred by its predecessor, the tsarist government.

Unexpected Confiscation

Starting with the First World War, there began a period of worldwide open warfare against foreign investments. Since there is no remedy to prevent a government from expropriating invested capital, there is practically no legal protection for foreign investments in the world today. The capitalists did not foresee this. If the capitalists of the capital exporting countries had realized it, all foreign investments would have come to an end forty or fifty years ago. But the capitalists did not believe that any country would be so unethical as to renege on a debt, to expropriate and confiscate foreign capital. With these acts, a new chapter began in the economic history of the world.

With the end of the great period in the nineteenth century when

foreign capital helped to develop, in all parts of the world, modern methods of transportation, manufacturing, mining, and agriculture, there came a new era in which the governments and the political parties considered the foreign investor as an *exploiter* who should be expelled from the country.

In this anti-capitalist attitude the Russians were not the only sinners. Remember, for example, the expropriation of the American oil fields in Mexico, and all the things that have happened in *this* country (Argentina) which I have no need to discuss.

Anticapitalism in India

The situation in the world today, created by the system of expropriation of foreign capital, consists either of direct expropriation or of indirect expropriation through foreign exchange control or tax discrimination. This is mainly a problem of developing nations.

Take, for instance, the biggest of these nations: India. Under the British system, British capital—predominantly British capital, but also capital of other European countries—was invested in India. And the British exported to India something else which also has to be mentioned in this connection; they exported into India modern methods of fighting contagious diseases. The result was a tremendous increase in

the Indian population and a corresponding increase in the country's troubles. Facing such a worsening situation, India turned to expropriation as a means of dealing with its problems. But it was not always direct expropriation; the government harassed foreign capitalists, hampering them in their investments in such a way that these foreign investors were forced to sell out.

India could, of course, accumulate capital by another method: the *domestic* accumulation of capital. However, India is as hostile to the domestic accumulation of capital as it is to foreign capitalists. The Indian government says it wants to industrialize India, but what it really has in mind is to have *socialist* enterprises.

A few years ago the famous statesman Jawaharlal Nehru published a collection of his speeches. The book was published with the intention of making foreign investment in India more attractive. The Indian government is not opposed to foreign investment *before* it is invested. The hostility begins only when it is *already* invested. In this book—I am quoting literally from the book—Mr. Nehru said: "Of course, we want to socialize. But we are not opposed to private enterprise. We want to encourage in every way private enterprise. We want to promise to entrepreneurs

who invest in our country, that we will not expropriate them nor socialize them for ten years, perhaps even for a longer time." And he thought this was an invitation to come to India!

The problem—as you know—is domestic capital accumulation. In all countries today there are very heavy taxes on corporations. In fact, there is double taxation on corporations. First, the profits of corporations are taxed very heavily, and the dividends which corporations pay to their shareholders are taxed again. And this is done in a progressive way.

Taxing Profits

Progressive taxation of income and profits means that precisely those parts of the income which people would have saved and invested are taxed away. Take the example of the United States. A few years ago, there was an "excess-profit" tax, which meant that out of one dollar earned, a corporation retained only eighteen cents. When these eighteen cents were paid out to the shareholders, those who had a great number of shares had to pay another sixty or eighty or even greater percent of it in taxes. Out of the dollar of profit they retained about seven cents, and ninety-three cents went to the government. Of this ninety-three percent, the greater part would have been saved and in-

vested. Instead, the government used it for current expenditure. This is the policy of the United States.

I think I have made it clear that the policy of the United States is not an example to be imitated by other countries. This policy of the United States is worse than bad—it is *insane*. The only thing I would add is that a rich country can afford more bad policies than a poor country. In the United States, in spite of all these methods of taxation, there is still some additional accumulation of capital and investment every year, and therefore there is still a trend toward an improvement of the standard of living.

But in many other countries the problem is very critical. There is no—or not sufficient—domestic saving, and capital investment from abroad is seriously reduced by the fact that these countries are openly hostile to foreign investment. How can they talk about industrialization, about the necessity to develop new plants, to improve conditions, to raise the standard of living, to have higher wage rates, better means of transportation, if these countries are doing things that will have precisely the opposite effect? What their policies actually accomplish is to prevent or to slow down the accumulation of domestic capital and to put obstacles in the way of foreign capital.

The end result is certainly very

bad. Such a situation must bring about a loss of confidence, and there is now more and more distrust of foreign investment in the world. Even if the countries concerned were to change their policies immediately and were to make all possible promises, it is very doubtful that they could once more inspire foreign capitalists to invest.

International Cooperation

There are, of course, some methods to avoid this consequence. One could establish some international statutes, not only agreements, that would withdraw the foreign investments from national jurisdiction. This is something the United Nations could do. But the United Nations is simply a meeting place for useless discussions. Realizing the enormous importance of foreign investment, realizing that foreign investment alone can bring about an improvement in political and economical world conditions, one could try to do something from the point of view of international legislation.

This is a technical legal problem, which I only mention, because the situation is not hopeless. If the world really wanted to make it possible for the developing countries to raise their standard of living to the level of the American way of life, then it could be done. It is only necessary to realize *how* it could be done.

What is lacking in order to make the developing countries as prosperous as the United States is only one thing: *capital*—and, of course, the freedom to employ it under the discipline of the market and not the discipline of the government. These nations must accumulate domestic capital, and they must make it possible for foreign capital to come into their countries.

For the development of domestic saving it is necessary to mention again that domestic saving by the masses of the population presupposes a stable monetary unit. This implies the absence of *any* kind of inflation.

A great part of the capital at work in American enterprises is owned by the workers themselves and by other people with modest means. Billions and billions of saving deposits, of bonds, and of insurance policies are operating in these enterprises. On the American money market today it is no longer the banks, it is the insurance companies that are the greatest money lenders. And the money of the insurance company is—not legally, but economically—the property of the insured. And practically everybody in the United States is insured in one way or another.

The prerequisite for more economic equality in the world is industrialization. And this is possible only through increased capital

investment, increased capital accumulation. You may be astonished that I have not mentioned a measure which is considered a prime method to industrialize a country. I mean . . . protectionism. But tariffs and foreign exchange controls are exactly the means to *prevent* the importation of capital and industrialization into the country. The only way to increase industrialization is to have more capital. Protectionism can only divert investments from one branch of business to another branch.

The Failure of Protectionism

Protectionism, in itself, does not add anything to the capital of a country. To start a new factory one needs capital. To improve an already existing factory one needs capital, and not a tariff.

I do not want to discuss the whole problem of free trade or protectionism. I hope that most of your textbooks on economics represent it in a proper way. Protection does not change the economic situation in a country for the better. And what *certainly* does not change it for the better is labor unionism. If conditions are unsatisfactory, if wages are low, if the wage earner in a country looks to the United States and reads about what is going on there, if he sees in the movies how the home of an average American is equipped with all modern comforts,

he may be envious. He is perfectly right in saying: "We ought to have the same thing." But the only way to obtain it is through an increase in capital.

Labor unions use violence against entrepreneurs and against people they call strikebreakers. Despite their power and their violence, however, unions cannot raise wages continually for all wage earners. Equally ineffective are government decrees fixing minimum wage rates. What the unions *do* bring about (if they succeed in raising wage rates) is permanent, lasting unemployment.

But unions cannot industrialize the country, they cannot raise the standard of living of the workers. And this is the decisive point. One must realize that all the policies of a country that wants to improve its standard of living must be directed toward an increase in the capital invested per capita. This per capita investment of capital is still increasing in the United States, in spite of all of the bad policies there. And the same is true in Canada and in some of the West European countries. But it is unfortunately decreasing in countries like India.

We read every day in the newspapers that the population of the world is becoming greater, by perhaps 45 million people—or even more—per year. And how will this end? What will the results and the

consequences be? Remember what I said about Great Britain. In 1750 the British people believed that six million constituted a tremendous overpopulation of the British Isles and that they were headed for famines and plagues. But on the eve of the last world war, in 1939, fifty million people were living in the British Isles, and the standard of living was incomparably higher than it had been in 1750. This was the effect of what is called industrialization—a rather inadequate term.

Capital Migration

Britain's progress was brought about by increasing the per capita investment of capital. As I said before . . . there is only one way a nation can achieve prosperity: if you increase capital, you increase the marginal productivity of labor, and the effect will be that real wages will rise.

In a world without migration barriers, there would be a tendency all over the world toward an equalization of wages rates. If there were no migration barriers today, probably twenty million people would try to reach the United States every year, in order to get higher wages. The inflow would reduce wages in the United States, and raise them in other countries.

I do not have time to deal with this problem of migration barriers.

But I do want to say that there is another method toward the equalization of wage rates all over the world. This other method, which operates in the absence of the freedom to migrate, is the *migration of capital*. Capitalists have the tendency to move towards those countries in which there is plenty of labor available and in which labor is reasonable. And by the fact that they bring capital into these countries, they bring about a trend toward higher wage rates. This has worked in the past, and it will work in the future, in the same way.

When British capital was first invested in, let us say, Austria or Bolivia, wage rates there were much, much lower than they were in Great Britain. But this additional investment brought about a trend toward higher wage rates in those countries. And such a tendency prevailed all over the world. It is a very well-known fact that as soon as, for instance, the United Fruit Company moved into Guatemala, the result was a general tendency toward higher wage rates, beginning with the wages which United Fruit Company paid, which then made it necessary for other employers to pay higher wages also. Therefore, there is no reason at all to be pessimistic in regard to the future of "undeveloped" countries.

I fully agree with the Communists and the labor unions, when they say:

"What is needed is to raise the standard of living." A short time ago, in a book published in the United States, a professor said: "We now have enough of everything, why should people in the world still work so hard? We have everything already." I do not doubt that this professor has everything. But there are other people in other countries, also many people in the United States, who want and should have a better standard of living.

Outside of the United States—in Latin America, and still more in Asia and Africa—everyone wishes to see conditions improved in his own country. A higher standard of living also brings about a higher standard of culture and civilization.

So I fully agree with the ultimate goal of raising the standard of living everywhere. But I disagree about the measures to be adopted in attaining this goal. What measures will attain this end? Not protection, not government interference, not socialism, and certainly not the violence of the labor unions (euphemistically called collective bargaining, which, in fact, is bargaining *at the point of a gun*).

No Instant Paradise

To attain the end, as I see it, there is only one way! It is a slow method. Some people may say, it is too slow. But there are no short cuts to an earthly paradise. It takes time, and

one has to work. But it does not take as much time as people believe, and finally an equalization will come.

Around 1840, in the western part of Germany—in Swabia and Württemberg, which was one of the most industrialized areas in the world—it was said: "We can never attain the level of the British. The English have a head start, and they will forever be ahead of us." Thirty years later the British said: "This German competition, we cannot stand it, we have to do something against it." At that time, of course, the German standard was rapidly rising and was, even then, approaching the British standard. And today the German income per capita is not behind that of Great Britain at all.

In the center of Europe, there is a small country, Switzerland, which nature has endowed very poorly. It has no coal mines, no minerals, and no natural resources. But its people, over the centuries, have continually pursued a capitalistic policy. They have developed the highest standard of living in continental Europe, and their country ranks as one of the world's great centers of civilization. I do not see why a country such as Argentina—which is much larger than Switzerland both in population and in size—should not attain the same high standard of living after some years of good policies. But—as I pointed out—the policies must be good. 

In Defense of Decadent Europe

HENRY KISSINGER has called Raymond Aron's *In Defense of Decadent Europe* (Regnery-Gateway, P. O. Box 207, South Bend, Indiana 46624, 297 pp., \$14.95) "one of the most important intellectual statements of our time." Certainly its acceptance in France, where Aron was long ago hailed as the Walter Lippmann of his country and then ignored, is indicative of its bellwether value.

Aron has attempted nothing less than to confute Joseph Schumpeter's famous prediction that capitalism would be undermined not by any economic shortcomings but by a fatal inability to enlist the continuing support of the intellectuals, or those among them whom Irving Kristol calls the "new class."

Schumpeter's thesis always seemed particularly relevant when one looked at the French scene. The

French intellectuals, young and old, listened respectfully when Jean-Paul Sartre, the playwright, wrote that "Marxism remains the unsurpassable philosophy of our era." All through the Sixties the French university students flocked to the Sartre standard, even erupting without visible grievances into the type of violence that, in America, was blamed on the Vietnam War.

The Communists, of course, continued to get something like a fifth of the French vote. Combined with the two-fifths commanded by the socialists, the Communist vote might have pushed France over the brink. The fact that it didn't was due to a semi-Stalinist headstrong leadership that refused to follow the Italian "Eurocommunists" who have tried to sneak up on the bourgeois by pretending to a belief in the eternal relevance of democratic procedures.

Time has passed in France since the student outbreaks of 1968, and the intellectuals have had some second thoughts. They are now discovering that, in Raymond Aron, they have had the sort of thinker that goes in the United States by the name of neo-conservative. Former socialists such as Jean-Francois Revel are, amid some continuing confusions, coming to see that Aron has all along been right in championing the virtues of a free economy and classical, as opposed to collectivist, liberalism.

Developments in Europe

It was thirty years ago that Aron, a professor of sociology, joined forces with Jean Monnet in the effort to unite western Europe both economically and politically. Despite a "parliament" at Strasbourg, Monnet's hopes have never been fulfilled. The nations of the "western rump of Europe" have followed different courses. West Germany has been the most capitalistic. Spain has just recently emerged from the extreme authoritarianism of the Franco years. Portugal was saved by a miracle from going wholly Communist. Switzerland remains its individualistic self, but the virus of social democratic welfarism has sapped the economic strength of England, Scandinavia and, to a lesser extent, the Low Countries. France and Italy have survived, one

gathers, because of a cynicism that has always enabled productive Latins to elude the tax collector and maintain the health of the "other," or subterranean, economy.

Western Europe might be called "decadent" for a number of reasons. But Aron uses the word affectionately, as if to say, "If this be decadence, make the most of it." The true decadence, he thinks, is what he calls "the Marxist vulgate." And he wonders that so many in the Europe of his affections should have been so impressed by Marxism-Leninism—and even Stalinism—over the years.

Aron's chief rhetorical tool is his Gallic sarcasm. Marxism, he notes, has never yet managed to create a state that has shown any tendency to wither away. Nor has the proletariat, or the "working class," ever taken the lead in pulling off a revolution. Lenin and Trotsky, in Russia, relied on a small band of professional revolutionaries drawn from the intellectual classes. They were terrorists even more than they were Marxists—Lenin believed that it was better to kill a hundred innocent people than let one guilty person go free, and he actually put this in writing. In China, Mao depended on his professional revolutionary officers, and he worked through the peasantry, not the city proletariat. Eastern Europe was taken over by the Red Army in 1945 and 1946 and

forced to become Communist in spite of itself. In Cuba and Chile, Marxists succeeded by cheating. Castro posed, for a period, as the voice of the anti-Batista middle classes. Allende, in Chile, was voted into office as a "democrat." Fortunately, the Chilean middle classes caught on to the swindle before Chile went under completely. The Cuban middle classes were not so lucky.

A Parade of Ironies

What impresses Aron is that all of the "Marxist" and "proletarian" revolutions occurred in parts of the world that had never been industrialized. This was certainly not what Marx had predicted. Lenin's theory that the West European countries must have colonies to exploit if they were to preserve high standards of living at home also proved an utter fallacy. The Dutch were far better off after their loss of Indonesia; the French were never so prosperous once they relinquished Indochina and Algeria. As for the West Germans and the Japanese, they have proved conclusively that the need for "lebensraum" is a delusion.

Aron concludes from his parade of ironies that Marxism-Leninism and Maoism are theories for "the use of fanatics and dunces." The whole theory of central planning, he says, would be disastrous if it were to be adopted in any advanced economy. Where there are thousands of differ-

ing relationships between prices, not even a central planning board consisting of Solomons could provide a system that would bring the right materials to the right place at the right time and in the right quantities. Without a capitalist outer world to provide pricing information, the Soviet and the East European economies would be in a truly appalling mix-up.

As for "surplus value," which might better be defined as the wage that is earned by those who provide the machinery and the requisite management skills, it exists in any economy that seeks the means to perpetuate itself. In socialist countries it is siphoned off by the state for various purposes which include, besides the development of new business, the maintenance of all the special privileges of the bureaucracy. It is no accident, to use a Marxist expression, that there are few private cars in Russia, or that a peasant, seeking a hoe for his pitiful private plot, has to improvise one for himself.

True enough, there is no unemployment in Soviet Russia, but this is because every existing job is split in many ways. Russia boasts that it outproduces the United States in steel. But with all its steel capacity it cannot provide its workers with decent housing or small tools.

Aron piles irony upon irony. But

the strangest irony of all is that the West has been "unaware of its own superiority." Aron paints a picture of western Europe as "its own victim." He suggests that it has engaged in ideological drug addiction. The question, with Aron, is whether it can emerge from its dope dream in time to arm itself against the new Genghis Khans who use Marx to cover their predatory instincts. The response to Aron's book in France is encouraging. One hopes it has not come too late. ☉

**PERCEPTION, OPPORTUNITY,
AND PROFIT: STUDIES IN THE
THEORY OF ENTREPRENEURSHIP**

by Israel M. Kirzner

(University of Chicago Press, 11030 S. Langley Ave., Chicago, Ill. 60628), 1979
274 pages ■ \$15.00 cloth

Reviewed by Brian Summers

If economics is to be of any practical use, it must relate to the real world. But most economists make unrealistic assumptions—equilibrium, perfect competition, and the like—which, if not handled with great care, lead to absurd policy conclusions.

Perfect knowledge is implicit in many of these assumptions. If we assume that individuals have perfect knowledge of all available op-

portunities, then nothing remains to be discovered. With the assumption of perfect knowledge, human action is reduced to a mechanical allocation of given resources among a given hierarchy of ends.

But, Israel Kirzner points out, people do not instantly perceive all opportunities. There are always opportunities for mutually beneficial exchanges waiting to be discovered.

For example, a basket of oranges may be available in the market for \$5, while consumers may be willing to pay \$12 for the same oranges converted into marmalade. The entrepreneur who perceives this, and who keeps his other costs below \$7, brings about a mutually favorable trade between orange growers and marmalade users while earning a profit for himself.

This insight—that the free market profit and loss system facilitates the discovery of opportunities for mutually beneficial exchanges—sheds new light on the workings of the market economy.

For instance, advertising is seen not as a device for manipulating consumers, nor merely as a means of conveying information. Rather, advertising alerts consumers to the availability of products. If an advertisement is colorful, funny, or noisy, it is because the advertiser believes that this is needed for consumers to notice that a purchase opportunity exists.

Besides casting new light on the free enterprise system, Professor Kirzner offers profound insights into the consequences of government intervention. For example, in a thought-provoking chapter on individual liberty, he points out that freedom is usually "identified with the power to achieve chosen goals. Loss of freedom quite similarly, comes to be identified with thwarted desires. Freedom comes, from such a perspective, to be something whose curtailment triggers immediate pain. One cannot lose freedom, in this view, without feeling its loss. The matter is seen quite differently from the entrepreneurial perspective on freedom.

"The entrepreneurial view of freedom permits us to see how freedom to choose may inspire the discovery of opportunities that may be invisible to those to whom this freedom is denied. Those to whom the freedom to choose has been denied will, in such cases, have no inkling that they are being denied an otherwise attainable goal. One denied the right to choose to enter college may never realize that he possesses the intellectual potential to be admitted to college. Denial of freedom to choose, from this perspective, does not necessarily inflict the pain of thwarted desires. In fact, *one may lack freedom and be*

convinced that one's well-being is wholly unaffected by its lack."

Thus, the very nature of government intervention precludes a concrete specification of all the liberties which have been impaired by the growth of the state. Similarly, it is impossible to know—much less measure—all the costs of intervention. We simply cannot know what exchange opportunities might have been noticed had government intervention not removed the means of exploiting them.

Perhaps the most important chapters in this book deal with property rights. Rather than viewing property rights as arising solely from (1) "mixing labor" with unowned resources and (2) voluntary transactions, Kirzner offers a finders-creators-keepers approach. According to this view, entrepreneurs discover and hence create new values. An entrepreneur who discovers that he can buy a product for \$8 and sell it for \$10 can be thought of as creating the \$2 profit.

Perception, Opportunity, and Profit is replete with such profound insights. The style is easy to follow, but where Kirzner has broken new ground, the reader had best proceed with careful deliberation. And when the reader is finished, he may find that some of his old assumptions have been dropped along the way. ☉

the Freeman

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A MONTHLY JOURNAL OF IDEAS ON LIBERTY

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Rae C. Heiple

Aunt Elsie's Recipe

If the term "growing old gracefully" ever applied to any particular individual, it sure fits my Aunt Elsie. At 90 she needs a magnifying glass to read the paper, but read the paper she does, as well as live alone and keep house, braid room-size rugs, make needlepoint pictures, refinish furniture, and baby-sit great-grandchildren. She goes to church, takes care in her appearance and always maintains a cheerful disposition. Ask her for a recipe of life and she would tell you to "take pride in your work and let other people be, so they can do the same."

And you know this recipe has more than individual application. It is really the answer also to the eco-

nomic and political problems that beset the nation and the world. It is the simple solution to the current conflict in the economics profession between micro-economics and macro-economics.

Macro-economics is the economic theory which looks to the statistics of a nation's total economic activity (gross national product, etc.) and holds that policy change designed to alter these total statistical aggregates is the way to determine economic policy and promote economic progress. Micro-economics, in contrast, is the economic theory which says the statistics of total economic activity are valueless as far as providing clues to policy decisions. Micro-economics holds that the individual person and the way his individual activity is influenced

This article is from the 1979 Annual Report of the Abingdon (Illinois) Bank and Trust Company of which Mr. Heiple is President.

by governmental policy is the explanation to economic progress or the lack of economic progress.

Economists, like doctors, tend to make simple things sound difficult. It may be that "a transverse fracture of the ulna" is medically precise but a simple "broken arm" is often a superior explanation. The conflict between micro vs. macro can also be simplified. The macro believers would have government plan the economy and they would force the individual citizen through regulation and taxation to spend his money and time in ways the planners think desirable, even though the individual would not make the same choice if left to his own desire. Individuals like Karl Marx, Nikolai Lenin, John Maynard Keynes, Kenneth Galbraith and Walter Heller are individuals who could be described as macro-economists.

On the other hand individuals such as Adam Smith, Ludwig von Mises, Friedrich Hayek, and my Aunt Elsie are micro-economists. They believe that each individual person is able to make his own decisions better than some bureaucrat. They believe that each individual, if faced with the choice of working or

going hungry, will work, and that no individual as a matter of right has a claim to another person's property. This does not mean charity is precluded. It does mean that giving to another is voluntary and not compulsory. They believe that people, if left alone unhindered by regulation and excessive taxation, will produce more, consume more, save more, and in so doing create a better nation and society for everyone.

My Aunt Elsie, without ever having gone to college or read an economics book, knows human nature, the way life really is, and more about economics than Galbraith, Heller, and Keynes put together. She knows instinctively that inflation, unemployment, excessive taxation, oppressive welfare, shoddy merchandise, a shortage of competent help, and a general feeling of dissatisfaction are all the results of macro-economic policy of regulation and taxation. How much better it would be if our national policy was to let people alone to take care of themselves. The progress, prosperity, and well-being that would flow from this philosophy would stagger the imagination of the supreme optimist. 

J. Ollie Edmunds

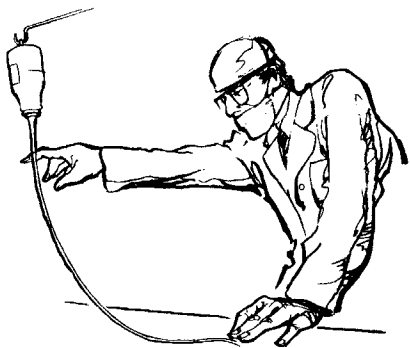
IDEAS ON



LIBERTY

THE time has come for us to re-establish the rights for which we stand—to reassert our inalienable rights to human dignity, self-respect, self-reliance—to be again the kind of people who once made America great.

Free Enterprise and Health Care



ANY discussion of free enterprise or of the free market requires a clear definition of these terms. Free refers to freedom of choice, not freedom from cost or responsibility. Free refers to freedom from regulation and restriction, other than those laws necessary to protect individuals from force and fraud. The free market implies the willful exchange of goods or services, either directly or through the intermediate utilization of a stable measure of value, such as money.

This country's economy was originally based upon such a system, and prospered in direct proportion to the

extent of adherence to the principles involved. From the very beginning, there were those who realized the advantages to individuals or pressure groups of selected interference with the process which would benefit some, at the expense of others. The miracle of market exchange and pricing is that it tends to bring supply and demand toward a balance. The steadily increasing intervention of government into the process has deprived the free market of the pricing mechanism indispensable to its success. It is the ultimate irony for those responsible for our current dilemma to justify further intervention by claiming that the free market does not work, when in reality it is government which created and continues to intensify the problems.

Inflation, once it is understood, illustrates most clearly how gov-

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ernment creates problems, and then deceitfully uses its access to the media to shift the blame onto the victims of its action. Inflation is purely and simply the expansion of the money supply. By printing worthless paper dollars to pay for deficit spending, previously circulating money is diluted and devalued. Rising prices, rising wages, and the rising cost of living are not the cause of inflation; they are its results. Appeals to "fight inflation" by voluntary or mandatory restraints constitute a smokescreen.

To obtain votes, essential for election and reelection, and ensure the power and benefits to which their offices entitle them, our elected officials, in varying guises, have brought into being innumerable programs for the involuntary transfer of wealth. Since there are more poor than rich, even in our affluent society, it is effective political practice to appeal to the masses with the "soak the rich" approach. The truly rich have the influence and means to avoid most if not all of the burden supposedly aimed at them. As it turns out, the "rich" who are being "soaked" are you and I.

Every additional governmental rule and regulation created in the past fifty years can be readily shown to offer an advantage to some individual or group, at the expense of competitors and the general public. Subsidies, bailouts, wage and price

controls, minimum wages, "free" services, and the like further disrupt and destroy what is left of our no longer free market.

When Wealth Is Dissipated

The socialist egalitarian concept of redistribution of wealth requires a wealth to be redistributed. What happens when that wealth, in our case the product of the free market, has been dissipated, and no new wealth created? More "funny money" from the federal printing press will not forestall for very long the inevitable economic collapse and subsequent social chaos.

Health care is a rather vague term that is interpreted in many differing ways. There are some well-documented facts that must be understood in order to intelligently discuss the subject. Of the physical and emotional problems for which people seek aid, about 80 per cent are directly or indirectly self-induced, and as such, with adequate understanding, are amenable to self-correction.

Since it is often easier to have someone else correct the problem through the use of medication, surgery, or any of the prevalent methods of mind control, such services must represent a value to the recipient. Willingness to pay for such services with part of the income from one's productive efforts is in keeping with the free market

principles. When that service becomes "free at the point of consumption" demand becomes infinite, exceeds supply, and astronomically increases the actual cost of provision.

As a rather simple example of the above, let us assume that you come to me for relief of what we will both eventually agree is a common head cold. You present with a runny nose, a headache, a slight temperature elevation, a cough, and "generalized malaise," which means you feel lousy all over. I now order a complete blood count, and since we have drawn the blood, a battery of blood chemistry tests. A chest X-ray and X-rays of your sinuses come next. Since your headache could be an early symptom of a brain tumor, a C.A.T. scan is ordered. Assuming none of these studies show any significant abnormalities, I might now prescribe a cough medicine, a "strong" pain reliever, a nasal decongestant, and an antibiotic, useless for a cold, but occasionally justified as preventing further complications. Hopefully, I will also suggest that you go home to bed and drink plenty of fluids.

If I were to tell you that there was no charge for all of these services, you might consider me very thorough and efficient. Were I to demand the going rate, you would certainly view me as a charlatan. Am I any less a charlatan because you fail to realize that ultimately

you or your neighbor will pay that bill through higher taxes or higher insurance premiums?

Irresponsible Promises

Medicare and Medicaid were proposed to cost a fraction of their present expense. Part of the problem was the unrealistic projection by would-be experts who had little understanding of the unlimited demand that arises for anything presented as free of charge. A far greater responsibility should be borne by those who were aware of this fact, but for political benefit gave their support, confident that they could eventually shift the blame for failure to the would-be providers of these services. This in turn would justify additional expenditures and further intrusive regulations by a bigger bureaucracy to control the scapegoats. When this predictably failed, still another round of the same would maintain the upward spiral of cost, while assuring the comparable degree of deterioration in the quality of care.

We are well into the scenario I have just outlined, and the oft-repeated accusations against the scapegoat providers are gradually gaining credibility through mere repetition. I have long contended that physicians, and health providers in general, are made up of a relatively small percentage of truly dedicated and highly ethical indi-

viduals, an equally small but far more evident number of rip-off artists, with the vast majority spread between the two extremes. Unfortunately, as the realities of the situation become more obvious, those near the lower end of that middle group are opting to become dishonest in order to survive in a dishonest system.

These defectors have discovered that in our contemporary society crime not only pays, it pays well. Faced with unrealistically low remuneration for their services, they have used the easy expedient of additional short unnecessary visits and rarely or barely indicated tests and procedures to resolve the inequity. I do not offer this observation as any justification for their actions but simply as a sad commentary on the results one might easily have predicted for these pie-in-the-sky programs.

We hear much about the high cost of health care, which I freely admit is exorbitant. At present, hospitals are under attack with threats of "mandatory cost containment," a concept as anti-free market and short-sighted as one will find. It is another name for the old wage and price control approach. Even the "liberal" economists have, after observing repeated failures of such programs, conceded that they do not work. There is a limited short-run effect that has appeared politically advan-

tageous, but is impossible to sustain. The best description is to liken the process to locking the lid on a boiling pot. Unless you put the fire out, an explosion is inevitable.

High Hospital Costs

Let me give you my analysis of the causes of high hospital costs. These opinions are not something I dreamed up, but the result of my study of those free market economists whose advice has been so much scorned and suppressed by "liberal" politicians and communications media.

1. *Inflation.* Government caused, it is reflected in the higher prices of supplies, labor, and capital improvements.

2. *Compliance with governmental regulations.* Recent estimates of the cost of compliance with those regulations not directly related to patient care in New York range between \$45 and \$50 per patient day.

3. *Minimum wage laws.* This greatest single cause of unemployment strikes particularly hard at hospitals. The biggest single item in any hospital budget is payroll. While most of us agree that nurses are underpaid, the relegation of increasing numbers of them to paperwork may reopen that old argument. Rules, regulations, and attempts at giving adequate service necessitate the employment of many individuals not directly involved in

patient care. Many of these have menial jobs with productivity that in the free market would not merit the \$3.10 hourly minimum wage. Mandatory employer contributions to social security, unemployment and disability funds raise this hourly cost excluding "fringe benefits" to between \$5 and \$6. Do you still wonder where your money is going?

4. *Excess beds.* This frequently distorted factor, originally created by governmental promises and subsidies, would be readily correctable, were it not for governmental regulations and job security considerations.

These four major factors are government caused, and can only be made worse by government takeover. Removal of government involvement would resolve, or at least vastly improve, the problem in each category.

5. *Cost of technological advances.* To some degree, this is a necessary price for progress. Injudicious exploitation can only be controlled by individual responsibility on the part of both doctors and patients. Declaring a moratorium on progress is a poor solution.

6. *Overutilization and unnecessary surgery.* Both abuses exist, the degree depending upon definition. The cause is shared by mercenary providers and irresponsible patients. Since this subject is so often

distorted in its presentation, it deserves discussion.

Let me start by not merely conceding, but deploring the fact that there are far too many doctors who misdiagnose, or worse yet, misrepresent in order to perform what I call "remunerative surgery." I am not advocating the abandonment of fees. The term "remunerative surgery" is reserved for those cases where the sole indication for the operation is the fee. In this same category are those physicians who hospitalize patients for non-surgical conditions when hospitalization is not essential to the treatment. The current policy of third party payers which rejects claims for the same services if performed on an out-patient basis is a major contributing factor. These same doctors are often guilty of extending hospital stays for no better reason than the prospect of payment for additional daily token visits.

In most better hospitals, these practices are kept to a minimum by means of the long-standing peer review process. This requires but a few of the staff members to be willing to expend the time and effort needed to police the activities of all the staff members through the appropriate review committees. Sadly, there are innumerable obstacles, legal and otherwise, to the exposure and control of the guilty. However, persistence and what can only be described as harassment have proved

effective. Real punishments are rare, but the deterrent effect is indisputable.

Real Demand Stems from the Individual Consumer

Probably the most vital factor in the health care equation is the consumer. Since it is the demand for services that governs the amount, quality, and cost of provision, let's examine the word *demand*. As used in the law of supply and demand it represents a desire or need for a product or service. In reference to a hold-up man, tax collector, or the holder of a promissory note, it is a more forceful term. The respect of such demands, backed by law or force, or both, becomes mandatory.

As with so many political perversions of our language and our constitution and bill of rights, you may be surprised to learn that there is no such thing as a "right to health care." Nor is there a "right to food," a "right to clothing," a "right to shelter" or any of the other wrong rights being advocated. Where health care is concerned, the unconstitutional application of majority rule to provide benefits to almost everyone at the expense of relatively few gains wide acceptance. In the free market, on the other hand, one gets what one pays for. As such, responsibility for the nature and de-

gree of demand rests with the individual consumer.

Remember that individual responsibility, or lack of it, is the determining factor in the preservation or loss of individual freedom. If an individual desires to live his life as he chooses, so long as he does not infringe upon the equal rights of others, he must accept full responsibility for himself. If good health care were freely available, we could then afford the waste of government allocation and control. But because it is so scarce and costly is precisely the reason why concerned individuals should rely upon the efficient market process of bringing supply and demand toward balance.

My solution to the problem of medical indigency is, as you might guess, the same as my solution to the problem of health care in general: a return to the free market throughout our economy. Freed of governmental restrictions, we would rapidly approach full employment. Without the huge involuntary plans of wealth-sharing, we would be financially able to exercise our well-established charitable instinct to help the incapacitated and the truly needy.

Freed of government harassment, we might again exercise our inalienable rights of life, liberty, and the pursuit of happiness. ☸



The Double-Headed Coin of Rights and Duties

A COUNTRY in which everybody demands his rights is like a house in which everyone is shouting for his supper with no one in the kitchen to cook it.

The International Year of the Child spawned a rash of rights that look much like the pimples of puberty on the faces of the pupils of at least one Canadian public school.

The object of the exercise was to create a "tribute to the International Year of the Child that would be everlasting." Here are some of the debts said to be owed to children by teachers, parents and others—all framed and enshrined on a prominent wall in the M. J. Coldwell School in Regina.

"The Right to an Education"

There is scarcely a child of the past half a century who has not had this right served up to him on heaping platters. Indeed for years,

truancy laws have served to remind children and their parents that the doors of the schoolhouse are open wide to all, and that they not only have the right to enter, but the duty to learn. No one but they themselves can ever do that. What needs restating is not the *right* to an education, but the *duty* of every child to learn. Whatever pedagogues may claim, there is no such thing as teaching; there is only such a thing as learning. If the airy-fairy Year of the Child is to lead the young into the real world where he may become a mature adult, he must meet duty face to face. He must discover his first duty is to learn, because to be ignorant is a shameful state. Without that duty, all of the education in the world will drain from his brain like rain off a duck.

Dr. Shumiatcher is a prominent lawyer in Regina, Saskatchewan, well known as a lecturer, writer, and defender of freedom.

"The Right to Develop His Potential to the Fullest"

Everyone has the right to develop his muscles so that he can lift a hundred and fifty pounds, the right to strengthen his brain so he can understand Einstein's mass-energy theory, the right to stretch his legs so he can run the four-minute mile like Bannister, and the right to acquire the skill to play the violin like Yehudi Menuhin. But what do those rights mean until the individual recognizes that the responsibility of improving his body and his mind, his legs and his fingers are his alone? Nothing can happen to realize any of those wonderful results until the individual applies effort and hard work to achieve what he genuinely wants. The right to develop without the will to grow is a seed that is neither planted nor cultivated, but is cast on a concrete road and dries and disintegrates for lack of nutriment, and so is lost to the world at the end of the day.

"The Right to Be a Useful Member of Society"

Every community hungers for competent, educated and energetic people to take on the responsibilities of caring for its parks and public places, of beautifying the dumps, of producing clear cold water for the dwellers of the tenements, of bringing light to the slums and letting

pure air into the caverns of the city. Everyone has a right to improve himself and his community. The smallest child can keep his yard and neighborhood clean, can refrain from heaving rocks through windows and drag-racing on main street and breaking beer bottles on the sidewalk. He will then become a useful member of society. It is not a "right" to adopt a life style that is civilized, it is a duty. Every new generation that is born into this world is a fresh barbarian invasion that will seize and grasp and demand and consume everything in sight, until it is civilized into understanding its duty to give and yield and respond and produce.

"The Right to Be Raised in the Spirit of Peace, Understanding, Cooperation and Friendship"

Peace, understanding, cooperation, friendship. These are not gifts that fall from heaven to those who sit idly by awaiting their blessings. Peace is not a right: it is a duty, the burden of which men and women of good will must carry upon their shoulders knowing it to be a treasure beyond all measure. Cooperation is not conduct that one may demand of another; it is a quality of the human state that one can give and, in offering it, learn that it is returned like the smile in a girl's eyes or a handshake when the fin-

gers linger long, carving the memory of a moment into the lines of your hand and heart. Friendship is not a bank account established by a stranger to pick your lucky ticket in a lottery. It is a bundle of duties and obligations that may bud and blossom into a rose for those you love, that one day may be returned to you with all of its fragrance gone, but shorn of every thorn.

"The Right to Affection, Love and Understanding from Teachers and Fellow Students"

To consider "affection and love" our right is to misunderstand the individual's humanity. Love is not taken like an apple from a tree, but only given. And understanding is not a right, but a pilgrimage on a long and tortuous road that has no end. No one can demand affection, no one can elicit love—not even with the most complex machine man's ingenuity can create. To claim love as a right is as foolish as to demand that the rain cease to fall upon you. The greater the demand, the greater will be your disappointment.

The simple fact of life is that there are no rights that bloom in the human state. There are only obligations; it is they that are the seeds which, planted and laboriously nurtured, may one day blossom into rights.

Bills of Human Rights and laws that pretend unconditionally to dis-

tribute "rights" are illusions like the commercials that advertise free money, or effortless muscle building, fat melting or wrinkle routing. They exist only in one's imagination.

To my young friends so preoccupied with the *gimmies* that masquerade as rights, may I suggest this: If you hope to enjoy the *right* to a hot bowl of soup at lunch time, you will be doomed to disappointment and will never have it unless someone assumes the duty of finding the meat and vegetables to cook it, and takes the time and trouble in the kitchen to produce it, and with affection (or out of a sense of duty) places that bowl of soup on a plate on the table for you to eat and enjoy. Without duty there is no soup. And no one has a right to expect to enjoy soup unless he also is prepared to perform his duty to cook it!

You may think you have a right to walk down the street at night in safety. But simply to declare that such a right exists will give you neither safety nor comfort. It is only if I, and every other citizen assume the duty to give you free passage and not molest you, that you can walk in safety on the city street you claim to be your own.

A "right" is a coin with only one side. Unless it has another side on which the word "duty" appears, the coin is as worthless as a Czarist ruble. You may have the right to pass

it on to buy an apple, but if your grocer thinks it worthless, he has no obligation to accept it for his fruit, and you will go hungry. How valuable, then, is your one-sided coin that reads "rights," without the other side that spells duties?

Have you ever thought that the Ten Commandments, older than the hills of Galilee and as durable as Mount Sinai, speak not a single word about human rights? They do not suggest you have a right to God's love, but rather, that you have a duty to love your God.

They do not create a right to make demands upon your parents, but they speak of the duty of every child to love and cherish and honor his mother and father: the duty to care for them as they grow old and feeble.

The United Nations Declaration of Human Rights was written in 1948 in the belief it would make us

all more mindful of our duty to act justly toward our neighbors, whatever their color, creed or origin. Ever since, we have heard more and more about human rights, and less and less about personal duties. It was once considered enough for legislatures to declare, "let light abound that right be found." But laws can no more grant the smallest right to Peter without imposing a corresponding duty on Paul. If Peter is to be a pumpkin eater, Paul must be a pumpkin picker.

Let us then place alongside the Declaration of the Rights of the Children of the M. J. Coldwell School, a Proclamation of the Duties of the young to themselves, their parents and teachers, their friends and their neighbors. And let us not forget how large a part simple courtesy and good manners make up the basket of our duties. ☉

Character Must Be Earned

WHEN a man is on his own, an individual responsible for himself, he must earn a character—a personal character that is perhaps his first necessity. Others may then learn and imitate his qualities and capabilities. In a planned society he has no need of a character, for no such thing is wanted. No national or universal plan can afford to take the least notice of his personal character.

As an individual responsible for himself, a man must also acquire credit. Others must be convinced that he is credit-worthy; that he can be trusted; that what he undertakes he will perform to the limits of his ability. But when he is planned, nothing so troublesome is in the least necessary.

IDEAS ON



LIBERTY

HEALTH CARE: Cross Questions and Crooked Answers



At the sometimes innocent parties I went to when I was an adolescent we occasionally played a game called "Cross Questions and Crooked Answers." Boys were lined up on one side and girls on the other. Each boy was handed a slip of paper on which a question was written. Each girl got one with an answer. When they had been written, each question had an appropriate answer to it. But they were passed out randomly so that, hopefully, the questions no longer matched the answers when they were read. If all went well, there would be a series of malaprops, inanities, and ribaldries.

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A variation of Cross Questions and Crooked Answers has now achieved adult status. Political involvement in medicine has made it commonplace without our being aware of it. Let us take a statement first. It is usually worded something like this: "Every American should have quality medical care." Now, the question, "Don't you want the best quality medical care possible?" It is tempting to treat this as a straight question, and to make what appears to be the only reasonable answer. Namely, "Of course, I want the best quality medical care possible." From that point on the discussion degenerates into a debate as to which is the best possible system for providing quality medical care. It may not be a futile debate, but it is apt to be inconclusive because the

best points have been conceded by the answer given to the question.

This is so because "Don't you want the best medical care possible?" is a Cross Question. It is a Cross Question which will most likely elicit a Crooked Answer. Indeed, it is what one of my professors in graduate school called a false question. A false question is one which can only be answered by giving an answer that will be in some part wrong, regardless of what angle you take on it.

To illustrate, let me give the opposite answer to the question, a somewhat perverse answer, if you like. "No, I do not want the best possible medical care. In fact, I do not *want* medical care at all. Medical care is not something one drools over, like a steak, the best cut of which everyone should have. I do not long for the ministrations of physicians or for the comforts of a hospital bed. Indeed, my preferences run in the opposite direction, to have as little truck with any of these as possible."

The answer is evasive, of course, but it is evasion with a point. I want the question reworded. The first order of business is not the quality of medical care; medical care is only a means, not an end. The quality of life is my main concern, not the quality of medical care. The question might be rephrased this way: What do you want from life to which medical care (and its quality pre-

sumably) is directly related? Now that is a straight question which can be given a straight answer.

My answer would go something like this. I want the use of my faculties with as little impairment as possible. I want to see, hear, smell, feel, walk, taste, talk, and use my limbs well so that I can function normally. Why? So that I can look after myself. So that I can manage my own affairs. So that I can be independent in order to fulfill my purpose as a man. In short, my concern with medical care is as an adjunct to my personal independence.

Restore the Patient

Contemporary medical practice has this as its primary aim. Its aim is to maintain or restore the independence of the individual, to get him up and walking again, to get him to looking after his bodily needs, to get him to exercising his faculties, and so on. The desired goal is dismissal of the patient and a minimal dependence on drugs. In short, good medical practice requires that the patient be restored to independent status as quickly as in the judgment of the attending physician he is ready for it.

Medical care cannot correctly be considered in a vacuum. When we do so we can only ask Cross Questions and get Crooked Answers about it. It is part of the larger corpus of life itself, and ordinarily a subordinate

part. In the context of the statements made above, the aim of medical care—the maintaining and restoring of personal independence—is part of the broader aim of personal independence for individuals. Whatever impairs the independence of the individual will tend to be detrimental to the aims of medicine.

Government intervention is on a collision course with the best in contemporary medical practice. This may be clear to some when the matter is considered only from the angle of quality medical care, but it should be apparent to all when it is looked at from the broader angle of the independence of individuals. The purpose of medicine is to foster individual independence; the impact of government intervention is to reduce the independence of the individual and make him dependent on government. It is this case that is conceded or ignored when we focus exclusively on quality of medical care.

Perpetual Dependence

Here is a story which illustrates how government intervention tends to thwart the broader purpose of medicine by establishing perpetual dependencies. It is a true story. It is even a kind of horror story when its implications are contemplated. Here it is.

Several years ago I was living and working in Pennsylvania. My father

lived in Alabama and was, when most of these events transpired, in a small hospital in Georgia. One evening, I got a call from my sister who told me that our father was very ill and that the doctor had said the family should be notified. Presumably, he was dying. It would not have been surprising, for he was 88 years old and had not been in good health for some time.

We flew the next day to see him. Two aspects of his condition stood out. One was that he had lost weight—in fact, was not far from being emaciated. The other was that he had been having hallucinations. He was conscious most of the time, knew everyone, and was lucid enough in conversation. Except, it soon became clear to me that when he was at his best he still believed in the reality of what he had seen when he was hallucinating. I spent the better part of a day at his bedside, and he seemed to want to talk about his hallucinations. (He did not call them that, of course, they were to him unpleasant things he had actually experienced.)

When I talked to the attending physician—in fact, he was the only doctor associated with the hospital—he was rather vague. His prognosis was that my father might die at any time, or he might live for a while longer. Beyond that, he only observed that it was good for me to visit with my father. I began to

learn some interesting, and disturbing, things about the hospital, too. It was preternaturally quiet, and they tried to keep it that way. There were few visitors, except those who came to see my father. One did not encounter patients in the hallways, though there were several nurses about. On inquiry, I was told that the patients were all old and bedridden.

In fact, it was not what I would call a hospital; it was a nursing home with a physician and nurses in attendance, and hospital rates were being charged. Whether all the patients were being given tranquilizers, I do not know, but my father was. It was a place where old people on Medicare were brought to die.

We moved my father to another hospital as soon as we could get an ambulance. I later talked with the new physician who had examined him there. He indicated that it was too soon to make a firm prognosis but that the vital signs were all good. My father was in no imminent danger, as far as could be determined. I asked if the medication he had been given would be continued. No, the doctor said, for the time, at least, he would be taken off all drugs. What about diet, I asked. My father could eat anything he wanted, he said, and would be encouraged to eat. (He had been on a restricted diet under the other physician.)

The atmosphere in this hospital was quite different from the other one. It was alive. Patients were clearly there only temporarily for healing, hopefully, and recuperation. I was there once when the physician came in to see my father. He talked to him about going home, about his getting up from the bed, and about going hunting, which was one of my father's favorite activities. Subtly, he was getting my father to think of getting well and inviting him back to life.

Within a day a considerable change had occurred in my father. He was more cheerful; he had begun to eat, and was beginning to do things for himself. Within a short time, he returned home to take up the normal course of his life. He lived for several years after these events, and most of the time he was up and about. The memory of the hallucinations only faded slowly, but otherwise he was better than he had been for some time.

A Cure that Kills

From what illness was my father suffering? It is reasonable to conclude, *ex post facto*, that he was suffering most directly from malnutrition and drug-induced hallucinations. Add to that the fear that arises from helplessness when one suspects he is terminally ill and is waited on hand and foot. The malnutrition was no doubt a conse-

quence of the restricted diet plus an habitual finickiness about eating. There may have been some justification for the restricted diet, for he had arteriosclerosis and complained from time to time of angina attacks, though they were not usually severe. As for the tranquilizers, I can only speculate as to why they were prescribed. Father was inclined to be a noisy patient, groaning and making some loud sound when a pain struck him. The tranquilizers were supposed to keep him quiet, though they did not succeed in doing so.

More broadly, he was a victim of the Dependency Syndrome induced by government involvement in medicine. My father had become dependent on government to pay for at least a portion of his medical care. The physician had become dependent upon government for much, or most, of his income. This arrangement is conducive to the establishing of a relation of continual dependence upon medical care in the patient. For quite a while before my father had been confined in that small hospital he had gone regularly to that physician's office for injections. There was no prospect that he would get well or be dismissed. After each brief session with the physician, he was let go with these words, "See you again in two weeks."

So far as a layman may judge of such matters, that man had earlier

been a competent physician. He had been a skilled surgeon with a good practice. I knew him some two decades before the events related above, and at that time he was interested in healing his patients, getting them back on their feet, and dismissing them from his care as soon as the situation warranted it. The eventual independence of his patients was his goal.

In the interval, he had changed. He was no longer practicing medicine. He was practicing Medicare. He had bought the government's line. Government had proclaimed, by its actions, that medical care was a good for the aged. It was a good of such importance that it should be made readily available at the taxpayer's expense. If medical care is such a good, is it not reasonable to conclude that the aged should continually receive it? And there could be no doubt that he was dispensing a considerable amount of medical care, or something that had the look of it.

Too Much Care

But medical care is not a good. It is, if I may so phrase it, a "bad." Drugs can have disastrous side effects. Diets can starve. Lying in bed, even in a hospital, can have debilitating effects. Dependency on doctors, nurses, and medicines is unwholesome. True, a skillful physician, with sound and indepen-

dent judgment, attentive to the condition of his patients, can use medicine, diets, hospitals, and all the other paraphernalia of modern medical practice to good effect. This tells us, too, what is good: it is the skill, the sound judgment, the independence, and the careful attention. That is the good for which we should pay, and, having had to pay, we are reminded that it is scarce and should be used only when there is some need.

The quality of medical care is a secondary issue. What is at issue primarily in the thrust of government into medicine is individual independence. The great aim of medical practice is *not* to provide medical care; it is to restore patients to whatever status of independence is possible. The best medicine is sometimes no medicine at all. However, that decision should not be made by dispensers of medical care but by medical doctors of *independent* judgment. Government intervention reduces the independence of physicians and of the population generally. A physician may still heal a particular disease, but he cannot restore the full independence of a man who has become deeply dependent on government. The doctor in the small hospital was not on a collision course with government; he had accepted the dependent status of those whom he treated and was bent on perpetuating it.

It is not my purpose here, however, to dismiss the question of quality. Once it has been placed in the broader context to which it belongs—the quality of life—it can be properly considered. No doubt, most people would like to have a high quality of treatment when they stand in need of medical attention. Thus, some observations on the impact of government intervention on the quality of medicine are now in order.

Why Intervention Fails

The tendency of government intervention is to increase the quantity and reduce the quality. It does so for three reasons mainly.

First, by removing or reducing the cost factor in medical treatment, it increases the demand for it. Given the same number of medical personnel, the result is longer waits in doctor's offices, less attention per patient in hospitals, and a dilution of the quality of what is received.

Second, when government prescribes standards of treatment they are, and must be, *minimum* standards. To put it another way, whatever standard government prescribes becomes the *minimum* standard. The way this works was well illustrated in housing. Most houses built over the last thirty or forty years have four inches of insulation above the ceiling. Much of this is blown-in insulation. Why? Because

F.H.A. required four inches of insulation, and that is what most houses got. It was widely claimed that the F.H.A. requirements became the standard of the industry. They were, of course, *minimum* (and inadequate) standards, something the rising cost of energy has helped to bring to our attention. (The F.H.A. standard having been discredited did not, of course, lead that organization to retire from the field. It has simply set higher standards which, in turn, become the *minimum* standard.) A similar development is occurring in the generic drug movement. If the F.D.A. and other agencies are successful, minimally effective drugs will become the standard. To the extent that government pays for medical attention, it will be in accord with minimal requirements. Open heart surgery with a triple by-pass, will be open heart surgery with a triple by-pass, and that is what will be paid for. In short, far from providing the highest quality medical care possible, we will tend to get the lowest quality which the law allows.

Third, government intervention tends to restrain and inhibit innovation. No standards can be set for that which does not exist, and no price scales can be devised. We are experiencing already the slowdown that results from having to gain gov-

ernment approval before new drugs can be put on the market. The testing requirements are already so prohibitive that men will tend to turn their energies away from trying to innovate. The same restrictions do not yet apply to procedures, but there is an inhibitive tendency there also.

The Quality of Life

This brings us back, however, to my original point. The quality of medical treatment cannot be fully considered as separate from the quality of life in general. The innovations which raise the quality of medicine are themselves a product of the independence and freedom of individuals. Reduction in the independence of individuals by restrictions must inevitably result in lower quality medical treatment than would otherwise have been available. But medical treatment itself is but an adjunct to the independence of individuals.

In the final analysis, then, there is one straight question that can be asked which, when it is answered straight, provides the answers to the subordinate questions as well. It is this: Do you want that quality of life which is possible when individuals are independent? If so, you will want as well the availability of the highest quality of medical treatment. ☉

David P. Hunt

THE ECONOMICS OF ENERGY



TWO YEARS AGO much of the United States experienced a natural gas shortage of emergency proportions; today, there is a surplus of natural gas. What happened to turn a shortage into a surplus so quickly? What similarities are there between the natural gas shortage and today's gasoline shortages?

There has been little change in basic natural resources in the last two years to explain the shift from shortage to surplus. New discoveries of natural gas still fall short of annual production. The ratio of proven reserves to production is still declin-

ing as the carrying cost of this 10-year inventory rises. But the much publicized decline in annual production has halted and seems poised to turn upward. Geologists now estimate that at today's prices the U.S. probably has another 50 year's reserves that could be economically produced if wells are drilled. World-wide potential gas reserves are now at least 200 times the world's annual consumption. And these figures don't count gas from coal, gas from shale, or gas from other technologically feasible alternatives that can supplement conventional natural gas supplies.

The reason for the natural gas shortage was not a lack of natural resources but the lack of an economic policy permitting the development of these resources. Why

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was the U.S. the only country in the world to experience a natural gas shortage?

Federal ceiling prices on natural gas production sold across state lines were first established in 1954. For almost 15 years the ceiling prices remained nearly constant while inflation eroded the number of new wells that could be drilled with the revenue stream from past drilling investments. By 1968 interstate price ceilings were too low to attract new capital investment for drilling ventures, and over half of the independent producers in the U.S. had gone out of business. Natural gas distributors in consuming states such as Ohio, which obtains 90 per cent of its gas from out of state, found that they were no longer able to contract for new interstate supplies to meet growing market demands stimulated by low prices relative to alternate fuels. What followed was the destruction of market equilibrium that could have been predicted by any economist.

While consumers can change their energy consumption patterns significantly in the long run, the demand for energy, and each specific form of energy, is rather inelastic in the short run. Consumers can switch fuels or reduce consumption only if they make the capital investment to replace or modify their existing appliances, buildings, industrial processing equipment or vehicles.

There are also three to five years lead times between investment decisions and the development of energy resources. In the severe natural gas shortage of the winter of 1977, supply fell short of demand by only 3 per cent and yet the impact was felt by almost everyone. Likewise, the recent gasoline shortage is the result of a very small supply/demand imbalance relative to the total market.

The Market at Work

The natural gas shortage would have been far more severe and still exist today were it not for the fact that market forces eventually provide the incentive to circumvent government controls. For example, blocked from interstate sources of gas in 1969, The East Ohio Gas Company turned to two other sources not subject to federal regulation: Ohio intrastate resources and the world market.

Company management recognized the need for a short-term supply to fill in the gap until gas could be obtained from the world market or until U.S. policy would again encourage gas production for interstate sales. For that vital interim supply, the Company turned to the previously marginally economic Ohio gas fields. The unregulated price paid to small independent Ohio producers was doubled, then tripled, and within several years Ohio production tripled also. The

share of market met with Ohio gas increased from 5 per cent to 15 per cent in three years.

As vital as the Ohio gas has been in minimizing shortages, it must still be kept in perspective. It is not the long-term solution to Ohio's energy problems. All of the gas believed to be in Ohio could meet the needs of Ohio consumers for only two years.

For a longer-term solution, East Ohio Gas, as part of the Consolidated Natural Gas System, signed a 25-year contract in 1970 to bring liquefied natural gas by tanker from Algeria. After years of government red tape and \$2 billion of construction, LNG deliveries began in 1978. LNG will increase supplies by 15 per cent and satisfy market growth for the next ten years.

In the meantime, federal policy on natural gas has become more realistic. Interstate price ceilings have been increased in real dollar terms beginning in 1975 and the Natural Gas Policy Act of 1978 established interim price ceilings leading to complete decontrol by 1985. The stage is now set for free market

forces to do what federal regulation has been unable to do: to balance supply and demand at the lowest reasonable price.

Despite an eightfold increase in the wellhead prices of new sources of gas in the last ten years, natural gas is still the bargain energy. Natural gas distributors have moderated much of this increase by blending the new supplies with lower cost supplies under older contracts. For the customers of The East Ohio Gas Company, rates have just doubled in the last ten years—a pace only slightly exceeding the general inflation rate. Natural gas is still only two-thirds the cost of home heating oil or coal and one-fourth the cost of electricity.

Higher prices have already begun to dampen demand and increase drilling. Conservation, primarily in response to increased cost, has reduced residential use per customer by 15 per cent since October 1973, and gas well completions are on the rise again—proof again that energy shortages are more the result of economic policy than the availability of natural resources. ☉

The Price of Price Controls

IDEAS ON



LIBERTY

THE evidence is clear and overwhelming. Throughout forty centuries of human experience, price controls at their best have always been a miserable failure. At their worst, they have led to famine and to bloodshed—to defeat and to disaster.

IRVING S. OLDS

GOLD HAS RISEN— But Remains the Same



Nor very long before his untimely death, Jacques Rueff in his fluent but slightly accented English commented that further debates on the status of gold in the monetary system seemed hardly necessary for "events were taking over." And indeed they have.

With surprisingly little fanfare, gold is maintaining its firm place in the world's reserves where it commands a respect far greater than any of the fiat currencies that pass for money these days. That this could happen in spite of the persistent anti-gold position of successive United States Administrations over more than four decades still further emphasizes its durability as money and the firm faith all manner of men have in it—apart from those who

rule in Washington and bankers whose skill is largely in manipulation of the technicalities of increasingly complex instruments of credit.

The long record of human history surely reveals that when money, whether in the form of precious metal or credit, is debased and abused, a nation or even the entire world suffers. Today we are in a period of such misbehavior and mismanagement but the persistent strength of gold even under these trying conditions offers hope that, if it is used wisely and effectively, order can eventually be restored.

The principle currently known as Gresham's Law has been recognized for tens of centuries. It is as sound today as it was when Aristophanes used it in a metaphor to illustrate how good men were driven from public life in Athens in the same way that untrustworthy money forced better money out of circula-

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tion. At about the same time, Aristotle stated the concept more logically perhaps, but less poetically. Today, the principle is well understood in most high circles in Europe. In 1973, Milton Gilbert noted that gold remained unused in the vaults of the central banks—but not unloved. In America, unfortunately, the money managers and politicians seem less familiar with the classics.

Since then, eighteen governments (but not the United States) are valuing their official gold stocks closer to market prices—or more rationally expressed are putting the currencies they hold in a realistic ratio to gold. Furthermore, by utilizing gold at a market-related rate, the recently created European Monetary System has provided the Common Market countries with a mechanism for employing their gold reserves effectively in foreign exchange transactions. These wise moves tend to reduce the discrepancies that tend to immobilize gold in response to Aristophanes' or Gresham's Law, even though they do not remove all fears arising from the continued depreciation of fiat money.

According to our official policy, gold has now been demonetized and henceforth fiat currencies and credit instruments will be relied upon exclusively to perform the services expected from money. Their most distinctive quality unfortunately appears to be a tendency to decline in

purchasing power, a very troublesome defect in anything that claims to be money.

"Paper Gold"

To overcome the restrictions imposed by national sovereignty and political borders, a strange device known as Special Drawing Rights was created by the International Monetary Fund, at first vaguely attached to gold and now defined in terms of a "basket" of currencies, all of which are depreciating in real value though at different rates. In essence, the SDRs were an attempt to create an international form of fiat money. For a time, their enthusiastic supporters even referred to them as "paper gold." So far, their acceptance even under duress has been restrained, to put it mildly.

Even though "demonetized" by the dictum of the United States, nearly a billion troy ounces of gold are still firmly held in the official reserves of the western nations, rather a substantial amount to declare was no longer legal money. This obvious preference for gold should be rather disquieting for those who regard Gresham's Law as obsolete.

A monetary system based exclusively on credit possibly could be made to function, if managed by a small group of knowledgeable men of intelligence and integrity, with complete political independence and

power, as well as mastery of the technical intricacies of money and finance and unprejudiced understanding of both national and international conditions that influence policies. Until such paragons can be brought into existence, however, it will be safer to retain the discipline of gold as an element of the monetary system than to expect that those who manage money based on credit and on government fiat will do so with sufficient skill that it will in time attain the confidence now commanded by gold. From the record of centuries this can hardly be regarded as even a forlorn hope.

Significant Experiments

In the natural sciences, ideas and hypotheses are tested by controlled experiments and confirmed or rejected by their outcome. In the social sciences such definitive tests are rarely possible. But with regard to gold's place in the monetary system there have been episodes that have provided results of unusually positive sort.

The first that should have been regarded as a significant experiment was the effort of several governments at the instigation of the United States 22 years ago to maintain the official price of gold at \$35 per ounce by making gold available at this rate on the London market to all who desired to purchase it. It was a costly experiment. After several

billion dollars had been spent with little effect, except to transfer gold into hands eager to accept it at a bargain price, the drain on gold reserves soon became too apparent and excessive to be tolerated and the sales were abandoned close to the Ides of March in 1968, with self-serving explanations that the mission had been accomplished. It was accompanied by the abrupt announcement that sales and purchases of gold by the participating governments would be discontinued at the official rate except between Central Banks.

The restrictions on ownership of gold were not repealed but miners and others with gold to sell were permitted to do so on the market to specifically authorized purchasers for whatever price their metal might command. In spite of predictions by several prominent economists and politicians that without the support of the dollar the gold price would sink to much lower levels, this didn't happen. After a short period of little change, the price started to rise, and this trend has continued with the usual market swings but with each new peak rising above the last. The results of this experiment alone should have been accepted as proof that the price of gold can not be tied to an unconvertible currency, subject to manipulations that cause it to depreciate in value.

A second test with equally deci-

sive results occurred during the international financial turmoil in 1971 that led to the closing of the "gold window" on August 15th, when the United States Administration announced that it would (or could) no longer redeem dollars held by Central Banks in gold at the official price which by that time had been raised from Roosevelt's \$35 an ounce to the strangely precise figure of \$42.22 per ounce. The magnitude of claims in dollars had for some time made it apparent that the pledge to honor them in such terms had become impossible to meet. In effect, the United States admitted bankruptcy, as far as its obligation was concerned to redeem such dollars in gold at the official rate. Again it was made clear except to those whose anti-gold fixation made them blind to realities that a fiat dollar can not control the worth of gold.

The third experiment was the attempt to check the rising price of gold on the market and the weakness of the dollar that it revealed by substantial sales of gold from the reserves of the United States Treasury and the gold held by the International Monetary Fund. Whatever those who initiated this policy had in mind, it is unlikely that they anticipated or desired that the market price of gold would rise in spite of the large quantities they disposed of.

Furthermore, in the course of these sales, the Central Banks of Europe have not reduced their stocks of gold and indeed have firmly held the gold returned to them by the IMF which hardly seems in accordance with the decision, sponsored by the United States, that gold had been demonetized. Even a number of the Developing Countries have preferred to accept their allotment of the IMF sales in gold rather than in the paper in which the so-called aid would have presumably been paid to them.

In the natural sciences, when the outcome of a series of experiments is so definite, even the most ardent advocates of the ideas being tested usually accept them as conclusive. Unfortunately, the anti-gold group in power in Washington continues to ignore their clear message.

An Encouraging Sign

Restoration of the gold standard, which would require redefinition of the major currencies in terms of gold and establishment of unrestricted convertibility at new fixed rates, hardly seems attainable until the abuses of credit and the increasing worldwide inflation have been corrected and ended. It is still an objective worth striving for but to achieve it would require more drastic and disciplined action than our electorate and our politicians seeking

reelection are likely to accept in the foreseeable future.

Even though restoration of the gold standard for the time being may be ruled out, a new monetary system appears to be evolving in which gold will continue to have an important place and be a strong and stabilizing element. Progress toward this end is revealed, not only by the firm retention of gold stocks by the major reserve banks—with the exception of the ill-considered sales by the U.S. Treasury and its sycophant, the IMF—but also by the removal of restrictions on ownership of gold by citizens and the issuance by many nations of gold coins whose worth is primarily determined by their weight in gold. Among them, the one-ounce Krugerrand, various handsome Mexican coins with gold content stated in metric units, and new coins struck from old dies such as the Austrian Krona are notable examples. The designations in national currency units that some still bear are obviously meaningless. The principal contribution by the issuing government is its seal that justifies confidence that the gold content is as stated.

A timely step that would simplify and create better order, as well as strengthen the function of gold in the evolving monetary system, would be the creation and dissemination of a coin of uniform gold content, fineness and size that could

become a standard by which other monetary devices could be measured.

A Coin of Uniform Weight

With one gram of gold adopted as the basic unit, a coin containing 10 grams of gold (0.322 ounces troy), in the 90% alloy with copper commonly used in coinage to provide hardness, would be a convenient size, slightly larger than the old American five-dollar gold coin or the British sovereign.

The acceptance of such a golden unit would probably be facilitated if the coins were minted by each of the major nations and their authenticity established by them. Uniformity in design would not be necessary. Their essential quality would be the common gold content. Competition in beauty and esthetic appeal would have much to commend it.

If an appropriate name for such 10 gram gold coins could be found that would be easily comprehended internationally, so much the better, but if not, there would be no harm in each nation using a term based on some aspect of the design in which it took pride.

The unit of measurement, however, should be one gram of gold which could be abbreviated as 1 gm Au, a designation that would be understood and translated into any language in this age of common scientific nomenclature. The 10 gm Au

coin which could be acquired and handled would give the unit a tangible reality. This is a quality that Special Drawing Rights can never acquire, in spite of the presumption of their creators in calling them "paper gold."

Leave It to the Market

The rigid discipline of the gold standard, however, need not be imposed until desired. No tie need exist between any national fiat currency and the golden units. Any country would be completely free to indulge in whatever political, social or economic policies (or nonsense) it desired. The only restraint imposed by the gold in the reserves and the golden coins would be the effect on the market price of the currencies expressed in grams of gold. The objectionable term "the price of gold" could be abandoned, with currencies, as well as commodities and services, priced on the market in a unit containing a specific weight of gold. The plethora of quotations of currencies—dollars, marks, francs, yen, sovereigns, and the like expressed in each other, all variables measured by other independent and sometimes erratic variables—could be eventually abandoned. It would do no harm to continue such exchange quotations as long as the momentum of tradition required. But they should be accompanied by quotations in the proposed gold un-

its, which would reveal the status of each national currency in one common standard.

Abuses of credit and excesses in creation of fiat currencies based on debt could hardly be concealed, for they would be promptly revealed in the price of the paper in gold. The economy obviously needs both elements—credit and stable money—but with gold effectively utilized in the monetary system a badly needed base would be provided upon which deficits, changes in quantity of fiat money and inflation, among other evils of the times, could be clearly revealed.

The Individual's Choice

The individual should of course have the privilege of acquiring the golden coins at rates determined by the market price of the currency he possessed. The denial of such a freedom by any government would in all probability be immediately and unfavorably reflected in the price of the currency.

The right to buy gold—especially coins—actually puts into the hands of anyone desiring to do so, a very special commodity that has long possessed the essential qualities of money, viz., a medium of exchange, a means of measuring the relative value of other commodities and services, and a safe way to store wealth. The latter quality is not possessed today by any national currency.

The existence of a dominant gold coin—such as the one proposed, containing 10 grams of gold—would provide a simple constant, so to speak, against which all currencies could be measured with ease and confidence. It would, of course, not be a constant of value in the strict sense the term is used in mathematics and the physical sciences, but it would at least stand for a fixed quantity of gold. No commodity—not even gold—can claim to be invariable in worth and to provide an unchanging base for measurement of values of materials and services, but over the centuries gold has come nearest to doing this, as Roy Jastram has so well demonstrated in his recent book, *The Golden Constant: The English and American Experience, 1560-1976* (John Wiley & Sons, Inc., 1977).

Three years ago, the title of a speech I gave at an annual gathering in a redwood grove in California was "The Resurrection of Gold Without Benefit of Clergy." Since then, in spite of the high priests in the Treasury and elsewhere in the government, Gold Has Risen as the dollar and other fiat currencies have deteriorated, and yet its worth, expressed in the cost in gold of a good dinner, a suit of clothes, a haircut or even a barrel of oil has not changed much. The Resurrection of Gold should now be regarded as demonstrated and as an important advance

toward a sounder monetary system, with clear distinction between the status of money based on the relatively stable worth of the traditional monetary commodity—gold—and the variable national currencies that represent nothing more than credit in one form or another.

If this is coming about without formal conferences and long debates, so much the better. The open market even for currencies is a masterful device and one that is essential for economic freedom. It will continue to prevail and exert its influence even over the value of unconvertible currencies. With the variety of trustworthy coins now available, gold is already gaining more and more recognition as money in which currencies can be measured, and if a gold coin of established quality gains wide acceptance, the monetary system will be approaching a status in which there will be far better hope of attaining stability than has existed since World War II.

Fiat Money Rejected

How the present uncertainties will end is hard to predict. In the last few months, the market "price" of gold has risen at an unexpectedly rapid rate. There are undoubtedly some undesirable factors involved, such as excessive transactions in gold futures, but by and large the accelerating rate at which gold has risen is to a much greater extent a

result of the growing concern about the domestic economy and the deteriorating international situation, not to mention the persistence of deficit financing and the resulting unavoidable inflation. If the price of currencies were quoted in units of gold rather than the other way around, the instability attributed to gold by some of its detractors would be more clearly revealed as weaknesses in the artificial devices we now must use as money.

I do recall, however, that a few years ago when I was asked in a radio interview how high the price of gold would go, I replied that it had approached infinity in German marks in 1923. That need not and should not happen in America but with a few more years of persistent deficits and unwillingness to forgo extravagances in our way of life, it is a possibility that should not be lightly dismissed.

Stop Deficit Spending and Monetization of Debt

The first essential step to prevent such a disaster is to keep expenditures by the government within its income and to end monetization of debt. The second even more serious need is to find the least painful means of dealing with the tremendous and still mounting debt—domestic and international—that has now reached magnitudes that make its retirement by conventional

means practically impossible. Reduction by default and/or by inflation are unfortunately much easier. Repudiation of debt in a more dramatic way would be the substitution of a new dollar for a number of existing dollars. Unfortunately this procedure is not without precedent. In 1926-28 Poincaré and in 1958 Charles de Gaulle created new francs for the then current francs that became known as "ancien francs." The creation of the Deutsche Mark is another example. These procedures were drastic though probably unavoidable. Such moves, however, in general are likely to be a mixture of good and evil—probably more of the latter than the former. But, if a country is forced to "bite the bullet" to correct past mistakes and excesses, liquidation of excessive debt by payment of a small fraction in sound money may not be the worst way and might even be the best way if the new currency—or the new dollar or whatever it might be called—were made convertible into gold, when a durable rate could be established.

None of these disturbing developments is inevitable, but unless the American people and their leaders who are dependent on their votes have the will to put our house in order and accept the austerity that must be faced, events will indeed take over—and they are not likely to be pleasant. 

Politics and Ideas

IN the Age of Enlightenment, in the years in which the North Americans founded their independence, and a few years later, when the Spanish and Portuguese colonies were transformed into independent nations, the prevailing mood in Western civilization was optimistic. At that time all philosophers and statesmen were fully convinced that we were living at the beginning of a new age of prosperity, progress, and freedom. In those days people expected that the new political institutions—the constitutional representative governments established in the free nations of Europe and America—would work in a very beneficial way, and that economic freedom would continuously improve the material conditions of mankind.

We know very well that some of these expectations were too optimistic. It is certainly true that we have experienced, in the nineteenth and twentieth centuries, an unpre-

cedented improvement in economic conditions, making it possible for a much larger population to live at a much higher standard of living. But we also know that many of the hopes of the eighteenth century philosophers have been badly shattered—hopes that there would not be any more wars and that revolutions would become unnecessary. These expectations were not realized.

During the nineteenth century, there was a period when wars decreased in both number and severity. But the twentieth century brought a resurgence of the war-like spirit, and we can fairly well say that we may not yet be at the end of the trials through which mankind will have to go.

The constitutional system that began at the end of the eighteenth and the beginning of the nineteenth century has disappointed mankind. Most people—also most authors—

who have dealt with this problem seem to think there has been no connection between the economic and the political side of the problem. Thus, they tend to deal at great length with the decay of parliamentarianism—government by the representatives of the people—as if this phenomenon were completely independent of the economic situation and of the economic ideas that determine the activities of people.

But such an independence does not exist. Man is not a being that, on the one hand, has an economic side and, on the other hand, a political side, with no connection between the two. In fact, what is called the decay of freedom, of constitutional government and representative institutions, is the consequence of the radical change in economic and political ideas. The political events are the inevitable consequence of the change in economic policies.

A Common Goal— Different Ways to Reach It

The ideas that guided the statesmen, philosophers and lawyers who, in the eighteenth century and in the early nineteenth century developed the fundamentals of the new political system, started from the assumption that, within a nation, all honest citizens have the same ultimate goal. This ultimate goal, to which all decent men should be ded-

icated, is the welfare of the whole nation and also the welfare of other nations—these moral and political leaders being fully convinced that a free nation is not interested in conquest. They conceived of party strife as only natural, that it was perfectly normal for there to be differences of opinion concerning the best way to conduct the affairs of state.

Those people who held similar ideas about a problem cooperated, and this cooperation was called a party. But a party structure was not permanent. It did not depend on the position of the individuals within the whole social structure. It could change if people learned that their original position was based on erroneous assumptions, on erroneous ideas. From this point of view, many regarded the discussions in the election campaigns and later in the legislative assemblies as an important political factor. The speeches of members of a legislature were not considered to be merely pronouncements telling the world what a political party wanted. They were regarded as attempts to convince opposing groups that the speaker's own ideas were more correct, more beneficial to the common weal, than those which they had heard before.

Political speeches, editorials in newspapers, pamphlets, and books were written in order to persuade. There was little reason to believe that one could not convince the ma-

PHOTO BY DAVID JARRETT



Ludwig von Mises, 1881-1973, was one of the great defenders of a rational economic science, and perhaps the single most creative mind at work in this field in our century.

Found among the papers of Dr. Mises were transcripts of lectures he delivered in Argentina in 1959. These have now been edited by his widow and are available as a Regnery/Gateway paperbacked book. This article, one of the lectures, is here reprinted by permission of the publishers. All rights reserved.

The book, *Economic Policy: Thoughts for Today and Tomorrow*, also may be purchased at \$4.95 from The Foundation for Economic Education, Inc., Irvington-on-Hudson, N.Y. 10533.

jority that one's own position was absolutely correct if one's ideas were sound. It was from this point of view that the constitutional rules were written in the legislative bodies of the early nineteenth century.

But this implied that the government would not interfere with the economic conditions of the market. It implied that all citizens had only one political aim: the welfare of the whole country and of the whole nation. And it is precisely this social and economic philosophy that interventionism has replaced. Interventionism has spawned a very different philosophy.

Under interventionist ideas, it is the duty of the government to support, to subsidize, to give privileges to special groups. The idea of the

eighteenth century statesmen was that the legislators had special ideas about the common good. But what we have today, what we see today in the reality of political life, practically without any exceptions, in all the countries of the world where there is not simply communist dictatorship, is a situation where there are no longer real political parties in the old classical sense, but merely *pressure groups*.

A pressure group is a group of people who want to attain for themselves a special privilege at the expense of the rest of the nation. This privilege may consist in a tariff on competing imports, it may consist in a subsidy, it may consist in laws that prevent other people from competing with the members of the

pressure group. At any rate, it gives to the members of the pressure group a special position. It gives them something which is denied or ought to be denied—according to the ideas of the pressure group—to other groups.

The Form Remains

In the United States, the two-party system of the old days is seemingly still preserved. But this is only a camouflage of the real situation. In fact, the political life of the United States—as well as the political life of all other countries—is determined by the struggle and aspirations of pressure groups. In the United States there is still a Republican party and a Democratic party, but in each of these parties there are pressure group representatives. These pressure group representatives are more interested in cooperation with representatives of the same pressure group in the opposing party than with the efforts of fellow members in their own party.

To give you an example, if you talk to people in the United States who really know the business of Congress, they will tell you: "This man, this member of Congress represents the interests of the silver groups." Or they will tell you another man represents the wheat growers.

Of course, each of these pressure groups is necessarily a minority. In

a system based on the division of labor, every special group that aims at privileges has to be a minority. And minorities never have the chance to attain success, if they do not cooperate with other similar minorities, similar pressure groups. In the legislative assemblies, they try to bring about a coalition between various pressure groups, so that they might become the majority. But, after a time, this coalition may disintegrate, because there are problems on which it is impossible to reach agreement with other pressure groups, and new pressure group coalitions are formed.

That is what happened in France in 1871, a situation which historians deemed "the decay of the Third Republic." It was not a decay of the Third Republic; it was simply an exemplification of the fact that the pressure group system is not a system that can be successfully applied to the government of a big nation.

You have, in the legislatures, representatives of wheat, of meat, of silver, and of oil, but first of all, of the various unions. Only one thing is *not* represented in the legislature: the nation as a whole. There are only a few who take the side of the nation as a whole. And all problems, even those of foreign policy, are seen from the point of view of the special pressure group interests.

In the United States, some of the less-populated states are interested

in the price of silver. But not everybody in these states is interested in it. Nevertheless, the United States, for many decades, has spent a considerable sum of money, at the expense of the taxpayers, in order to buy silver above its market price. For another example, in the United States only a small proportion of the population is employed in agriculture; the remainder of the population is made up of consumers—but not producers—of agricultural products. The United States, nevertheless, has a policy of spending billions and billions in order to keep the prices of agricultural products above the potential market price.

One cannot say that this is a policy in favor of a small minority, because these agricultural interests are not uniform. The dairy farmer is not interested in a high price for cereals; on the contrary, he would prefer a lower price for this product. A chicken farmer wants a lower price for chicken feed. There are many incompatible special interests within this group. And yet, clever diplomacy in congressional politics makes it possible for small minority groups to get privileges at the expense of the majority.

The Sugar Lobby

One situation, especially interesting in the United States, concerns sugar. Perhaps only one out of 500 Americans is interested in a higher

price for sugar. Probably 499 out of 500 want a lower price for sugar. Nevertheless, the policy of the United States is committed, by tariffs and other special measures, to a higher price for sugar. This policy is not only detrimental to the interests of those 499 who are consumers of sugar, it also creates a very severe problem of foreign policy for the United States. The aim of foreign policy is cooperation with all other American republics, some of which are interested in selling sugar to the United States. They would like to sell a greater quantity of it. This illustrates how pressure group interests may determine even the foreign policy of a nation.

For years, people throughout the world have been writing about democracy—about popular, representative government. They have been complaining about its inadequacies, but the democracy they criticize is only that democracy under which *interventionism* is the governing policy of the country.

Today one might hear people say: "In the early nineteenth century, in the legislatures of France, England, the United States, and other nations, there were speeches about the great problems of mankind. They fought against tyranny, for freedom, for cooperation with all other free nations. But now we are more practical in the legislature!"

Of course we are more practical;

people today do not talk about freedom: they talk about a *higher price for peanuts*. If this is practical, then of course the legislatures have changed considerably, but not improved.

Representatives Shackled

These political changes, brought about by interventionism, have considerably weakened the power of nations and of representatives to resist the aspirations of dictators and the operations of tyrants. The legislative representatives whose only concern is to satisfy the voters who want, for instance, a high price for sugar, milk, and butter, and a low price for wheat (subsidized by the government) can represent the people only in a very weak way; they can never represent *all* their constituents.

The voters who are in favor of such privileges do not realize that there are also opponents who want the opposite thing and who prevent *their* representatives from achieving full success.

This system leads also to a constant increase of public expenditures, on the one hand, and makes it more difficult, on the other, to levy taxes. These pressure group representatives want many special privileges for their pressure groups, but they do not want to burden their supporters with a too-heavy tax load.

It was not the idea of the eighteenth century founders of modern constitutional government that a legislator should represent *not* the whole nation but only the special interests of the district in which he was elected; that was one of the consequences of interventionism. The original idea was that every member of the legislature *should* represent the whole nation. He was elected in a special district only because there he was known and elected by people who had confidence in him.

But it was not intended that he go into government in order to procure something special for his constituency, that he ask for a new school or a new hospital or a new lunatic asylum—thereby causing a considerable rise in government expenditures within his district. Pressure group politics explains why it is almost impossible, for all governments, to stop inflation. As soon as the elected officials try to restrict expenditures, to limit spending, those who support special interests, who derive advantages from special items in the budget, come and declare that *this* particular project cannot be undertaken, or that *that one* must be done.

Dictatorship, of course, is no solution to the problems of economics, just as it is not the answer to the problems of freedom. A dictator may start out by making promises of

every sort but, being a dictator, he will not keep his promises. He will, instead, suppress free speech immediately, so that the newspapers and the legislative speech-makers will not be able to point out—days, months or years afterwards—that he said something different on the first day of his dictatorship than he did later on.

The terrible dictatorship which such a big country as Germany had to live through in the recent past comes to mind, as we look upon the decline of freedom in so many countries today. As a result, people speak now about the decay of freedom and about the decline of our civilization.

A Dubious Doctrine

People say that every civilization must finally fall into ruin and disintegrate. There are eminent supporters of this idea. One was a German teacher, Spengler, and another one, much better known, was the English historian Toynbee. They tell us that our civilization is now old. Spengler compared civilization to plants which grow and grow, but whose life finally comes to an end. The same, he says, is true for civilizations. The metaphorical likening of a civilization to a plant is completely arbitrary.

First of all, it is within the history of mankind very difficult to distinguish between different, independent civilizations. Civilizations are

not independent; they are *interdependent*, they constantly influence each other. One cannot speak of the decline of a particular civilization, therefore, in the same way that one can speak of the death of a particular plant.

But even if you refute the doctrines of Spengler and Toynbee, a very popular comparison still remains: the comparison of decaying civilizations. It is certainly true that in the second century A.D., the Roman Empire nurtured a very flourishing civilization, that in those parts of Europe, Asia, and Africa in which the Roman Empire ruled, there was a very high civilization. There was also a very high *economic* civilization, based on a certain degree of division of labor. Although it appears quite primitive when compared with our conditions today, it certainly was remarkable. It reached the highest degree of the division of labor ever attained before modern capitalism. It is no less true that this civilization disintegrated, especially in the third century. This disintegration within the Roman Empire made it impossible for the Romans to resist aggression from without. Although the aggression was no worse than that which the Romans had resisted again and again in the preceding centuries, they could withstand it no longer after what had taken place within the Roman Empire.

What had taken place? What was the problem? What was it that caused the disintegration of an empire which, in every regard, had attained the highest civilization ever achieved before the eighteenth century? The truth is that what destroyed this ancient civilization was something similar, almost identical to the dangers that threaten our civilization today: on the one hand it was *interventionism*, on the other hand, *inflation*. The interventionism of the Roman Empire consisted in the fact that the Roman Empire, following the preceding Greek policy, did not abstain from price control. This price control was mild, practically without any consequences, because for centuries it did not try to reduce prices below the market level.

But when inflation began in the third century, the poor Romans did not yet have our technical means for inflation—they could not print money. They had to debase the coinage, and this was a much inferior system of inflation compared to the present system, which—through the use of the modern printing press—can so easily destroy the value of money. But it was efficient enough, and it brought about the same result as price control. For the prices which the authorities tolerated were now below the potential price to which inflation had brought the prices of the various commodities.

Unseen Consequences

The result, of course, was that the supply of foodstuffs in the cities declined. The people in the cities were forced to go back to the country and to return to agricultural life. The Romans never realized what was happening. They did not understand it. They had not developed the mental tools to interpret the problems of the division of labor and the consequences of inflation upon market prices. That this currency inflation, currency debasement, was bad, this they knew of course very well.

Consequently, the emperors made laws against this movement. There were laws preventing the city dweller from moving to the country, but such laws were ineffective. As the people did not have anything to eat in the city, as they were starving, no law could keep them from leaving the city and going back into agriculture. The city dweller could no longer work in the processing industries of the cities as an artisan. And, with the loss of the markets in the cities, no one could buy anything there anymore.

Thus we see that, from the third century on, the cities of the Roman Empire were declining and that the division of labor became less intensive than it had been before. Finally, the medieval system of the self-sufficient household, of the "villa," as it was called in later laws, emerged.

Therefore, if people compare our conditions with those of the Roman Empire and say: "We will go the same way," they have some reasons for saying so. They can find some facts which are similar. But there are also enormous differences. These differences are not in the political structure which prevailed in the second part of the third century. Then, on the average of every three years, an emperor was assassinated, and the man who killed him or caused his death became his successor. After three years, on the average, the same happened to the new emperor. When Diocletian, in the year 284, became emperor, he tried for some time to oppose the decay, but without success.

Planned Chaos

There are enormous differences between present-day conditions and those that prevailed in Rome, in that the measures that caused the disintegration of the Roman Empire were not premeditated. They were not, I would say, the result of reprehensible formalized doctrines.

In contrast, however, the interventionist ideas, the socialist ideas, the inflationist ideas of our time, have been concocted and formalized by writers and professors. And they are taught at colleges and universities. You may say: "Today's situation is much worse." I will answer: "No, it is not worse." It is better, in

my opinion, because ideas can be defeated by other ideas. Nobody doubted, in the age of the Roman emperors, that the government had the right and that it was a good policy to determine maximum prices. Nobody disputed this.

But now that we have schools and professors and books that recommend this, we know very well that this is a problem for discussion. All these bad ideas from which we suffer today, which have made our policies so harmful, were developed by academic theorists.

A famous Spanish author spoke about "the revolt of the masses." We have to be very cautious in using this term, because this revolt was not made by the masses: it was made by the intellectuals. And those intellectuals who developed these doctrines were not men from the masses. The Marxian doctrine pretends that it is only the proletarians that have the good ideas and that only the proletarian mind created socialism. All the socialist authors, without exception, were *bourgeois* in the sense in which the socialists use this term.

Karl Marx was *not* a man from the proletariat. He was the son of a lawyer. He did not have to work to go to the university. He studied at the university in the same way as do the sons of well-to-do people today. Later, and for the rest of his life, he was supported by his friend Fried-

rich Engels, who—being a manufacturer—was the worst type of “bourgeois,” according to socialist ideas. In the language of Marxism, he was an exploiter.

Everything that happens in the social world in our time is the result of ideas. Good things and bad things. What is needed is to fight bad ideas. We must fight all that we dislike in public life. We must substitute better ideas for wrong ideas. We must refute the doctrines that promote union violence. We must oppose the confiscation of property, the control of prices, inflation, and all those evils from which we suffer.

The Power of Better Ideas

Ideas and only ideas can light the darkness. These ideas must be brought to the public in such a way that they persuade people. We must convince them that these ideas are the right ideas and not the wrong ones. The great age of the nineteenth century, the great achievements of capitalism, were the result of the ideas of the classical economists, of Adam Smith and David Ricardo, of Bastiat and others.

What we need is nothing else than to substitute better ideas for bad ideas. This, I hope and am confident, will be done by the rising generation. Our civilization is not doomed, as Spengler and Toynbee tell us. Our civilization will not be con-

quered by the spirit of Moscow. Our civilization will and must survive. And it will survive through better ideas than those which now govern most of the world today, and these better ideas will be developed by the rising generation.

I consider it as a very good sign that, while fifty years ago, practically nobody in the world had the courage to say anything in favor of a free economy, we have now, at least in some of the advanced countries of the world, institutions that are centers for the propagation of a free economy, such as, for example, the “Centre” in your country which invited me to come to Buenos Aires, to say a few words in this great city.

I could not say much about these important matters. Six lectures may be very much for an audience, but they are not enough to develop the whole philosophy of a free economic system, and certainly not enough to refute all the nonsense that has been written in the last fifty years about the economic problems with which we are dealing.

I am very grateful to this center for giving me the opportunity to address such a distinguished audience, and I hope that in a few years the number of those who are supporting ideas for freedom in this country, and in other countries, will increase considerably. I myself have full confidence in the future of freedom, both political and economic. ☉

In Defense of Government

SOME of the worst evils in this world are committed by persons on government payrolls. This includes the official acts of the agents of Genghis Khan, Stalin, and Hitler—as well as those of the Shah and the Ayatollah Khomeini in Iran. It also includes such official acts as the Inquisition in Spain, the various slaughters recorded in the Old Testament, and the Russian soldiers in Afghanistan today.

The evil that's committed in the name of government includes economic destruction along with human destruction. To cite but one of hundreds of similar examples, just look around you at the results of government housing programs. For more than half-a-century now, our officials have poured hundreds-of-

billions of our tax dollars into programs to clean up slums and to help the people who live in them. As a direct result of these governmental activities, we now have more slums (and more slum dwellers) than ever before.

These destructive governmental activities have been going on for many thousands of years. The trend appears to be increasing.

I have several friends and acquaintances who have reached the conclusion that the only way to stop this continuing evil is to get rid of the institution that's causing it, i.e., to abolish government itself. But even though I understand their motivation, it's literally impossible for any person or group of persons to abolish government. When they try, they are faced by a sort of "catch 22," i.e., the persons who abolish gov-

ernment *are* the government, and there's no possible way to get around it.

You see, government is not an object. It's a *process*. And it happens in one form or another when two or more people first meet and decide to cooperate or not to cooperate, as the case may be. It can't be abolished (even in theory) for this simple reason: Government is *however* a people acting together as individuals. The only situation in which "no government" can exist is when no human beings ever do anything with (or for or against) other human beings. Even then, government hasn't been abolished; it just doesn't exist.

Thus the only option open to successful rebels (whether by ballot or bullet) is to change the form of their new government and, of course, to repeal laws they don't like and to add laws they do like.

Maximize Self-Government

The first preference of every peace-minded person is, of course, to maximize self-government, i.e., to settle agreements and disagreements voluntarily rather than to resort to compulsory processes. In fact, there can be no freedom at all if self-government is totally missing. But even peaceful solutions to disagreements are also a method of government; for that process, too, includes procedures for (1) paying

for the services of the "arbitrator," however selected, and (2) what to do when some persons inevitably prove their humanness by finding the actions of other persons unacceptable.

Thus, while there's no possible way we can abolish the governing process as such—or even permanently restrict its activities—any one of us can refuse to obey a particular law. Many of us do. Much of the enduring literature of mankind is inspired by this ever-present conflict between conscience and conformity. It always encourages me when I hear about a person who refuses to obey a law that's contrary to his or her conscience. Of course, we law-breakers must pay a price—sometimes a fearful price—for our illegal actions.

That consequence is hardly surprising. After all, a law can't be voluntary. That would be a contradiction in terms. Without exception, all laws (all acts of government) compel an unknown number of people to do something we wouldn't do voluntarily. The acts we are compelled (or forbidden) to do may be good or bad. That's another issue, and it's not related to the inherent nature of government itself.

I encountered this no-government or "voluntary law" idea in the American Civil Liberties Union in the 1960s. I discovered that intelligent lawyers in my own New York

chapter of ACLU were using that argument to defend persons who refused to participate in our war in Indochina. I did my level best to convince the leaders of our organization that they were using an illogical (even nonsensical) approach to the problem. I failed to dissuade them.

Those leaders were with me completely in my opposition to the draft, as well as to our government's decision to send troops to Vietnam at all. But in spite of my written protests and arguments, they continued to use my membership dues to advance the strange idea that laws should be voluntary, i.e., every person should have the right to disobey a law *without penalty* if the law is contrary to his moral convictions. That concept (stripped of legal phraseology) was in the mainstream of ACLU defense of draft evaders during the 1960s.

I had been attracted to ACLU because of its magnificent work for "equal treatment under law" for racial minorities and most everyone else. I wanted to continue my support of that type of work. But I couldn't figure out any way to support the one without supporting the other. Thus (with great reluctance) I finally resigned from my longtime membership in ACLU. I just couldn't continue to associate myself with people who participated in such shallow thinking as voluntary law.

When all is said and done, the

officials of government never deal with "things" but only with people and our interrelationships. For example, it is impossible to pass a law against high prices. The law is necessarily against *persons* who raise prices above a level set by an official. Whether or not our government *should* involve itself in various human relationships is debatable—and is debated. Necessarily the debate always concerns *persons*, and what we should be compelled to do and forbidden to do. Things, e.g., tides and floods, are not subject to man-made laws; only people are.

Do you remember when the Swedish people began their national debate concerning whether or not parents would be permitted to spank their children? We Americans laughed. We shouldn't have. In the United States, we spank our children only with the permission of government. It's always been that way. And if you-the-parent exceed the legal limit of punishment delegated to you by our government you can end up in jail and have your children taken away from you. Your crime will be called "child abuse." Personally, I'm in favor of laws against parents who beat up and physically injure their children. And vice versa!

We are legally forbidden (as specified by government) from abusing *any* human being. The ages of

the persons involved—and their relationships—doesn't deny this reality of the purpose of government. And the fact that governments always (no exception) exceed the limits of this protective function doesn't deny the logic for legal protection against aggressors.

Early Forms of Government

Some form of government appeared when the first two people on earth had their first disagreement—or agreement, as the case may have been. The first government was most likely a patriarchal dictatorship; for example, the process of government followed by Abraham when he decided to sacrifice Isaac. It could have been some form of democracy, however; for example, the type of majority rule followed by Joseph's brothers when they debated his fate. Nobody knows.

We can logically deduce from the inherently self-centered nature of man, however, that some sort of government automatically came into existence whenever two or more people lived in the same neighborhood. For whatever reason, they observed at least a few simple rules, with known ways of enforcing them. Even one rule or understanding *backed by an effective threat of sanctions of some sort* is, by any definition, government.

Whether the particular community is a family, a tribe, or a nation

will surely alter the form of government and how to pay for its services. But that doesn't alter the principle of government.

Government in one form or another has existed throughout the thousands (or millions) of years that man has been on this earth. There have never been people without laws and ways to pay the enforcers of the laws, i.e., government. That's persuasive evidence indeed that government is inherent in the nature of man and his relationships with other human beings. It even supports the idea that government is perhaps as necessary and as natural as eating. They both came at the same time and for the same purpose, i.e., survival. True, in our efforts to survive, we human beings do strange things, both individually and collectively. That proves only that we are human beings.

A Contradictory Process

Another compelling reason why government won't be abolished (even in theory) is that the people who say they wish to do away with it are persons who sincerely want to be helpful. That's why they want to abolish government—because it's evil. And obviously they won't leave in place all those unjust laws that caused them to topple the government in the first place. A clean slate is called for.

How would they go about rectify-

ing all those bad laws? Surely not by whim or chance. Something more logical is required, such as one final use of the political mechanism itself—for a noble purpose. That's why the philosophers who argue for the abolition of government make this promise in one way or another: First we'll wipe the slate clean by abolishing all those bad laws. *Then* we'll do away with government itself.

But, again, government is not merely a mechanism or thing; it's a continuing process. It continues to exist as long as people continue to exist. It's *however* people act together. And if the rebels refuse to direct this process in one way or another, the deposed leaders of the former government will be happy to return.

Thus those good people would have no choice but to use the power of government to do good to you and me in whatever ways that appealed to *their* particular sense of justice. Probably the primary difference from what we now have is that the new leaders might well be more dedicated and sincere than their predecessors. I'm not totally convinced

that would be an improvement. I keep remembering that the Ayatollah Khomeini is a sincere and dedicated person who truly wants to do good for mankind. If you doubt it, just ask him.

Perhaps we people who so clearly understand the evils committed in the name of government are ill-advised to try to gain control of it for *any* purpose. Perhaps we could more readily accomplish our purpose of maximizing peace and prosperity and self-government in this fashion: just learn how to better explain the merits of a readily available alternative for most of the activities now performed by government.

That alternative is, of course, the market economy of private ownership and freedom of choice. The market, too, is a process. And (except for the power-mad) it's the process most likely to bring to every one of us whatever it is we most want. But if we ourselves devote our primary efforts to political attempts to gain control of that continuing process called government, then no one is likely to believe our promise to use it only for good purposes. That's what all the politicians say. ☉

Hanford Henderson

IDEAS ON



LIBERTY

WE ask of the State and Society only one thing—a fair field and no favors . . . a strict cutting out of all paternalistic activities, and the unflinching insistence that government shall really perform its basic and fundamental duty, the protection of the individual citizen from violence and interference.

GOVERNMENT COST/BENEFIT ANALYSES

The Impetus and the Impotence

The Impetus

As the activities of government grow to consume more and more of the available scarce resources, the question of the productivity of the various government activities becomes more and more important. By various measures, the government's consumption of resources is enormous. The proposed federal budget for 1981 exceeds \$600 billion in expenditures. The funded national debt approaches a trillion dollars. The unfunded federal obligations run to an additional eight trillion dollars. Government, at all levels, consumes about 40 per cent of the national income.

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The continuous stream of exposure of government induced waste raises serious questions about the utility of government activities. Senator Proxmire's "Golden Fleece" award, highlighting atrocious episodes of government waste, is merely the tip of a vast iceberg of misallocation of scarce resources. In addition to this direct evidence of the frivolous expenditure of money, there are the costs of fraud, as demonstrated by the General Services Administration's purchasing practices. The costs of government are not always revealed in government outlays. An imposing burden of expense for a series of government regulations is inflicted upon private business and individual consumers.

The outpouring of negative publicity has inspired demands that the government put its house in order. On the basis of financial return on investment, most, if not all, of the

government's activities are losing propositions. It is asserted, though, that there are vast social benefits that are generated as a result of government programs and that these benefits are not reflected in financial return calculations. Criticisms of costly government programs were routinely brushed aside with the broom of social benefits. Who can place a price on a human life? Who can evaluate the economic value of social justice?

Outrage over the egregious abuse of the non-quantifiable social benefits arguments has produced pressure to justify the effectiveness of government social programs. This pressure has often manifested itself in the demand that a cost/benefit analysis be performed in order to evaluate the benefits received in exchange for government expenditures. A number of well-known economists have been prominent in the clamor for cost/benefit studies as a means of assessing the value of government programs.

The inclusion of requirements for cost/benefit analyses in recent legislation may be seen by some as a forward step in the effort to control government waste. However, a careful examination of the rules and procedures laid down for the cost/benefit analyses reveals that hopes for relief from this sector are not well founded.

It is largely a case of "monkey see,

monkey do." The government procedures for cost/benefit analyses are all too often crude distortions of the financial budgeting practices of private industry. These distortions stem, in part, from simple incompetence—the inability to apply sound economic or financial principles to the evaluation of a public investment. The distortions also receive some impetus from conscious intent to mold the methodology and the data to produce the desired answers. An examination of the cost/benefit methodology prescribed by the Federal Railroad Administration (FRA) in compliance with requirements of the Local Rail Assistance Act of 1978 will serve as a demonstration of the futility of reliance upon government directed cost/benefit analyses as a check on public spending.

Income Gains vs. Income Transfers

Advocates of government subsidies are sensitive to the apt criticism that subsidies are merely income transfers. The whole tax financed nature of government expenditures would seem to lay a strong *prima facie* case for the mere transfer hypothesis.

The FRA's guidelines on cost/benefit analyses are careful to require a distinction between impacts of local rail assistance which are "real" and those which are "just

transfers." This is all very nice as far as directives go, but how the distinction is to be made is unclear. The description of "real" losses from a prospective rail abandonment read as follows: "If the employee remains unemployed for a period, his/her production is lost for that period. This is a real loss."

On the surface, the description of "real" losses may appear straight forward. The problem with this approach is its simplistic view of "real" losses. If we can show that Mr. Jones or Ms. Smith will be unemployed if a rail abandonment occurs then their production is lost. What goes unacknowledged is the prospective employment impacts of alternative uses of the funds which are proposed for use in subsidizing rail service. This is the classic case of the seen versus the unseen that was illustrated by Frederic Bastiat in the early 19th century.

The rail line in question may provide service for several shippers, a number of whom might go out of business if required to bear the full cost of providing rail transportation. The closing of these businesses would result in some incidence of unemployment of *specific* individuals. The production of these individuals would be lost. Therefore, the subsidy is supposedly justified. Unnoticed in this neat little scenario is what the incidence of unemployment is among industries

that must be taxed in order to provide funds for the rail subsidy. While it might even be admitted that government taxation can cause marginal businesses to go bankrupt, the actual tax dollars extracted cannot be directly traced to a specific government expenditure. Thus, the two incidents of unemployment are segregated from one another in terms of the FRA's superficial consideration of "real" losses.

An Untenable Position

One possible explanation of this simplistic segregation of integral components of the taxation and subsidization transfer program is that the focus is only on local impacts. Such an explanation would recognize the absence of any net social gain in a broader context, but still justify the program on the grounds of promoting purely local benefits. An attempt to explain the purpose of the program in these terms was, however, characterized as "unacceptable." The disruption costs of individual unemployment, business relocation and the like are "real," "net" social losses, according to the FRA.

The FRA's position is, of course, untenable. In an advanced economy, where money serves as a medium of exchange and a representation of various prices and values throughout the society, there is no need to identify specific dollars in order to

draw a conclusion that a transaction is a transfer of resources rather than a generator of resources. Furthermore, the weight of the evidence indicates that the net effect of the transfer program involving local rail assistance is negative.

To begin with, the subsidy program is a consumer rather than a creator of wealth. Enterprises which produce positive returns on investment are taxed at progressive rates in order to fund services which are not self-supporting. This has the consequence of reducing the net financial return on the total capital investment of the entire society. The sustained effect of such transfers is to reduce the real wealth of the community in all subsequent investment periods. In short, the succeeding generations of humans will be less well off as a result of the tax and subsidy transfer.

That the social returns would compensate for the financial losses is, at best, implausible. If there were significant community impacts, it would seem logical that the affected communities would be willing to fund the subsidy program. Just the opposite is the case. Not only are communities not usually willing to fund the subsidies, they often have the programs forced on them by the federal government. No tax rebates for non-participation are awarded. Any eligible community that does not grab for its share of the federal

money loses out. The local clamor for federal assistance arises from the fact that programs are designed to make the federal grant a free good. As any economist could tell you, at a price of zero, demand will be virtually unlimited. The fact that the grant programs have to be structured in this manner is impressive evidence that the social benefits are exceeded by the financial costs of the program.

Consumer Surplus

A large part of the rationale behind the FRA's cost/benefit analyses guidelines is tied in with the concept of "consumer surplus." Consumer surplus is the benefit enjoyed by consumers who do not have to pay their full reservation price for a good or service. At any specific price for a good or service, there will always be customers who would have been willing and able to pay more. Since the price paid serves as a proxy for the value of a good or service to the purchaser, the acquisition of a good or service at less than the highest price a purchaser would be willing to pay leaves such a purchaser with a so-called consumer surplus.

The phenomenon of consumer surplus is used by the FRA to justify subsidies for services whose revenues are inadequate to cover costs: "If the railroad could practice perfect price discrimination, then it may generate an economic profit; if

so, then there would exist a net economic gain in keeping the service rather than abandoning it. This gain would exist even if institutional and logistic considerations made it impossible for the railroad to practice price discrimination. Although the railroad may suffer a loss, it would be more than offset by the surplus value enjoyed by the shippers."

There is no explanation of how we know that the economic losses to the railroad are "more than offset" by the gains of the shippers. Even if it is true that in a given case the price of rail service is held below levels that represent the "true" value of the service, it does not follow that the gains to the shippers must be larger than the income losses to the railroad. The relevant basis for comparison is not perfect price discrimination. Rather, it is some market clearing price (or prices) that must be compared to the regulation-depressed price used in the FRA approach. Under such conditions it is not at all obvious that the consumer gain from subsidy exceeds its cost.

The whole presumption that consumer surplus exceeds the cost of subsidy is contingent upon our knowledge of what the demand curve would look like given a schedule of prices. In real life, we do not know such things. All we can know for sure is the quantity sold at

a given price at a given moment in time. The convenient curves used for academic exposition are hypothetical models of *static* conditions. Inconveniently, the market is a *dynamic* process in which the price system acts as a signaling device to guide production decisions. Using the suppression of the price system in railroading via the mechanism of government regulation as the justification for ignoring the signals employs convoluted logic. The most obvious remedy would be the removal of railroad price controls.

On the Other Hand

An unrestricted price system would be the most effective way of dealing with the problem of imbalances in consumer surpluses. Instead, the rigged prices under regulation pave the way for rigged computations of consumer surpluses. As elaborate as the discussion of the issue of consumer surplus is in the FRA guidelines, absolutely no consideration is given for the loss of consumer surpluses experienced when funds are extracted for the financing of rail subsidies. The opportunity cost calculation used to allow for alternative uses of the subsidy considers only the financial returns of the cost of capital.

In the business world, the cost of capital is usually computed on the basis of what the firm would have to pay in the line of interest on bor-

rowed money or earnings to equity of owner-supplied capital. Since the firm cannot capture consumer surpluses it can legitimately ignore them. Consequently, business finance has developed no methods for assessing the impact of consumer surplus in the cost of capital.

The FRA has borrowed the traditional business finance computation, but has distorted the outcome by applying consumer surplus considerations to only one side of the equation. Consistently employed, such a methodology would produce a false picture of the comparative returns of subsidized programs versus taxpaying programs. Followed to its logical conclusion, the FRA's approach would lead to the absurd proposition that social benefit could be maximized only when all economic activity is subsidized. Apprised of this situation, the FRA has promised to re-examine its premises. In the meantime, the procedures resulting in inflated social benefits as a consequence of rail subsidy will continue as before.

Avoidable Dislocation Costs

Confronted with the ineluctable fact that economic progress entails the birth, life, and *death* of individual business entities, the FRA has postulated that some inefficiency results from the market's lack of consideration for certain sunk costs. Resources may completely lose their

value due to rail line abandonment, says the FRA. For example, a coal mine relying upon rail service could become worthless if abandonment occurred. The example is an inversion of the typical cause and effect relationship, i.e.: because the mine can no longer produce at a profit given the costs of its inputs, including the cost of transportation, it can no longer justify the cost of that transportation. Shifting these costs to the general taxpayer is hardly a rational answer to the scarce resource allocation problem.

The FRA's contention is that a needless shifting of production facilities will lead to avoidable dislocation costs. The FRA says preventing factories, farms or commercial enterprises from losing value as a result of the loss of service is less costly than having to re-establish these activities in other locations. Such an outlook, universally applied, would prevent the relocation of any business activity. It should not be surprising to learn that a bill to inhibit business relocation has been introduced in Congress.

Once again, though, this line of argument contradicts the evidence. If the cost of relocating or closing down were greater than the cost of sustaining rail service, the affected firms should be willing to pay higher rail rates. Generally, this is not the case, although there is some

truth to the contention that regulation prevents the payment of higher rates.

Pressed to the wall with the evidence of shipper unwillingness to pay higher rates or to fork over a subsidy, the FRA argues that maybe the long run efficiency calls for relocation, but the short run costs may be too high. The lag time between a shut down operation in one locale and a new start up in another represents a dead loss due to idle resources. Unfortunate for this line of argument is the phenomenon of long range business planning. There may not be a hiatus between a closing at one location and an opening at another. In fact, as far as lag time is concerned, it would seem that the lapse of time between the collection of taxes and the disbursement of subsidies with all the red tape that typically accompanies government programs would make a case for disruption in other parts of the economy preceding the rescue of a local rail line from abandonment. So, as far as short run costs are concerned, the local rail assistance program would appear to increase, rather than decrease, the net social losses.

Untenable Working Assumptions

The FRA's favorite cost/benefit analysis (at the time of this writing) was one in which every factor, save one, was held constant. The state

performing the analysis was able to announce triumphantly that the proposed rail project was justified because the cost of switching to trucks exceeded the cost of the subsidy. On the route to reaching this conclusion the following assumptions were made: (1) the demand for transportation is not affected by its price; (2) revenues are a function of costs, i.e.: if we can forecast operating expenses we can add a mark-up for profit and have an estimate of future revenues; (3) public expenditures produce values in excess of their cost, but private expenditures do not; (4) taxes have no impact on private decision making; and (5) the "real" cost of capital is in the 3-5 per cent per year range.

To any reasonable person, these simplifying assumptions are clearly untenable. There is no real world instance in which such assumptions could even approach the bounds of reasonableness. The explanation for finding such an absurd methodology for assessing the cost/benefit relationships of government funded projects combines a mixture of academic naivete, bureaucratic cynicism, and plain incompetence.

The draft of cost/benefit instructions passed out by the FRA is replete with the classic equilibrium models one experiences in introductory economics courses. Neatly drawn demand curves intersecting marginal cost curves yield tidy

triangles of values to be calculated. Persons attempting to compute a cost/benefit ratio are admonished to begin by calculating what prices would be under perfectly competitive conditions.

The use of the tools of academic exposition in such a simplistic fashion cannot be expected to lead to superior, or even adequate, investment decisions. Two unfortunate components of the economic environment in the real world are the ruling principles of uncertainty and change. Demand curves are not known. Data collected to estimate demand curves may give estimates of what demand was at some point in time. However, such information is ancient history in terms of the status of demand in current and future markets. To structure the decision aiding cost/benefit procedures along these lines is an act of sophomoric economic naivete that, at best, will result in self-delusion.

A worse consequence than self-delusion is the element of public deception involved in the whole process. The procedure has been made inordinately complicated. Unfamiliar terminology makes it difficult to determine what the FRA is talking about. Where most investment analysis procedures refer to streams of cash flow, the FRA uses the terms "benefits" and "disbenefits." Presumably, this changed terminology is necessary because of the non-cash

flow benefits or costs resulting from the public investment, but no glossary of unfamiliar terminology accompanies the guidelines.

An Unreal World

The creation of the concept of "transportation efficiency" is a procedure that is virtually guaranteed to produce benefits so large that almost any subsidy could be justified. It is here that the assumption of the insensitivity of demand for transportation to the price of transportation comes into play. Starting with the not unreasonable proposition that the demand for transportation may be relatively inelastic, an FRA endorsed simplifying assumption of an elasticity of zero, opens the door to the outrageous conclusion that all the freight not moved by rail will be moved in some alternative manner. With the quantity of freight moved taken as a constant, ridiculously high savings from rail subsidies can be "demonstrated," particularly in the movement of heavy raw materials. Unmentioned in such a comparison are the problems encountered when the cost of alternative transportation exceeds the total value of the delivered freight. In the real world no firm could afford to view the quantity of freight to be moved as an unalterable given, especially if the cost of a second-best transportation option exceeds the recoverable revenue

from the delivered price of the commodities shipped.

The simplifying assumption usually is justified on the grounds of conservatism. That is, even though the numbers produced may not reflect actual decisions, they at least reflect a lower limit of the costs entailed in a course of action. In the case of rail abandonment it is simply assumed that the cost of not transporting the potential freight would be greater. The example given is that of a body of ore whose value would go to zero if it were not transported.

The fatal flaw in this whole approach is that it cannot take cognizance of the market's response to the various costs involved in producing and transporting goods. Left to its own devices, the price system of the free market would determine the least costly alternative. The calculations based upon FRA approved methodologies will produce distorted values which can serve no useful allocation role. Participants in the program are unofficially counselled to adopt procedures and assumptions which will give their projects the best chance of being funded. The purpose of the program is to shovel money out to the participating governmental units and railroads. The better the cost/benefit figures look, the easier will be the disbursement of funds.

Lest we attribute more sinister

intent than is warranted to the apparent machinations of the railroad bureaucracy, it must be pointed out that a large measure of the blame for the distorted methodology is likely the result of pure incompetence. What else could explain an estimate of future rail revenues based upon a simple cost-plus formula? The genesis of the entire rail subsidy program could be found in the phenomenon of rail costs rising faster than rail revenues on specific branch lines. If it were possible to maintain a constant relationship between rail revenues and costs by use of the cost-plus formula, the whole FRA program would have no rationale for its existence.

Ignoring the Risk

The selection of a so-called real rate of interest for the purpose of considering the opportunity cost of rail subsidies is another convincing piece of evidence for the incompetence hypothesis. The FRA suggests that current interest rates include a premium for inflation and that unless the whole future streams of benefits and disbenefits are to be adjusted for inflation, a real cost of capital rate of between 3 and 5 per cent should be used. Aside from the fact that there can be no assurance that both revenues and expenses will be equally affected by inflation, the element of risk is completely overlooked.

The notion that government investments can ignore the element of risk has a curious origin. In the world of finance, government debt instruments are considered to be essentially risk-free in terms of safety of principal and interest payments. The fact that a government bond may be secure for the holder of the bond says absolutely nothing about the risks of the uses to which the funds will be put. The investment decision in the rail subsidy program is no different from any other use of funds—public or private. Funds committed to the program will be converted into irretrievable capital goods or paid out in operating expenses. The risk that funds thus committed may not earn a return sufficient to justify such a conversion is no less than for any other use of the funds. Neglect of this risk factor, because government can borrow money more cheaply because the debt instruments are risk-free to the holders, is clearly a demonstration of ineptitude.

A final example of incompetence is the failure to consider the indirect benefits of alternative uses of scarce resources when computing the opportunity cost of rail subsidies. The entire rail assistance program is contingent upon the concept that benefits not reflected in the price system can be preserved via subsidy. This is the rationale for rejecting the market's indication, as exemplified

in the net loss position of a particular rail branch line, that resources can be put to better use elsewhere. Thus, the FRA guidelines lay out elaborate procedures for calculating consumer surpluses and indirect community benefits that are to be preserved by subsidizing the rail service. The opportunity costs of uses of scarce resources for other than rail subsidy include *only* the prospective financial returns of those uses. The consumer surpluses and indirect benefits of any use other than rail subsidies are completely ignored.

Apprised of this imbalance in their methodology, the FRA's only response was that they just hadn't thought of it. Since it is the contention of the FRA that the program is increasing the net social benefit to the nation, what possible excuse can there be for the failure to even think of the ramifications of the diversion of scarce resources from other uses? Personal experience inclines one toward the hypothesis that incompetence is the most likely explanation.

The Impotence

Those who look to the enactment of mandatory cost/benefit analyses as a check on the excesses of government had better not place much reliance upon it. The "state of the art" in government circles would seem to indicate that cost/benefit

analyses will not perform as some are wont to claim.

The fundamental issue centers on the appropriate mechanism for the efficient and equitable allocation of scarce resources. Thus far, no mechanism superior to the market has been discovered. The assertion that the price system is ineffective in instances such as local rail service because of government rate regulations cannot serve as an adequate reason for ignoring market mechanisms. The proposition that we must resort to a less effective allocation device because of a prior government intervention is preposterous. Rail rate regulation is not an irreversible fact of nature. Treating it as if it were can only make things worse.

The assertion that there are externalities that are not reflected in the price system may be true, but it cannot serve as a blanket endorsement of nonprice allocation schemes. The rising suspicion that government interventions may be reducing the net general welfare has produced

well-meant concern. Advocates of continued and expanded interventions are pressed to prove that these interventions are producing net benefits. The bureaucracy has been badgered to come up with cost/benefit evaluations of government programs that can prove the worth of these interventions. One should, then, not be surprised that such methodologies as are adopted will generally "prove" the worth of government intervention.

The most unfortunate consequence of the cost/benefit charade is the ultimate cost of the inevitable misallocation of resources. The only assured result of subsidy programs is a lower return on investment. Resources will be diverted to less productive ends. Over time, the effects of compounding this lower return will mean much lower standards of living *and much lower social benefits as well*. This is hardly the result advertised or anticipated by proponents of government intervention for the purpose of promoting the social welfare. 

P. M. Fox

IDEAS ON



LIBERTY

EVERY person who is opposed to unrestricted welfarism thus has a public duty to say so, and there is no place where the subject does not belong: in homes, churches, social groups, business. Every one of us has freedom and perhaps survival at stake in calling a halt to the fatal combination of welfarism-bureaucracy-inflation. To sit back and not bother means to lose by default.

Conservatively Speaking

IN a delightful foreword to Rene Wormser's *Conservatively Speaking* (Wayne E. Dorland Co., Box 264, Mendham, New Jersey 07945, 323 pp., \$10.00), Bill Buckley says the author does much of his writing, so to speak, in the subway. Since Mr. Wormser rivals Albert Jay Nock in the art of relevant quotation, it is obvious that a library as well as a subway seat has been involved in the creation of a remarkable book. What Bill is trying to tell us is that Mr. Wormser, a lawyer and estate planner, is the most diligent man alive. Like Anthony Trollope, he can write anywhere. *Conservatively Speaking* is a Herculean effort to understand every possible aspect of our contemporary muddle, both domestic and foreign. A President of the United States, seeking proper counseling on ways to meet the

manifold problems of the republic, could substitute Rene Wormser for an entire cabinet without fear of losing anything in the exchange.

There is art in the composition of Rene Wormser's book. He begins by telling us how we were misled by liberalism. By this he means contemporary liberalism, not the classical kind. The liberal, he tells us, "shows little faith in the capacity of the individual to take care of himself." It follows in the liberal's mind that Papa State must know best: hence the contemporary liberal's addiction to controls and the quasi-socialism of paternalistically determined transfer payments. Mr. Wormser quotes from some of his own past writings to make his points. He also quotes Milton Friedman.

Mr. Wormser wisely follows his chapter on liberal misleading with

discussions of the liberal suborning of education and liberal penetration and control of communications. The quotations come thick and fast here. So do the names. Back in 1905, which was long before Tom Hayden and Jane Fonda started to preach the virtues of "industrial democracy," Jack London and Upton Sinclair created something called the Intercollegiate Socialist Society, which later became the League for Industrial Democracy.

A Collectivist Bias

The worst of it was that Jack London and his Fabian socialist friends infected our professional educators, from John Dewey at Columbia Teachers College to the authors of the Carnegie Corporation's report on education for the "new age of collectivism." The collectivist bias of George Counts and William Kilpatrick, both of Columbia University, has been transmitted to the National Education Association, whose Political Action Committee on Education has a terrifying political clout. Educators with a leftist outlook have trained a whole generation of journalists and TV and radio commentators. The poisoning of the wells of thought has been antecedent to the legislative debacles which Mr. Wormser next considers.

Mr. Wormser deals with "our disastrous inflation" in a chapter that

neatly reconciles the thinking of the Friedmanites, who contend that inflation is a purely monetary phenomenon, with the reasoning of Lawrence Fertig, who thinks that the satisfaction of the demands of the big labor unions has something to do with the case.

The Friedmanites are right when they say that it is the politicians who start the printing presses running at the Treasury. But Wormser observes that there are "inflation propellants" (a most felicitous phrase). When labor strikes for wage increases that are in excess of productivity increases, it forces the politicians to give an inflationary boost to the money supply in an attempt to absorb higher prices. Insistence on the government's duty to create full employment is an obvious "inflation propellant." So are government interventions of all sorts. Inflation is admittedly a monetary phenomenon, but the politicians would not seize upon it if what Wormser calls the "propellants" were not at work in society.

Wormser thinks a basic "propellant" to inflation was set in motion when we abandoned the gold standard. He quotes von Mises: "The eminence of the gold standard consists of the fact that it makes the determination of the monetary unit's purchasing power independent of the measures of governments. It wrests from the hands of the

economic Tsars their most redoubtable instrument." True enough, if budgets were balanced, inflation might be contained without going back to gold convertibility. But without the discipline supplied by a fixed standard of value, the temptation to inflationary spending is too strong.

Mr. Wormser's estate planning specialty enables him to discuss our "egalitarian" tax system with both wisdom and justified passion. Our tax code so thoroughly penalizes savers that it is a miracle that the economic system expands at all. In taking money away from producers, our welfare state shrivels the very tax base that is needed to sustain cradle-to-grave security.

Money paid into the social security fund is dissipated, and taxes must be substituted for the income that should be coming from the investment of State-collected insurance funds. We are now bungling our energy problem by failure to let the market work. And economic hopelessness has something to do with the wave of crime, particularly among those who can't find employment because of unrealistic minimum wage legislation.

Foreign Policy

On top of our domestic bungling, we have had a disastrous foreign policy. Mr. Wormser thinks we have permitted ourselves to be used by

nations more experienced than we. We rushed to pull the Allies' chestnuts out of the fire in World War I. Woodrow Wilson could not prevent a thoroughly bad peace. His League of Nations could not correct the mistakes of Versailles, and Hitler was the inevitable result. Franklin Roosevelt did no better than Woodrow Wilson—the World War II settlements let Joe Stalin move deeply into Europe. We forswore our own legal heritage when we stooped to Bill of Attainder justice at Nuremberg. This does not excuse the seizure of American hostages by the Iranian "students." But Nuremberg, in any long-term perspective, means that we do not come into any international court with clean hands.

Wormser is rightly critical of our policy of fighting no-win wars. He thinks we would do better without the United Nations. The U.N. has acquiesced in the separation of East and West Germany. It remained inert while the Berlin Wall was being built. It did not protest the invasions of Hungary and Czechoslovakia by Russian tanks. It has done nothing about Fidel Castro's Hessians in Africa. But it did take action against Rhodesia, a country that threatened no one.

All through the period of detente we have fooled ourselves. The loss of Iran has left us vulnerable in the oil-bearing Middle East. The West

needs the oil of Iran and Saudi Arabia—but in pursuing detente the West has allowed itself to fall behind in the armaments needed to defend the oil routes.

In spite of everything Mr. Wormser retains some optimism; after all, we have had a "tax revolt," at least on the Pacific coast. Rene Wormser is confident enough in his own powers to feel that his own estimable book is not a "vain and futile exercise." 

**WILL CAPITALISM SURVIVE?
A CHALLENGE BY
PAUL JOHNSON WITH
TWELVE RESPONSES**

edited by Ernest W. Lefever
(Ethics and Public Policy Center,
1211 Connecticut Avenue, N.W.,
Washington, D.C. 20036)
69 pages ■ \$3.00 paperback

Reviewed by Bruce Alan Johnson

Few people know that we could fit 2½ Americas into the massive continent of Africa, but that wasn't hard for me to believe after a three-month safari through many of its countries. And throughout this 1979 business travel, one phenomenon stood out boldly in almost every one of the countries I visited: the cities of the developing nations of Africa are crowded beyond anything imaginable to comfortable Ameri-

cans. These cities grow by thousands each year, as people pour in from the jungles and outlands in search of employment and a better way of life. Instead of finding pots of gold, however, they invariably find poverty worse than they left behind, starvation, epidemics, massive unemployment—and crime.

Why aren't these striving peoples finding the employment that one would expect to find in countries developing industries and international trade? That, too, was apparent. In almost every case, the development of a healthy, growing, free economy was held in check by a central government operating either out of raw fear or oppression by design. In the latter case, these central governments decry the "poisons of the West," when many of them know only too well that with the inception of industrial capitalism in the 1780s, wealth, productivity, and the economic well-being of the individual has risen unlike any period in the history of mankind.

But, as the distinguished British historian Paul Johnson notes in this impressive little book, "most governments fear and resent" this never-ending one-way flow of people from countryside to city. Indeed at the very same time they view the free market system as a *force*, and a force that threatens the power of central governments. And yet, Johnson points out, "There are now

literally scores of million-plus cities all over the Third World," and many of these cities have become havens for individuals seeking to raise their standard of living and find greater freedom of choice (cities and city-states like Hong Kong, Singapore, Taiwan, Mexico City, Istanbul come to mind), but only when the central governments agreed to let the market mechanism function unhampered by restrictive legislation or wealth-skimming policies of confiscation. After noting that short of evacuating these developing cities by force or terror, nothing will stem this human flood, Johnson observes: "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."

Beginning with an eleven-page essay bearing the book's title, the publishers have chosen to use what was presented by Johnson as a speech to Bermuda businessmen in 1978 as a springboard for responses from twelve other social figures whose views range from close support for the free market viewpoint to outright castigation of the free way of life. Every now and then there comes along a book in the freedom literature which actually does stimulate some hard thinking on the collectivist assaults on the free-market way of life. *Will Capitalism Sur-*

vive? is one of those books, and its 69 pages are veritably packed with provocative commentary designed to sharpen the skills of that natural aristocracy of mankind who believe in and practice a way of life which denies the omniscience of government guidance.

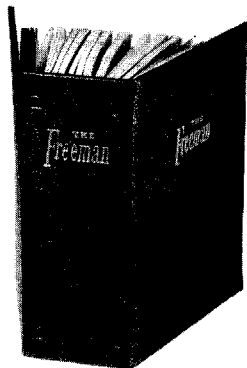
Mr. Johnson sees five principal threats to capitalism's future: the intellectual challenge of collectivist-oriented universities and academies; an irrational passion-ridden ecological movement neglecting such crucial factors as social costs; the unchecked growth of "big government" and unionism; and the ever-present threat of Soviet encroachments wherever nations are poorly armed or inclined to accept Soviet overtures of "aid."

Some of the respondents are thinkers of clarity: Berkeley's Paul Seabury; First National Bank of Chicago's (and *National Review's*) Alan Reynolds; American Enterprise Institute's Michael Novak; Hudson Institute's Herman Kahn; and Congressman Jack Kemp. And indeed it must be said that many of their arguments are barbed attacks on some of Johnson's points. (Johnson's claim, for example, that the 1974 birth of the OPEC cartel spells the end to cheap energy in America is deftly refuted by Alan Reynolds.) But these differences of opinion merely serve to further clarify and refine the excellent

points made by Paul Johnson in one of the most readable economic essays I've ever seen.

For decades *The Freeman* has articulately shown why it is that social improvement can begin only with the improvement undertaken by the *individual*—you and I—in our daily lives. The Ethics and Public Policy

Center has rendered a fine service in this direction by offering a challenge and twelve responses which examine the need for the preservation of economic freedom, not least because only under a capitalist system can man maximize his own potential for achieving good, and hence that of his society. ®



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RUNAWAY



INVESTORS

AFTER a generation of exported U.S. inflation, resulting in a worldwide flood of dollars, the tide is starting to reverse. Foreigners are finally convinced that it's time to send some of those dollars back. Observing the bargain basement prices in the United States when compared to what these same dollars will buy in their own countries, foreign dollar holders are beginning to "Buy American" with a vengeance.

For years dollars have been accumulated overseas, billions of them being held as foreign currency reserves. In the beginning such dollars were acquired by foreign governments because they were redeemable in gold. But that option was withdrawn in August 1971. Since that time the acquiring and holding

of dollar reserves has resulted either from inertia or in some vain hope that the dollar's value would remain intact.

Throughout the 1970s the U.S. Government's monetary policies have literally inundated the world market with dollars, destroying any hope that the dollar's value would be preserved. Aggravated by the monopoly pricing policies of OPEC oil, the world is glutted with dollars of diminished purchasing power. For years, foreign dollar holders have absorbed billions of newly-created dollars, thus preventing those dollars from bidding up U.S. prices. But foreign holders are less and less willing to play the "sucker role" in the game of "exported" inflation.

The first signs of realization came to these dollar holders when they began to observe the massive dispar-

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ity between the dollar's purchasing power in the United States and in the world market. Not only was America getting OPEC oil while the Arabs accumulated our paper, but foreign dollar claimants throughout the world were helping to pay for the oil in an ever-declining dollar purchasing power.

A Flood of Dollars

The most surprising aspect of this monetary development is that it has taken foreign dollar holders so long to wake up. And their awakening is not going unnoticed in the United States. The American buying public is reading the lesson from abroad, and reacting in a buying spree that is rapidly driving domestic prices into line with higher world market levels. The result is that the dollar strengthens in world money markets while it plummets at home.

These changing events are most frustrating to the masters of econometrics. The tools of their trade, the computers, have been churning out all kinds of mathematical data, assuring us of a coming recession. Meanwhile, consumers continue to confound them with their buying surge, utterly indifferent to the computers' messages. The macro economist's meek response is that the recession is still out there, but like the Amtrak train, just a little behind schedule.

The errors of the macro economists

can be found in their computer programming. Looking back instead of forward, they totally ignore that there have been fundamental changes in the "rules of the game." Devoting all their attention to statistical aggregates of the past, all of which fit so neatly into their computers, they have ignored the changing actions of the individuals lumped into their totals.

If macro economic statistics are reflecting *no recession now* and that times today are good, then it's time to take a closer look. For the fact is that this country is in deep economic trouble. The recession which may appear hidden by the computer's statistics, is nevertheless very much upon us.

As everyone is now painfully aware, we have entered the era of double-digit inflation. While this certainly represents a new experience for today's United States citizen, it is an old development that all too often has devastated other societies. Whether our path will end in such destruction cannot be known, but it is clear that we are heading in that direction.

Even the casual observer must sense the growing conflict and deterioration in our society. The high costs of energy, housing, and medical care are denying such resources to the needy. Pensioners and others on fixed incomes are pauperized by the destruction of their purchasing

power. Urban transportation in many cities barely functions. The quality of educational services in our schools is at an historic low. Violence and crime threaten our public safety. A revolt of the special interests generates conflict and thrusts unbelievable hardship on innocent victims.

The Burden of Interventions

The impact of government intervention on our lives has reached a breaking point. Not a day passes without some new insanity of regulatory harassment. Investment incentives in productive activity are being crushed under a punitive tax burden. Existing controls and the constant threat of more controls have placed a moratorium on a multitude of ventures.

In sum, we are witnessing a decline in our material way of life. People are travelling less, driving smaller cars, living in condominiums instead of single family homes, turning down the heat or turning off the air conditioning, cutting back on dining out, and reducing the menu quality at home. No matter how one rationalizes it all, such changes clearly reflect a decline in the quality of life.

The concentration of macro economic statistics on aggregates such as gross national product has told us little about this concealed decline in our material standard of

living. The impact of double-digit inflation on the accumulated wealth of the individual has received far too little attention. While the toll of higher prices on personal income has been scrutinized closely, the loss of real wealth in money holdings is largely ignored. The facts are that the economic burden from a doubling of gasoline prices pales before the awesome loss of real wealth inflicted on individual savings accounts, pensions, and fixed income securities in our country today.

This insidious nature of inflation destroys the purchasing power of all money instruments. And while it is readily recognized that current incomes buy less, we seem to need reminding that accumulated money buys even less tomorrow. It is from this "hidden" loss on accumulated savings that our society is today floundering in a growing recession, a decline in the material well-being of millions of citizens.

After two generations of inflation that has consumed over eighty per cent of the dollar's purchasing power, the American people are finally awakening along with the rest of the world. Folks in New York are starting to think and act like folks in Buenos Aires.

Victims of accelerating inflation can not stay passive forever. The panic for survival changes both their outlook and their economic behavior. In the face of double-digit

inflation individuals act in a radically different way than under conditions of sound money. Everything changes, from our values and actions to their impact upon the institutional foundations of society. A society of sound money and orderly growth rapidly gives way under inflation to a society of chaotic decline.

Panic Buying

Throughout history the appearance of double-digit inflation has more often than not been a prelude to the ultimate destruction of money. As more and more holders of money come to realize this, the growing response is to abandon money in the hope that one can somehow escape the ravages of inflation. The tragedy of such action, however, is that panic buying only worsens and accelerates the pace of the runaway inflation.

The first principle of preserving real wealth in an era of double-digit inflation is to acquire "things." Anyone holding his wealth in money is eventually doomed by double-digit inflation. The transformation of "money" savings into "things" savings becomes a *first priority* in an age of inflation. The passing of time proves over and over to inflation's victims that money today can no longer buy what it bought yesterday.

The ominous results of these changing attitudes and behavior

are becoming ever clearer in the United States. A reduction in saving and an increase in consumption is observed. Speculation replaces production. Bond prices collapse while stocks fluctuate wildly. Higher prices accompany falling productivity. Controls and regulations supplant economic freedom. Pockets of poverty and prosperity appear everywhere. Confusion and dismay grip everyone.

The individual's response to double-digit inflation is never pleasant, but it is inevitable. The first rule has been learned: get out of money. With a vengeance, inflation's victims incur debt and withdraw savings to do so. Rising interest rates hopelessly try to reflect the onslaught of buying and the vanishing money market. But as interest rates lag behind the double-digit rates of inflation, they only make "things" investment all the more attractive. The high bank rates become a "signal" that the money market is rapidly collapsing.

The withdrawal of savings and the sale of bonds to buy "things" accelerates the process of rising goods prices. The collapse of the money market accompanies the panic. The rush out of monetary investments and into real goods in order to preserve one's wealth takes on a psychology of a bank run. The panic feeds upon itself as it races out of control.

Threats of price and wage controls in such an economic climate only speed the process. Anticipating the inevitable shortages that must come from such controls, the panic buying of "things" increases. Producers, fearing the "cost trap" from coming controls, raise their prices even faster. Speculators likewise respond by hedging in any and all areas where they believe controls cannot reach, anticipating the future profits waiting them in the coming black markets.

At this point appears one of the great ironies in the final stage of runaway inflation. It is a shortage of money. As individuals seek more debt in order to acquire "things," as the money market vanishes due to a failure of lenders, the increasing volume of buying activity creates an illusion of scarce money. In the end, the massive inflation which increased the supply of money and precipitated the panic, creates the illusion of money shortages.

Inflation Invokes New Rules of Prudence

What the computers have not been telling their econometric programmers is that the "old rules" are no longer obeyed in an age of double-digit inflation. Folks no longer buy to consume, but instead they buy to "save." Rising interest rates do not attract savers, but instead serve as a signal to savers that

inflation is outpacing them. The destruction of money forces all money holdings into the haven of "things," in a last ditch effort to preserve what wealth remains.

The flight from money to precious metals is merely the tip of the iceberg. It reflects the beginning of a panic process by those individuals in society who understand what is happening. But while it is a beginning, it is not an end. The end comes with the ultimate destruction of money in a final burst of runaway inflation—an inflation so extreme that it renders the money worthless as a medium of exchange and therefore unacceptable to anyone in the market.

The sharp increase in precious metal prices should serve as a reminder and warning to everyone of how quickly a panic can begin. Just a moderate loss of dollar confidence led to an explosion of precious metal prices. Imagine the impact on all prices should such a panic extend to all dollar holders. Gold and silver have provided a frightening and cheap lesson to all dollar holders—if we will have learned it.

The greatest danger of double-digit inflation is that it can establish the base for tomorrow's panic. Already foreign dollar holders seem to be leading the way. The traditional statistics on personal debt or disposable income, rates of saving or profits, no longer have their old mean-

ing. They can only conceal the runaway inflation in the form of a "delayed recession."

In such an atmosphere the individual has no choice but to become a runaway investor. His money wealth is being rendered worthless. To forgo consumption becomes ever more costly. Present buying for future consumption proves his best investment. When he needs one of a thing, he learns instead to buy two, three, or more.

The runaway investor discovers that his used goods sell for more than when new. Only when he replaces goods does he learn that his dollar gains are not wealth gains. The market quickly teaches him that "things" are a better investment than dollars.

Neither the limitation of heavy consumer debt nor productive income will stop the runaway investor—not until all his money savings are transformed into "things." By then it is all over, for runaway inflation has run its course and the dollar has been destroyed as a medium of exchange.

The fear of a runaway inflation has finally drawn the attention of the engineers who have fed it. The rhetoric and actions of the Federal Reserve Board reflect concern. But Federal Reserve policies of moderate growth in bank credit and higher discount rates are too little and too late. The awesome magnitude of the

outstanding money supply that can be liquidated for "things" by panicked consumers demands stronger action. Nothing less than monetary contraction may now be required to restore confidence in the minds of dollar holders. Otherwise, an uncontrollable dollar panic, feeding upon itself, can lead to a final burst of runaway inflation.

If such a scenario should be our curse, the yields or earnings in the stock market will be meaningless. Holding shares in a tire company may at least give the dollar holder an owner's claim to a tire—a real good that will be far more valuable than depreciating money. Dollars in a six per cent passbook savings account won't compare to the pair of shoes that has doubled in price. The race for "things" becomes the only concern of the runaway investor.

A Game Without Winners

The tragedy of runaway inflation is that it is a negative-sum game. While one may think he is winning in the beginning, the final result is that all must lose. The destruction of money through runaway inflation cripples our social division of labor, annihilates all money markets, consumes productive capital, and thus lowers the general standard of living for everyone. In its aftermath, the political, social, and economic foundations of society are seriously threatened. All too frequently the

chaos, conflict, and impoverishment that it generates has led to the authoritarian society.

It is imperative, therefore, that inflation be stopped now. Many already believe that it may be too late. But to fail because we did not try would be unconscionable. Not since 1860 has this nation faced a greater threat to its survival than it does today.

The prospect of this kind of runaway inflation is terrifying. Fortunately, another path does exist. It is the path of restoring sound money. And sound money means the restoration of gold as money.

Such a solution, however, is a paradox. It is both exceedingly simple and profoundly difficult to implement. The economic solution is to simply stop expanding the supply of money and reinstate gold convertibility for paper dollars. The first action could be implemented by the Federal Reserve today, the latter by Congress later. *But*, only if they wished to do so.

And here lies the profound difficulty. Have the political forces in America reached a point where such

action cannot or will not be done? The answer to this question will determine whether our destiny is sound money or runaway inflation.

The present magnitude of government deficits, the massive growth in the size of the "public trough," voters' expectations of more political largess, a continuing penchant for further political direction of our society—all must be reduced if the choice is sound money. Any hope at this point for more of the same is sheer fantasy.

Now is the time to face the conflict between the political problem and the economic solution. The inexorable economic repercussions from years of past inflation are closing in on the political managers. The horror of runaway inflation is imminent. It can and must be prevented.

Otherwise, the people who hold our nation and economy together—the middle class—will be wiped out financially. At such a point, a closed society and the loss of individual freedom of choice becomes a very real possibility.

Let's hope it's not too late. ☉

The Longer We Live

IDEAS ON



LIBERTY

To any thoughtful student of monetary history, ancient and modern alike, the deadliest enemy of the man and woman over 65 years of age is paper money under political control.

ALLEN W. RUCKER



THE most powerful individual in any organization is the person who controls the purse. The person controlling the keys to the vault where the cash is kept really has more power than many people who in an organizational sense should be in a position to order, or refuse to order, disbursement of funds.

In any attempt to control the Federal Government and the activities of the government we must first discover who is the keeper of the purse. Which branch, which person or which agency is actually in control. It does little good to look at an organizational chart—it will only confuse the issue. However, if we examine the actions of the Federal Government it soon becomes apparent that it is not the President, nor

is it the Congress that is really in control, although both of these frequently announce that they are in charge. The real control is a semi-public agency known as the Federal Reserve System. Any person in control of the Federal Reserve really controls the system.

Governments have been successful in hiding the cost of many new programs because they have a monopoly in the creation and control of money. Because of this monopoly the government does not have to support new programs and other activities by taxation or the closing down of old programs. These new programs can be financed by the proper control of the money system. Nearly everyone thinks that this important activity must be run by and supervised by the government. It was thought to be so important

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that it was even written into the original United States Constitution, and it has remained there.

The Article is written "... shall have the power to coin money and regulate the value thereof." It has been fairly easy for the government to discharge the responsibility to coin money, but this regulation of the "value thereof" is a bit more difficult.

Tied to Gold

Some want the money supply tied to some particular metal, the most popular of which has been gold and/or silver. The argument in its simple form is that the value of the money supply will be controlled automatically, and there seems to be a profound trust in anything that is automatic. But although it is automatic there is no assurance that the money supply will behave in such a way as to give us anything like a stable price level or full employment or any of many other things which we desire.

Under the gold or some metal standard whether or not your price level remains stable will depend on three factors: (1) the supply of goods, (2) the supply of money (gold), and (3) the price of the money—usually referred to as the price at which the government will buy and sell gold. Under conditions where the supply of goods and the supply of gold remain constant or change at the same

rate, the price level will remain relatively stable. However, that would be a rather unique situation and has happened only a few times in history.

The factors that control the supply of goods in a general sense are not the same factors that control the supply of one particular good such as gold (and it won't help much if the standard money is to be one, two or even three commodities). Witness what happened to the general price level following the discovery of gold in California in 1849, or the period from 1872-1896.

But the gold standard people have one ace in the hole. If things get too far out of balance they can always change the price of gold. However, this presents two problems:

(1) If the price is not changed quickly enough, we may have either deflation or inflation.

(2) This gives some government agency the power to control the money supply and thus control the price level and the change in the price level.

So it should be apparent, if we adopt or revert to the classical gold standard and then let it alone to operate in its automatic way, we will be subject to long periods of inflation or deflation and not stable prices at all. Whether we have inflation or deflation will depend upon the increase in supply of goods and

services relative to the increase in the supply of money. Even this assumes we know something about money velocity (the number of times a unit of money is used in a given period of time).

The other alternative, of course, is changing the price of the money, and that supposes that some individual (or group of individuals in some government agency) is able to determine when and by how much the price of money should be changed. It is likely that the price of the metal that is used as money might be changed to help finance new programs in situations where it seems undesirable to increase taxes or to eliminate older programs. If a metal is selected as our money standard, the price of the metal should at least be allowed to change as market conditions change on a worldwide basis, which means that the price of money should be determined by supply and demand conditions on a worldwide market. Indeed, this might well be the second best solution to our money problem.

Some individuals who can see the need for some changes in the supply of money over time but sense the inherent weakness of the classical gold standard are willing to settle for a constant increase in the money supply. These people point out that the productive capacity of the country will no doubt increase over time, so some increase in the money sup-

ply is needed (the alternative being, of course, long term deflation). If the money increases at about the same rate as the production of goods and services the result will be stable prices. This, of course, assumes that the velocity of money does not change to any significant degree. This rather simple solution to a complex problem overlooks at least three rather basic problems:

(1) It is difficult to increase the money supply at some preannounced rate. Although we may want the money supply to increase at four per cent or five per cent or some other magic figure, it is necessary to control the actions of the commercial banks as well as the saving institutions to achieve this desired result.

(2) Short time fluctuations in the growth rate of either the money supply or of goods and services may cause serious periods of inflation or deflation. These periods of inflation and deflation will of course come to an end if we are willing to wait and do not give in to the third defect of the system.

(3) If the government or some agency of the government has the power to set the rate of increase in the money supply, they also have the power to alter the rate of increase, and the rate of increase can be changed to provide for inflation. That is the most serious defect of the system.

The Federal Reserve

We, in the United States, have tried to avoid the pitfalls of either the gold standard or fixed increase in the money supply. We have turned the control and operation of our monetary system over to a semi-public agency known as the Federal Reserve System. The Fed, as it has come to be called, is a rather large bureau and has become self-supporting, gaining its revenue from the services it sells to commercial banks and the interest on the government securities which it "owns." The Federal Reserve also performs many services for the Federal Government, such as acting as its agent in the selling of bonds. However, the primary and most important function of the Federal Reserve is to control the monetary system. The Fed has been in existence since 1913 and is one of the most respected of all government agencies. However, when the Fed is measured against the yardstick of what it is supposed to be doing, the record is not only unimpressive—it looks like complete failure.

The best time to judge an institution is when it is working under stress, but when the Fed is placed under stress it fails to perform as we thought it would. This has been the case in every period of economic stress since 1913.

For example, during wars the government needs and uses large

sums of money. The government really has only two ways to obtain the needed funds: taxation or borrowing. In my opinion, taxation is the preferred method, but they have chosen in every war and "police action" to borrow large sums. This borrowing action has been handled by the Federal Reserve, and in order to get the large sums needed the money supply has been expanded at too rapid a rate, and the result has been higher prices.

The alternative to money expansion was for the Fed to bid the resources away from the private sector by raising the interest rate paid on government securities, but in the short run situation we in the United States seem to prefer inflation over high interest rates. Following World War II when the Federal Reserve complained about carrying this burden for the United States Treasury, the result was the "accord" signed in 1951 which officially relieved the Federal Reserve of this burden which they never really had in the first place. The Fed sometimes keeps the money supply expansion at too low a rate causing unemployment. However, the most usual error has been to expand the money supply at too fast a pace so that prices have risen. This has been especially true since 1950. The inflation rate has recently been above a figure that was completely unacceptable in 1955.

The Great Depression

The worst recession, or depression, that this country experienced was in 1929-33. At the time, few people understood what happened or the reasons for what happened. But after the smoke cleared it seemed apparent that the Federal Reserve was too busy getting the gold standard restored in England during the 1920s, which was a questionable objective for the United States Federal Reserve System. Then, when it appeared that we were to have a slight or minor recession, the Fed responded by actually forcing a reduction in the money supply. At the bottom of the depression the officials made the statement which by now has almost become a classic: "We could have stopped the recession except that we didn't have enough power." The Congress responded by giving them more power, and the Federal Reserve then used their new weapons to cause the recession of 1937-38. This recession was more severe but more short-lived than the recession of 1929-33. The short duration of the recession was due to the upcoming war in Europe and the fact that the Fed was shifting over to their new position of continuous inflation to help the Federal government finance the war effort.

There have been times when the Federal Reserve has done the right thing at the right time. But the more important question is, have

their good decisions outweighed their bad decisions?

It is true that there were recessions before the creation of the Federal Reserve in 1913. It is also true that there were periods of inflation before 1913. The important question is, has the Federal Reserve been stabilizing or destabilizing? It seems to me that the Fed has been destabilizing. Monetary authorities that are not government connected are coming to this same conclusion.

The problem is that although many are able to agree that the Federal Reserve System has worked less than perfectly, most want to keep the government involved in the monetary system in some fashion and try to correct the defects. However, it appears that the Federal Reserve has worked so poorly that any attempt to patch the system, which in most people's minds means giving it more power, will not solve the problem. Everyone makes mistakes. Usually when a person makes mistakes he affects his own future and the future of people with whom he deals. When a government decision is a mistake it affects the people that deal with that agency. Everyone is affected by the monetary system, so this is one government agency that influences the lives of everyone.

The solution, then, is to repeal the act (actually it will be several acts) that created and expanded the Fed-

eral Reserve System, and then amend the Constitution of the United States so that the Federal Government no longer has the power or the responsibility "to coin money and regulate the value thereof." This is drastic action, but drastic action is needed.

Mistakes Inevitable

Any government unit will make mistakes, but there are additional hazards with an agency that controls the money supply. Any government unit that wants to run continuous deficits over a period of time can do so only with the cooperation and aid of the people in control of the monetary system. Money is too important to the operation of the economy to trust the operation of the monetary system to government. It must be left in the hands of the people. The new system that will arise will handle our needs in better fashion, but of course the system will not be perfect.

The result of getting the government out of the money business will be chaos for awhile at least. After all, people for generations have been accustomed to the government controlling the monetary system. The point is that patching up the Federal Reserve, the gold standard, or any automatic monetary rule is not going to solve the problem. The problem is the government itself. A matter as important as money can-

not be left to central government action.

Without government control there will be increased uncertainty, especially in the short run. After we have developed a new system the uncertainty will be at a minimum and the costs of operating the system will be no greater than the present costs—they might even be less. Remember that though the Federal Reserve operates without using money obtained from the Federal Treasury, they collect both for services rendered to commercial banks and interest on the securities that they own.

Cost of operating the new system will not be of major consideration. The cornerstone of the system will be that anyone who wants to can get into the production and sale of money. There is, of course, the problem of getting customers. This may be referred to as acceptability, but in the marketplace it is known as producing a product that consumers like.

Hopefully, under such a system the person or corporation that issued money would be interested in maintaining acceptability for that money. Some money would be worth more than others, and exchange rates would be established in the marketplace among the various monies offered. Some of these monies would become completely worthless. In time (and this time

period would be years, not days, weeks or months) it is rather safe to assume that there would be only a few issuers of currency.

Advantages of a Market Monetary System

The important point is that under this system there would be no inflation. Individual issuers of currency would be interested in maintaining the value of their currency, or else it would not be used. There would, of course, be some fly-by-night operations. Some people would be taken in by worthless currency. These costs and the cost of operating the system would be less than the cost of operating the present Federal Reserve System, especially when inflation is assessed as one of the costs of the present system. The issuers of the currency would keep the system in operation, not because they are particularly public spirited, but because it would be in their own best interests.

Individual banks and/or other institutions would be free to make loans, collect interest and perform other monetary transactions. They

would even be free to insure their deposits if they thought it was in their own best interest to do so. Some are apt to point to the Federal Deposit Insurance Corporation as a well-run government agency. Needless to say, its record is somewhat better than the record of the Federal Reserve, but then the FDIC has been operating as an insurance agent during a period of almost continuing inflation. Under these conditions there can be some bad debt, but one must wonder if the FDIC would be able to survive a situation such as existed in 1929-33. It would be better to have several insurers of deposits, and there is no reason why these could not be international in scope.

In summary, then, the thesis is that the government should take itself by Constitutional amendment out of the money business and turn it over to private interests. It is not that the private interests will operate the system in a perfect manner, because they will not. But the private sector can and would operate the system better than the government has during the period since 1913. 

Universal Money

IDEAS ON



LIBERTY

FOR SOME 2500 YEARS small pieces of gold and silver, called coins, constituted universal money. It survived two millennia in spite of countless attempts by hosts of governments to manipulate it or replace it with their own media.



Haymarket Riot, 1886

UNION CONTEST WITH GOVERNMENT

LABOR UNIONS are an enigma. Their enigmatic character begins to surface as we explore the questions of what they are and what they do. It does not take long to come upon aspects of unions that do not jibe with what they appear or claim to be. Labor unions claim to be organized against employers. In fact, however, they are most basically organized against other workers.¹ Moreover they conceal this contest behind the screen of ideological formulations taken from socialism.²

There is more to the enigma than that, however. One way to get to it is to look more closely at the character and functions of unions. In one

sense, there is no mystery about what a union is. It is an organization, an organization of workers. When we go beyond that, however, we enter upon confusion. For example, what sort of organization is a labor union? Is it a charity? Is it a fraternity? Is it a business? Is it a government? In short, where does the labor union fit within the spectrum of organizations that are familiar?

In several respects, a union resembles a business. If those who are employed by the union are considered as distinct from the worker members, the union takes on some of the aspects of an agency. That is, those who are employed by the union are representatives or agents of the rank and file members. But what sort of agency? In one of its aspects, it bears some resemblance

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to an employment agency. In another, it resembles an agency such as actors, writers, and artists sometimes employ to make arrangements for their work. In another, it may resemble an insurance agency, collecting and handling retirement funds. However, a union is not just a business, for it also resembles a mutual aid society or a fraternal organization, and may sometimes do works of charity.

Unions Employ Coercion

Be that as it may, there is one crucial difference between labor unions and the above organizations. It is that unions employ coercion. They have a tendency to compel people to become members, and, when they fail at this, to treat them as if they were. In their efforts to exclude non-union workers or those from other unions, they are monopolistic. And many of the tactics employed in organizing, in boycotting, and in labor disputes are coercive. In their use of coercion, unions resemble government. And it is their use of coercion that brings them into conflict with government.

Indeed, the contest between unions and government is a basic one. Union coercion challenges established government at its foundation. It challenges government's monopoly of the use of force. A government—any government—is that body which has a monopoly of

the use of force within its jurisdiction. If it does not have it, the stage is set for armed conflict.

Union ideology lays claim to a jurisdiction for unions in which government (or *other* governments) is not supposed to interfere. The argument is usually made obliquely—unions do not claim to be governments—and goes something like this. Capital and labor (or management and labor) are the contestants in any labor dispute. Indeed, whatever is in dispute is solely between them. But capital has a large initial advantage in the dispute because of the accumulated wealth it represents and the control over the livelihood of workers involved. Not only are individual workers powerless to deal with them but also organized workers unless they are permitted to use the tactics which will enable them to match the power of wealth with the force of their numbers.

Unionists usually draw the battle lines in such a way that it is only possible for government to intrude into the dispute on one side or the other. "You are either for us or against us," they say, in effect. The basic posture of union leaders has usually been that government should stay out, though they have not been averse to legislation favorable to unions.

Their position came out rather clearly when they testified before

the Senate Committee considering amendment of the Wagner Act after World War II. The chairman of the committee accused Walter Reuther of taking the position that "Government should not interfere at all and that we should not pass any laws because the Government should not interfere." But, the chairman pointed out, there were already laws on the book. To which Reuther replied, "The Wagner Act was remedial legislation to correct a particular abuse. Nobody can deny it was created because American labor in the face of this concentrated wealth could not begin to get the rightful status in American industry around the bargaining table."³

John L. Lewis was asked this question by one Senator: "Do you not think there is a point where the exercise of the right and freedom by any group of individuals impinges so drastically on the rights, privileges, and freedoms of all others that the Government has to step in and do something about it?" Lewis answered, "No, I think definitely the Government should not, Senator, not if you want to preserve America as we know it, and its freedom, because you cannot regulate the human beings who work for a living in this country, and who, in a major sense are not rich and in a substantial sense are quite poor. . . ."⁴

In sum, labor unions claim the right to use coercive tactics.

Moreover, they claim a special jurisdiction within which they can employ these tactics. The bounds of that jurisdiction are supposed to be in the organization of workmen and in labor-management disputes. For any government to grant such a jurisdiction is either to recognize unions—or unions in conjunction with management—as having the status of a government or sharing in the powers of existing government. For example, they might be conceived as comparable to a town or city in the United States, incorporated by states to exercise certain political powers but not independent of the states.

No Special Standing

Actually, however, unions have had no special legal standing for most of American history. They were private organizations with no particular power, authority, or responsibility. Such rights as they possessed were those belonging to individual members. As one book puts it, "They are voluntary organizations without limited liability and are generally without a personality apart from that of their individual constituent members."⁵ Only one state has required incorporation and, though a Federal law permitted incorporation in the District of Columbia from 1886 to 1932, there was no rush of unions to achieve that status. They were organized into a

body, banded together for concerted action, given to using coercive tactics, yet before the law they dissolved into their component parts.

It is not difficult to see why union action brings them into conflict with government. Every resort to coercion is a challenge to government. There is the continuing underlying conflict arising from government's effort to monopolize the use of force. Beyond that, there are the difficulties unions pose for government in the performance of its basic functions. Its basic functions are to protect the life, liberty, and property of those within its jurisdiction. To the extent that unions use coercive tactics, they challenge the exercise of these functions.

Contrary to union ideology, labor disputes are not simply a contest between unions and management (hence, nobody else's business). Basically, unions are organizations of some workers for the purpose of raising the price of labor by excluding competing workers from employment. If there is a strike, and management attempts to operate the struck facility, the visible conflict is usually between strikers and those who are willing to work. Union ideology attempts to conceal the character of the conflict by describing those who would work as instruments of the employer. They are described as "scabs," "rats," and "strikebreakers." This invective

helps to obscure, too, a much broader situation that may prevail. There are not only those who do work during a strike but also others who might apply for work and be employed were they not intimidated by the strikers. These are the silent interests in what is billed as a labor-management dispute.

Injury to Employers, Suppliers, and Consumers

To say that the conflict with management is in the background—is secondary, if you will—is not to imply that the owners of facilities may not be harmed by union coercion. On the contrary, there are frequently assorted damages from which government action to prevent or bring a halt to the coercion might protect them. Their property may be trespassed upon. There may be work stoppages because workers are prevented from entering the plant. They may be unable to meet contractual obligations. They may lose business to competitors. They may be unable to pay their bills when they come due. And so on.

A third line of effects extends outward from strikes and boycotts. The flow of commerce may be interrupted. Suppliers may be damaged by the loss of a market. Those dependent upon the struck facility for goods or materials will have to look elsewhere or do without. Transportation facilities may lie idle. A

whole category of interdependencies may be disrupted.

A fourth order of effects may also result from union coercion. It is the effect upon consumers. If strikes, boycotts, or other disruptive tactics, succeed in shutting down facilities, goods will not reach the marketplace. Shortages may develop, and prices will rise. If the product is in any way unique, customers will be denied choices. But whether any of this occurs, if unions succeed in raising wages, there will tend to be a rise in prices to compensate for the raise.

Union use of coercion inevitably brings it into a contest with government, then. It challenges the government monopoly of the use of force. Its coercion is exercised against those whom government is committed to protect. The extended effects reach eventually to all the inhabitants of the country.

How Governments Have Responded

Governments in the United States have responded to the challenge implicit in union activity in three ways historically. One writer on labor policy describes them this way: "*suppression, toleration, and encouragement.*"⁸ Until after the passage of the Sherman Antitrust Act in 1890 the federal government had no primary involvement in labor disputes. The responsibility for maintaining the peace and protecting life and property was exercised by the

states. In the few instances prior to the 1890s when the federal government did become involved it was in response to requests from governors of states for military help.

Suppression is too strong a term for describing state action toward unions during the first half century or so of the existence of the United States. Some unions existed throughout this period. However, when cases came before the courts, unions were often found to be guilty of conspiracy either because of coercive tactics or for the exclusion of competing workers from employment. In short, unions had the same right to existence as any private organization, but they could not employ coercion to fix wages or other conditions of employment. For a variety of reasons, and it is not at all clear that their legal status was the most important, unions were usually shortlived and insignificant for the first half of the nineteenth century. There were no nationwide unions and little enough national commerce.

Toleration is imprecise for describing the posture of governments toward unions in the latter part of the nineteenth century (and well into the twentieth, for that matter). It might be more accurate to say that unions were usually ignored until they created some disturbance. At that point, when police or troops were called in, an *ad hoc* solution

was applied. Courts did not generally concern themselves with such effects as the financial impact on workers excluded from employment or those which reached through to the consumer. Indeed, courts restricted themselves largely to trying individuals for acts of violence if and when such cases were brought before them until well into the 1890s.

Unions after the Civil War

Unions did begin to become nationally important after the Civil War. Several national unions were organized, and there were successful efforts to organize workers in many industries. "The Industrial Commission of 1900 reported that there were 22,793 strikes between 1881 and 1900 which affected some 117,000 businesses. During the same period there were 1,005 lock-outs."⁷ A lockout occurs when facilities are closed to protect the premises from trespass and the property from damage. The number of them may provide some indication of the fear of destruction during labor disputes.

The union contest with government became visible, vociferous, sometimes violent during this period. The first national instance was the Railway Strike of 1877. This was not a single strike coordinated by a central union but a series of strikes which spread to several railroads and states during that year.

The strike began in Baltimore following the announcement of a wage cut on the Baltimore and Ohio Railroad. Crewmen refused to move trains, replacements were hired, and when the strikers remained in the yards, they were arrested. The trouble then shifted to Martinsburg, West Virginia. When the crewmen refused to take the trains through, the railroad asked the governor for troops. When the state troops met resistance they killed a striker and one of them was wounded. The governor requested Federal troops, and several hundred were dispatched. After a change of commander, these were able to get the trains moving again.

Much worse violence lay ahead in Pittsburgh, however. The reduction of wages was not the issue there. The trouble arose over the decision of the Pennsylvania Railroad to haul longer trains by using two engines. Crewmen and yardmen refused to move the train and, when an attempt was made to move it, they attacked it. All train traffic was stopped, and the sheriff wired the governor for troops. Local Guardsmen from Pittsburgh were supplemented by a large contingent from Philadelphia.

When the sheriff, assisted by Guardsmen, attempted to arrest the leaders, shooting broke out, and the Pittsburgh troops threw down their weapons and took sides with the

strikers. The Philadelphia Guard withdrew to the railroad roundhouse. "Shut up in the roundhouse, the guardsmen were surrounded by a large crowd that called upon them to surrender. A gun brought by the rioters and loaded with couplings and broken rails steadily pelted the roundhouse, but the guardsmen held out and marched out only when the pickets had pushed burning oil cars against the building. The retreating troops were fired upon as they moved through the streets, and several fell from revolver and rifle shots."⁸ After another day of violence, things quieted down, but trouble was spreading in Pennsylvania.

The governor requested troops from President Hayes. These were dispatched from Baltimore, but "Strikers blocked the road at Altoona and refused to allow National Guardsmen to proceed to Pittsburgh. . . . The governor set up headquarters in Philadelphia, assembled troops and set out for Western Pennsylvania, followed by several hundred regular army troops equipped with artillery."⁹ When a sympathy strike broke out in Scranton, large damage in mines was anticipated. "A clash between pickets and a posse that had been recruited by the mayor of Scranton resulted in the killing of four and the wounding of several others. Aid was sought from the governor while armed citi-

zens patrolled the city streets. A force of 1,800 men was dispatched and was followed by 2,000 additional troops."¹⁰

Trouble spread to Ohio, Indiana, and Illinois. In Chicago, pickets went from one plant to another attempting to make them close down and go out on strike. Pleas from the mayor and governor were unavailing, for "crowds clashed with the police, some of them were killed and many others wounded." The army was brought in. "Order was restored with the arrest of rioters and their leaders."¹¹

The Haymarket Riot

Surely, these clashes between unions and government were unusual in scope and severity. However, there were instances when clashes were more pointedly ideological than those in the Railway Strike. Perhaps the most well known was the Haymarket Riot in 1886. There were anarchists directly involved in events which led to this series of events in Chicago, men who believed and taught that government was an instrument of capitalists to oppress the workers, that government, then, was an enemy to be overthrown.

Cyrus McCormick, owner of a harvester works in Chicago, had refused to accept a union to represent his employees. When pressed, he closed his factory and opened it later

with non-union workers. Conflicts between the union men now on strike and the workers were frequent. Meanwhile, organized labor launched a campaign for the 8-hour day with a general strike. For whatever reasons, probably as a conciliatory measure toward his workers, McCormick granted the 8-hour day and gave his workers a half-day holiday to celebrate. "As the workers came out of the factory they were greeted with hoots of contempt and derision by the union men assembled near by. Not far away, in a vacant lot, striking lumbermen were holding a meeting. . . . The two groups joined forces. The owner summoned the police and, in the fighting that followed, several workingmen were killed and a score or so wounded."¹²

A protest meeting was scheduled for the next night to be held in Haymarket Square. Circulars were printed up in English and German and distributed over the city. The heading read: "Revenge! Revenge! Workmen to arms!" The body of it spelled out the antagonism toward the police:

Men of labor, this afternoon the bloodhounds of your oppressors murdered six of your brothers at McCormick! Why did they murder them? Because they dared to be dissatisfied with the lot which your oppressors have assigned to them. They demanded bread, and they gave them lead for an answer.¹³

Toward the end of the meeting a squad of police arrived and asked the crowd to disperse. A bomb was thrown into the ranks of the police; the explosion killed one and wounded others. Shooting broke out; sixty-eight policemen were wounded, and seven of them died. Four people in the crowd were killed. In the aftermath several anarchists were tried and convicted of murder.¹⁴

The Homestead Strike

The Homestead Strike of 1892 provides an example of another aspect of the contest. Companies sometimes hired their own police. When a strike portended, these might be supplemented by private forces such as the Pinkerton Detective Agency. The Homestead (Pennsylvania) plant was a part of Carnegie Steel. Henry C. Frick was the chief administrator. When the Amalgamated Association of Iron and Steel Workers called a strike in 1891, Frick tried to operate the Homestead plant. More than a hundred deputy sheriffs were sent to the site. However, pickets refused to allow them to enter the plant, and the deputies would not force the picket lines. The sheriff managed to get negotiations opened, and the strike was settled.¹⁵

Things went differently in 1892. Frick caused a three-mile-long fence to be constructed around the plant.

The fence was topped with barbed wire, spaced holes were cut in it, and search-lights were mounted along it. When the union decided to strike, the company did ask the sheriff for protection, but Frick did not intend to place much reliance on him. Instead, he had already placed a tentative order with Pinkerton Detective Agency to supply guards, for he had concluded, he said, that "it would be necessary to protect our own property and secure new workmen."¹⁶

Three hundred Pinkerton detectives tried to reach the plant by way of boats on the river. However, their approach was detected by the strikers who broke through the fence that had been erected and would not permit them to land. Shooting broke out and several were killed. The Pinkertons made two other unsuccessful assaults before they surrendered. The plant was taken over by the strikers and the guards held captive. The sheriff applied to the governor for troops, and 7,000 were sent. They removed the strikers from the premises, and the mill was eventually reopened without them. In the midst of these developments an anarchist shot and stabbed Frick but failed in the effort to kill him.

The Pullman Strike

The Pullman Strike of 1894 provided the setting for a major shift in dealing with labor disputes. Therefore, state and local governments

had been primarily responsible for maintaining the peace in labor disputes. In this strike, the United States became involved on its own initiative (not simply as a backup force). A contest between a union and the federal government developed. Secondly, it began the shift to the widespread use of the injunction in labor disputes. Third, the Sherman Antitrust Act was invoked in a labor dispute.

Actually, Pullman Strike is a misnomer for the events that brought action by the federal government. There *was* a Pullman strike, but it was only the approximate cause of the trouble. It could more aptly be called the American Railway Union Boycott. When the workers at the Pullman plant near Chicago went out on strike, the American Railway Union proclaimed a boycott of Pullman cars on trains. That is, the members of their union were not to handle Pullman cars on the train that they worked. The associated railroads which came into Chicago determined that the lines would not be used in that way, that they would continue to use and pull Pullman cars. When the union men refused to comply with company orders, they were replaced by those who would. Many railway workers then struck.

The railroads experienced increasing difficulty in operating. The mail was piling up in some cities

because the railroads were tied up by the strike. Injunctions were obtained which enjoined interference with the railroads. A witness described the response to the reading of the injunction this way:

Marshal Arnold stood in a mail car and read one injunction. He was jeered considerably . . . ; then the other injunction was read from the back of a passenger car by his deputy. . . . The men, of course, gathered around and I suppose there were 500 men upon the hill, in the roadway and around the cars. . . . It was from that crowd that the cry came, "To hell with the Government!" "To hell with the President!" "To hell with the court and injunctions."¹⁷

The United States Marshal wired that he was unable to enforce the injunction and requested that troops be sent in. This was done, but the immediate result was an increase in the violence. Several marshals and their resisters were killed and wounded.¹⁸ Shortly after the union leaders were arrested, the violence subsided, and the strike was called off.

The United States Strike Commission, appointed by President Grover Cleveland, described the situation this way in the latter part of the nineteenth century:

It is encouraging to find general concurrence . . . in condemning strikes, boycotts, and lockouts as barbarisms unfit for the intelligence of this age, and as, economically considered, very injurious and destructive forces. Whether

won or lost is broadly immaterial. They are war—internecine war—and call for progress to a higher plane. . . . These barbarisms waste the products of both capital and labor, defy law and order, disturb society, intimidate capital, convert industrial paths where there ought to be plenty into highways of poverty and crime, bear as their fruit the arrogant flush of victory and the humiliating sting of defeat, and lead to preparations for greater and more destructive conflicts. . . .¹⁹

The Commission recommended that the government encourage labor combinations as it had capital formation in the interest of industrial peace.

Except for the railroads and more generally for a brief period during World War I, that would not be the course the government followed for the next four decades. (When the government did eventually turn to the *encouragement* of unions, as Metz called it—it might better be called *empowerment*—it hardly resulted in industrial peace.) The contest between unions and government did, however, shift to a different plane between the 1890s and early 1930s. Much of the initiative for maintaining the peace shifted from the police (and armed forces) to the courts. The main instrument for controlling labor unions was the injunction.

The injunction was increasingly used in labor disputes from the 1880s through the 1920s. Both state

BESIDES their vital interest in eliminating as much competitive labor as possible and expanding job opportunities to the greatest possible extent for their own members, union leaders are driven by one more unrelenting goad: they must keep alive the destructive myths and superstitions upon which class-warfare thrives.

If the union leaders for one moment admitted to their members the obvious truth that employers and employees are bound together by the strongest bonds of mutual and reciprocal self-interest known to mankind—perhaps exceeding even the family bond—the party would be over as far as the union leaders were concerned.

SYLVESTER PETRO, "Unemployment, Unions and Inflation"

and Federal courts issued them. A total of 28 such injunctions were issued in the 1880s, 122 in the 1890s, 328 from 1900 through 1909, 446 from 1910 through 1919, and 921 in the 1920s. One authority described the impact of this use of the injunction this way:

For almost a generation and a half, from the 1890s to the early 1930s . . . the power of the courts was invoked to assist in defeating most of the more important strikes—among them, the Pullman Strike of 1894, the coal strike of 1919, the shopmen's strike of 1922—and only a smaller proportion of the relatively less important ones . . . to prevent the successful spreading of labor boycotts . . . and . . . to prevent organizing activities where the workers were engaged under individual nonunion or "yellow-dog" contracts.²⁰

Sherman Act of 1890

The Sherman Act of 1890 provided legislative support to the use of the injunction in labor disputes. It was not essential to the use of the

injunction in this way, *per se*, since courts of equity could, and did, issue injunctions to forestall irreparable damages where they were the appropriate remedy. The Sherman Act went much further, however. It prohibited combinations or conspiracies which restrained or obstructed interstate commerce. It provided for criminal prosecution, for injunction relief, and for suits in which triple damages could be awarded.

Labor unions were neither exempted from nor specifically mentioned in the Sherman Act. However, a provision to exempt combinations of laborers from its application was not adopted by Congress, and the language was altered to refer not only to trusts but to "other" combinations as well.²¹ In any case, the courts began to apply it, and in the Danbury Hatters case, heard in 1908, triple damages were assessed against a union. The Supreme Court eventually affirmed its validity.

The courts had now moved toward

the position that labor unions were at least partially responsible legal entities. The fine in the Danbury Hatters case was levied against the membership of the American Federation of Labor. I say partially responsible, however, for only damage to employers was assessed, not that to non-union workers, to government, or to the general public. Indeed, there may be no way equitably to arrive at such damages. In any case, these developments concerned union leaders greatly. They launched a political campaign to get the antitrust laws modified so as to exempt unions from their applications.

The Clayton Act: "Labor's Magna Carta"

This campaign bore fruit, or so many union leaders thought, with the passage of the Clayton Antitrust Act in 1914. Section 6 of the Act does appear to exempt labor unions. It reads, in part:

That the labor of a human being is not a commodity or article of commerce. Nothing contained in the anti-trust laws shall be construed to forbid the existence and operation of labor . . . organizations . . . ; nor shall such organizations, or the members thereof, be held or construed to be illegal combinations or conspiracies in restraint of trade, under the anti-trust laws.²²

Samuel Gompers, head of the AFL, hailed it as "Labor's Magna Carta,"

and declared that it was "the most important and comprehensive measure ever enacted touching the freedom of workers."²³

Indeed, the Act may have been a boon to "the freedom of workers," but it was hardly a victory for labor unions, as matters turned out. Section 20 of the Act did provide that no restraining order should be issued by the courts of the United States in cases involving employers and employees, but there was an exception: "unless necessary to prevent irreparable injury to property, or to a property right, of the party making the application, for which injury there is no adequate remedy at law.

. . ."²⁴ Section 20 goes on to assert that labor organizations may engage in "peaceful" and "lawful" acts. Many states proceeded to pass acts modeled on the Clayton Act.

What the courts tended to do thereafter was to rule that the Clayton Act made no substantial change in the situation. (It did make one change, for theretofore the government had to initiate requests for injunctions; this power was now extended to private parties.) It had simply declared what was settled law and good construction before it had been enacted. The injunction was more widely used than ever after its passage.

The Clayton Act did not, of course, end, or even reduce, the contest between unions and government. If

anything, it sharpened and focused it. One writer says that "The result was that the labor injunction 'weakened and undermined the courts' and so respect for law and government, since unions considered the law so unfair and unduly restrictive of their right to self-protection." Moreover, "they did not prevent the violence which continued to be an accompaniment of industrial disputes."²⁵

In essence, there is a conflict between union coercion and government. The conflict has often been obscured by treating labor disputes as if they were simply something between employers and employees.

When viewed in that light exclusively, government action becomes "interference" in a labor dispute. However, when the matter is looked at from the broad perspective of its impact on others, it takes on a different cast. When unions resort to coercion, government becomes a party to the dispute, else it forgoes its monopoly of the use of force. More, if government does not intervene, it does not perform the function which justifies its existence, namely the maintenance of the peace and the protection of life and property. These have been at issue in the union contest with government. ☉

—FOOTNOTES—

¹See "The Origins of American Unions," *The Freeman* (January, 1980), pp. 12-24.

²See "An Ideology for Unions," *The Freeman* (February, 1980), pp. 109-120.

³E. David Cronin, ed., *Contemporary Labor-Management Relations* (New York: Henry Holt, 1960), p. 13.

⁴*Ibid.*, pp. 17-18. See also Glenn W. Miller, *American Labor and the Government* (New York: Prentice-Hall, 1948), pp. 510-11.

⁵Harold W. Metz, *Labor Policy of the Federal Government* (Washington: The Brookings Institution, 1945), p. 25.

⁶*Ibid.*

⁷Gilbert C. Fite and Jim E. Reese, *An Economic History of the United States* (Boston: Houghton Mifflin, 1965, 2nd ed.), p. 406.

⁸Philip Taft, *Organized Labor in American History* (New York: Harper & Row, 1964), p. 78.

⁹*Ibid.*, p. 79.

¹⁰*Ibid.*

¹¹*Ibid.*, p. 82.

¹²Ida M. Tarbell, *The Nationalization of Business, 1878-1898* (New York: Macmillan, 1936), pp. 160-61.

¹³Quoted in *ibid.*, p. 161.

¹⁴*Ibid.*

¹⁵Irving Bernstein, *Turbulent Years* (Boston: Houghton Mifflin, 1970), p. 432.

¹⁶Quoted in Taft, *op. cit.*, p. 141.

¹⁷Thomas G. Manning, ed., *The Chicago Strike of 1894* (New York: Henry Holt, 1960), p. 46.

¹⁸Taft, *op. cit.*, p. 154.

¹⁹Manning, *op. cit.*, p. 58.

²⁰Harry A. Millis and Emily Clark Brown, *From the Wagner Act to Taft-Hartley* (Chicago: University of Chicago Press, 1950), p. 8.

²¹Manning, *op. cit.*, p. 56.

²²Henry S. Commager, ed., *Documents of American History*, vol. II (New York: Appleton-Century-Crofts, 1962, 7th ed.), p. 100.

²³Taft, *op. cit.*, p. 243.

²⁴Commager, *op. cit.*, p. 101.

²⁵Millis and Brown, *op. cit.*, p. 14.

P. Dean Russell

EXPLOITATION and FREEDOM

AFTER two years of unemployment, 58-year-old Vincent Sgroi found a job answering the night-phone in a police station in New York City. While Mr. Sgroi would rather have back his old job as a highly-paid linotype operator in a printing company that went broke, he does find a form of comfort in his lower-paying government job: "At least no one is making money off me."

I suspect that Vincent Sgroi has here offered the primary reason for our continuing trend away from competitive jobs that depend on profits, and toward non-competitive jobs that depend on taxes. He's convinced that profits are made at the

expense of the workers, i.e., by exploitation.

His belief is shared by perhaps more than 90 per cent of the world's people, including millions of intelligent Americans. For example, the idea that profits are made by exploiting labor is the basic theme behind most of today's television plays about business. As the TV story unfolds, the following idea will usually appear in one way or another: Profit-driven businessmen grow fat by exploiting the labor of others. We watch those plays because, basically, millions of us hard-working and anti-communist Americans agree with the message.

Those plays include situation comedies, soap operas, and serious drama. In them, businessmen lie, cheat, and steal in a continuous ef-

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fort to increase their profits. The evil acts of the Mafia are usually portrayed as typical "big business" activities. I have seen TV plays in which international businessmen (usually represented as Americans) pay large sums of money to the leaders of foreign governments in an effort to increase profits from government contracts. If they can't buy those leaders, they sometimes have them blackmailed, or even assassinated.

The businessman always wears the black hat on TV as he gets rich by following the dictionary definition of exploitation: "An unjust or improper use of another person for one's own profit or advantage."

A Dim View of Businessmen

This belief that businessmen are evil—especially the leaders of big business—is also found among our highest officials in Washington. Many of us still remember that famous incident in 1961 when the president of the United States informed the president of one of our largest corporations that "all businessmen are sons-of-bitches." That belief sometimes appears to be the prevailing viewpoint in both houses of Congress as they pass laws against the "excessive profits" that big businessmen make by exploiting the poor and helpless. I have even heard businessmen-fathers advise their college-bound sons and

daughters to study for careers in government, *not* in business, if they want to make a worthwhile contribution to our nation and people.

This attitude is not inspired by a communist conspiracy. For the most part, the writers and politicians who think that profit-motivated businessmen are bad people are themselves good people. They write and speak as they do because they're convinced that profits can't be made except by exploitation.

They are just as sincere in that belief as was that real-estate agent in Florida who gained ownership of the home of a poor couple by paying a \$3 overdue tax bill they didn't know about. He defended his action by claiming that, in business, the only way anyone can make a profit is to make sure someone else takes a loss, i.e., by exploitation.

If that were actually the case, of course linotypist Vincent Sgroi would be the exploiter; he got paid in full for many months while the businessmen-owners of the printing press made no profits at all and went broke. But most of us, like Mr. Sgroi, are as likely to base our decisions on emotion as we are on logic.

I'm convinced that those anti-business writers of TV and movie scripts are sincere people who truly want to stop exploitation. And they are equally sincere when they say that the best way to stop this exploitation is to abolish our profit-

motivated economy in one way or another. The usual solution they advocate is government ownership, i.e., let business be owned in common (through our government) and be used for the benefit of all the people instead of for the profit of a privileged few.

A writer-producer of popular television shows, Douglas Benton, summed up the belief (and hope) of most of his fellow-writers in these words: "The big corporations like General Motors and International Business Machines . . . will die out. . . . We are inevitably moving toward socialism."

The McCarthy Era

Before they increase their efforts to take us there, however, I do hope those writers will take one last look at the early 1950s and a senator name McCarthy—and what happened to a fairly large number of television writers and actors when our government decided to take a more active interest in that industry and those who worked in it. Please remember that Senator Joseph McCarthy truly believed that communism is bad and that we American people are entitled to be protected against communist propaganda in the entertainment media.

Those writers and actors of a quarter-century ago quickly discovered that writers and actors can lose their jobs for political reasons in the

United States just as they do in Russia. This happens in *any* nation when the government is powerful enough to question the viewpoints expressed in TV and movie scripts.

An important difference between the situation of those writers in Hollywood in the early 1950s and their counterparts in Moscow was this: In our profit-motivated economy of the United States, other companies and individuals who wanted to make a profit from the work of skilled workers could (and did) hire those blackballed writers to work for them. Also, some of those "politically discredited" writers found that, in our relatively free economy that's motivated primarily by the desire to make profits, they could continue writing under assumed names. In that fashion, several of them continued to earn good salaries. One of those writers even won an "Oscar" for superior work under his assumed name! But under the no-private-ownership and no-profit system of socialism, there is no employer other than the government. And if a writer in Russia tries to conceal his identity, he'll surely end up in prison.

You would think that anyone would be quick to understand that Aleksandr Solzhenitsyn and Andrei Sakharov (and other "refusenik" writers in Russia) were only able to get their books and articles printed by the privately-owned and free-

market publishers in the capitalist nations. The owners of the presses in our profit-motivated economies were happy indeed to get those manuscripts because they made huge profits by publishing them. But neither Solzhenitsyn nor Sakharov has yet seen the connection between private ownership, profits, and a free press. As far as I can determine, both still believe that the presses should be used for the benefit of all the people instead of for the profit of a few.

Like their fellow-writers in the American movie industry, those Russian writers honestly believe that government ownership and/or control of industry is in the best interests of everyone—provided, of course, that it is properly and fairly administered. Both of those Russian writers are unimpressed by the viewpoint that the control of ideas (i.e., people) can become a permanent situation only when there is no profit to be made by hiring someone or by publishing his works.

Ownership in Common

Writers in the United States today cannot claim the excuse of ignorance concerning this relationship. All they need to do is look at any economy where the presses (i.e., the means of producing or reproducing words) are owned in common and must be used for the benefit of all the people instead of for the

profit of a few. In every case—underline *no exception*—there is complete and absolute censorship in the “common ownership” nations. The leaders of government (acting in the name of the people) determine what will be printed. Anyone caught printing anything else is, by legal definition, a criminal.

True, in the profit-motivated economies of private ownership, there *can* be government censorship, and sometimes there is, e.g., McCarthy in the United States and Franco in Spain. But the censorship is never as complete as in the “common ownership” nations and it eventually disappears because the private owners of the presses find it highly profitable to print and sell suppressed works and ideas that you and I want to read and are willing to pay for. If it were otherwise, i.e., more profitable to work for a press that’s totally controlled by government, I have no reason to doubt that’s what we would have.

We Americans especially enjoy talking about freedom in the abstract as some sort of lofty ideal that we’re all quite willing to die for at any time and for any reason. I’m personally convinced, however, that the primary defense against censorship in the United States (and everywhere else) is the attitude of the owner of a printing press toward the machine itself and the profit it can bring him. As long as the

machine is his and he can sell its services to anyone who wants to have a book printed, he's likely to defend his press with his life.

For precisely that same reason (in both Russia and the United States) farmers will die in defense of their land against anyone who tries to take it from them, including their own government. Millions of farmers actually *did* die in Russia for that reason; and millions *will* die in the United States, if necessary. But let the land or the press be owned in common and used for the benefit of everyone equally—i.e., no profits for anyone—and no one is eager to risk his life in its defense. I'll defend my home and my typewriter against all comers. I'm not nearly as willing to die defending the Tennessee Valley Authority and the Tellico Dam which we all own in common.

They Dare to Speak

It was our privately-owned presses—which are directly dependent on circulation to make profits and survive—that told us about the activities of the top officials in the Nixon Administration. Suppose *The New York Times*, *The Washington Post*, and other profit-motivated newspapers in the United States were "owned in common" as are *Pravda* and *Izvestia* in Russia. Suppose that their survival was not based on circulation and profits but on decisions by the government

managers. Do you imagine we would have had the Watergate story?

When the presses are owned in common and are used for the benefit of all the people instead of for the profit of a few, the top government officials can literally commit personal murder against their colleagues and families, and never be exposed by the newspapers they control. Stalin (and other top government officials in Russia) actually did participate in outright murder. Profit-motivated newspapers and magazines reported it. To the surprise of no one, the no-profit and common-ownership papers in Russia didn't.

When private ownership and the profit motive disappear, human freedom vanishes. You can count on it.

Those TV writers (and others) who condemn the profit motive are not looking for subsidies or unfair advantages. They want only the money they themselves generate; not a penny more. They honestly believe that they are being ripped off by the publishers and distributors. That's precisely what causes them to support common ownership or government control. They think they'll thereby get what's rightfully theirs. I've never heard any persuasive defense of common ownership except this: The deserving people (the workers) will thereby get more of the fruits of

their labor, and the less deserving (the exploiters) will thereby get less or none at all.

I, too, want what is rightfully mine. All of it. If I believe I'm being cheated or exploited, I'll protest vigorously. Further, I'll take whatever measures I think will stop it.

I'm puzzled, however, by the naive belief of those writers that they'll get a better material deal from McCarthy (or Carter or Reagan or whomever is our next president or senator) than they'll get from the private owner who is motivated primarily by his desire to make a profit by publishing the works created by others. Since the livelihood of the private owner is totally dependent on publishing books and plays, you can depend on him to publish anything he thinks will sell at a profit, i.e., that people want to read. The politician, however, is interested in getting elected; making a profit doesn't concern him. These differing motivations, however, do determine what each will want printed. It's clear to me that I'm most likely to get this article printed by the owner of a private press who wants "to make money" from my work. Does anyone imagine I could get it printed by a government press that just wants to serve the best interests of the people?

Those popular and influential TV writers and actors seem blissfully unaware that the actions they dis-

approve of in the capitalist economy of private ownership do not (and cannot) disappear in the socialist economy of government ownership. Some arrangement of owners, managers, and workers necessarily continues to exist in any and all economic systems. In truth, the primary evil those writers abhor, i.e., economic power of man over man, is actually accentuated in the socialist system they endorse.

The Freedom to Move

The sheer economic powers of managers over workers in a socialist economy with only one employer (government) is obviously far greater than the power of managers over workers in General Motors or *The Wall Street Journal*. Under private ownership, employees are forever quitting their jobs in one company and going to work for another employer elsewhere. Under the socialist system of government ownership, however, there's no other employer to work for. And you must have official permission before you can change from one job to another.

In no sense is our problem of diminishing freedom due to a conspiracy on the part of anyone, including our TV writers and all other intellectuals. Our problem is actually based on a sincere and ever-present desire of almost all of us for justice—as we see it. And there's the

difficulty, i.e., "as we see it," for justice is a purely subjective concept.

I have no mathematical solution to the problem of a "just division" of cooperative effort. This issue has occupied the best minds of the human race since we first gathered into groups to work together. I know only that "turning it over to government" is not the answer. For how can an official (elected or appointed) set a fair price on this article without also rendering an official verdict on the merit of my ideas?

I'm convinced that justice (whatever it is) is more likely to exist in a private-ownership and profit-motivated arrangement than in a common-ownership and government-controlled arrangement.

My conviction is based on a relationship to which I can find no exception, either currently or historically. It is this: When private ownership and the profit-motivated market economy disappear, human freedom disappears at the same time.



Shawn A. Bozarth

Socialism in Theory and Practice

As seen through the eyes of a U.S. exchange student in Britain

ENGLAND is a hotbed of radicalism these days, mostly socialist and frequently violent. I was introduced to this brand of revolutionary socialism through one of my professors, an admitted Marxist who was sympathetic to the Socialist Workers' Party.

His argument was simple: "The capitalist system is flawed. Capitalists overproduce, rob the workers for the sake of profit and reduce them to paupers. Faced with increasing mis-

ery, the worker must sell himself to earn money for food. He has no liberty. He spends his life at a job and has no say as to his work conditions. When will this degradation end? When the working class rises up and controls the workplace."

I also observed the rising up of the working class that fall and winter of 1978-1979. A wildcat strike of 33 toolmakers at a British Leyland factory in Birmingham was sustained, without punishment, when the

other 3,000 workers in the plant threatened to strike in support of the 33. And this type of industrial action was not unusual in many unionized plants. The London *Times* stopped printing because workers refused to accept modern machinery that might have enabled the newspaper to earn a profit while meeting wage demands.

There were signs of a general strike by early 1979. Lorry drivers walked off the job. Soon there were shortages of food, especially milk for children. Dock workers struck and beat up fellow workers forced by financial necessity to try to cross picket lines. Some who did cross were subsequently expelled from the union and thus virtually barred from continuing their trade after the strike. Car bombings were reported. One newspaper was discouraged from publishing articles critical of union tactics because the newsprint union threatened to strike.

In Liverpool the morgue was closed by a strike of 12 gravediggers. London ambulance drivers struck for higher wages, leaving emergency patients to fend for themselves until the government called on the Army Medical Corps for help. Several London hospitals were so hit by walkouts of medical personnel that sick patients, including children, were unattended for hours. Striking union employees voted to search school children for sandwiches, hoping the hungry youngsters would then force their parents to persuade the schools to settle.

The strikes and ugliness subsided in March. But I had seen enough of Socialism to realize the emptiness of the promise of liberty and prosperity for the workers. Putting socialist theory into practice involves violence against persons, destruction of property, censorship of ideas, and suffering for everyone concerned. ☉

Sylvester Petro

IDEAS ON



LIBERTY

CORRUPTION and disguised anarchy will characterize both the state and voluntary associations when they have confused their respective roles. While their services to society are of the highest order of importance when confined properly in accordance with the principles of the free society, private associations and the state become the worst and most vicious enemies of man's freedom when they confuse their nature and function. The result of such confusion is not really "society"; it is the war of all against all.



MUCH of the case for the free market is built upon the belief in the sanctity of free choice. This includes not only the freedom to trade and associate with whomever one chooses, but also, and equally important, the freedom *not* to trade or associate.

There are only two ways for man to satisfy his needs. One method involves the use of coercion, which includes the threat of violence or force. The other is freedom, involving the process of voluntary exchange.

In acting to further his own well-being, man will not exchange values unless he believes he will benefit by doing so. A man who purchases a new suit for example, values the suit more than he values the money given in exchange. The merchant

values the money more than the suit. Both parties have improved their positions.

Whenever a third party enters the picture, either preventing exchanges that would normally have taken place, or forcing a person on either side of a trade to make an exchange against his will, mutual benefit is no longer present. One or both parties to the transaction must necessarily lose.

Such a restriction of freedom is evident in the various laws intended to provide equal employment opportunity for minorities, women, handicapped individuals, and the like. These laws are essentially denials of the market process of voluntary exchange, with consequences detrimental to all parties involved.

The Random House Dictionary defines discrimination as follows: "to make a distinction in favor of or

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against a person or thing on the basis of the group, class, or category to which a person or thing belongs, rather than according to actual merit." The alleged intent of the equal opportunity laws is to insure against discrimination. In order to prove that employers have discriminated against minorities in their hiring and promoting policies, the government must have a method to demonstrate that discrimination has occurred.

One method commonly used is statistical representation. An analysis of the percentages of various minority groups in the population is compared to the percentages employed in a given industry. Assuming a minority comprised twenty per cent of a given population, this theory holds that if the percentage of this same minority in the industry is only five per cent, then discrimination has taken place.

This procedure, however, does not allow for differences in age and education among individuals. The fallacy of statistical representation as evidence of discrimination is well documented. Thomas Sowell, a black economics professor at U.C.L.A., writes the following:

If various ethnic groups were approximately similar in age distribution and education, representation, based on comparisons of a given group's percentage in the population, might make sense. . . . Virtually every underrepresented

racial or ethnic group in the U.S. has a lower than average age and consists disproportionately of children and inexperienced young adults. Almost invariably these groups also have less education, both quantitatively and qualitatively . . .

Half of the Jewish population of the U.S. is forty-five or older, but only twelve per cent of the Puerto Rican population is that old. Even if Jews and Puerto Ricans were identical in every other respect, and even if no employer ever had a speck of prejudice, there would still be huge disparities between the two groups, in top level positions, just from age differences alone. . . . Representation in such jobs cannot be compared to representation in a population that includes many five year olds. Yet it is.¹

Affirmative Action Quotas

Government bureaucrats, however, armed with supposedly conclusive proof of discrimination, then impose various quotas which they believe will insure that no individual will suffer any form of discrimination. Wrapped in the guise of "affirmative action" laws, these quotas present an employer with a curious dilemma. If the law dictates, for example, that he increase the number of minority group employees from five to ten, he must in the process, actually discriminate against those individuals who are *not* members of a minority group. This is referred to as reverse discrimination. To be consistent, it should be opposed as fervently as

discrimination against minorities. The employer has clearly "made a distinction in favor of" those members of a designated minority group.

Similarly, because of quotas, an employer is forced to discriminate against individuals who are not included in such categories—individuals such as disabled veterans, Vietnam veterans, and handicapped persons. How is the employer to explain his failure to adhere to a supposed policy of non-discrimination while in the process of implementing various quotas he must blatantly discriminate against non-categorized individuals?

The government, in its attempt to provide equal employment opportunity, has, in effect, designated special categories of people as automatically *less* qualified simply because they fall within that group. This seems to indicate a belief that minorities are losers who will never have anything unless someone gives it to them. As a result, members of minority groups eventually must come to wonder if they receive their positions because of their merits (measured as for everyone else) or because they are a minority.

The Unchangeable Past

One of the major arguments presented by those in favor of affirmative action is that it will in some way atone for the ill-treatment of minorities in the past. A closer

Is it reasonable to believe that giving someone a special privilege today will compensate for the mistreatment of someone else one hundred years ago?

examination of the logic behind this argument reveals that it embodies the belief that two wrongs make a right. Is it reasonable to believe that giving someone a special privilege today will compensate for the mistreatment of someone else one hundred years ago? Again, Professor Sowell explains:

The past is a great unchangeable fact. Nothing is going to undo its sufferings and injustices, whatever their magnitude. . . . Neither the sins nor the sufferings of those now dead are within our power to change. Being honest and honorable with the people living in our own time is more than enough moral challenge, without indulging in illusions about rewriting moral history with numbers and categories.²

Affirmative action has other effects upon the employer and the employees which must be considered. In most cases, employees working together will get along better, and thus be more productive, if they know they were all hired or promoted on the basis of roughly similar qualification standards, rather than to fill some quota mandated by

government. Cooperation among employees and higher productivity are goals for which most employers continually strive.

Additionally, the lowering of employment standards in order to reach certain objectives is highly suspect. These lower standards mean that an employer is forced into hiring and promoting people other than the best available to him. Operating efficiency is correspondingly lower than it otherwise would have been. These policies must ultimately lead to ill will and conflict among employees.

Unseen Consequences

In many cases affirmative action has provided employers with incentives which are contrary to its intent. Employing someone to fill a quota gets the government off an employer's back for the moment, but somewhere down the road he faces the possibility of a costly lawsuit brought by unhappy applicants or employees claiming that quotas denied them a position. The threat of such action is an incentive *not* to hire or promote from the groups designated by the government.

Similarly, the logic of the equal opportunity laws presents another dilemma to the employer. Suppose a given employer actually wants to hire more minority group members and afford them greater opportunities than he believes they have

had in the past. If he consistently hires the minority group member from a number of applicants with similar qualifications, he is not complying with the law. The current law dictates that he should not be allowed to put his beliefs into practice!³

The law thus harms (1) the employer, who seeks higher productivity, greater efficiency, and larger profits, (2) other employees who desire to be treated fairly, and (3) the minority group member, who must suffer a loss of pride and self-esteem.

Looking at the other side of the employer-employee relationship affords another perspective on the argument.

An applicant for a job is filling the same role as does a consumer in any other transaction. What is often forgotten is that a job is really the same as any other exchange. The difference is that it is ongoing. The employer trades wages or salaries in exchange for the employee's labor and/or services. The employee exchanges his labor for wages.

Employees and applicants discriminate in their choice of and in their dealings with their employers. These choices are quite often made on the basis of what many people would refer to as irrational reasons. As an example, it would probably be impossible to ascertain how many applicants refused a position (or how many simply did not apply) because

they believed their future supervisor's dress was inappropriate, hair too long, or skin color objectionable.

Intervention by government on only one side of the employer-employee exchange seems inconsistent. Surely an employer could show that he had been harmed by qualified applicants who had refused positions on the basis of whim or prejudice.

Only one person can work at each job. Consequently, there must be discrimination; someone must choose the one for the job. The question then is: Who shall have the right of decision?

An Arbitrary Decision

The government has no basis for deciding who shall have a particular job in the private sector. The bureaucrat can make only an arbitrary decision. He is usually far removed from the day-to-day personnel decisions made by individual employers. Laws passed to eliminate discrimination in employment in reality do not eliminate it at all. They merely transfer the right of discrimination to the government bureaucrat.

We frequently lose sight of the fact that government is not the selfless, unerring, organization it is often pictured to be. It is indeed made up of individuals subject to the same fundamental laws of human action as are all other persons. Be-

cause we sometimes forget this fact, government is often assigned powers that, if thought of in terms of particular individuals, would be considered totally unacceptable.

Only one person can work at each job. Consequently, there must be discrimination; someone must choose the one for the job.

What would our reaction be, for example, if our neighbor were to threaten us at gunpoint if we did not hire his fifteen-year-old son to mow our lawn? Surely we would consider this a flagrant violation of our individual freedom of choice.

What accounts for this widespread belief in the omniscience of government? Why is the bureaucrat looked to for answers to problems that most people would consider to be none of his concern? The answer might be found by taking a closer look at the nature of bureaucracy.

The bureaucrat has an unquestioned and seemingly never-ending desire to extend his power and influence. Lacking a market test of his skills, he must prove his value through his ability to curry political favor. He feels that in order for anything to function smoothly, he must control it.

Coupled with this is the bureaucrat's belief that individuals for the

most part simply are not intelligent enough to handle their own affairs. Yet, these same individuals supposedly are smart enough to elect their rulers, who will gladly tell them how to run their own affairs!

Furthermore, the bureaucrat usually cannot see, or is not interested in, the long-term consequences of his actions. He is interested only in what will enable him to maintain his position. The bureaucrat tends to lose sight of the indirect effects upon all other individuals who are not directly in the path of his regulations.

Possibly the overriding reason why bureaucrats favor anti-discrimination laws is that it simply is not in their interest to lose the "minority problem" issue. Huge empires have emerged to administer the various equal employment opportunity programs. It is in the best interests of the individuals connected with these agencies to see their particular bureaucracy grow larger. It is not in their interest to find a solution to the "problem" for which their agency was created. If suddenly the problem were to be solved, there would no longer be a need for these empires, and the bureaucrats would be out of a job.

The question remains: Who is to have the right to choose the one for the job?

If we think of a job or position in terms of an ongoing voluntary ex-

change, it follows that the employer and the employee are the only two persons who have a proper interest in the matter. Third party claims usually introduce conflict and injustice.

Whose Choice Is Valid?

Proponents of affirmative action claim that, in cases where relative equality in productivity can be shown, there is harm done to minority groups when an employer refuses to hire from these groups. Is this a valid claim?

If we think of a job or position in terms of an ongoing voluntary exchange, it follows that the employer and the employee are the only two persons who have a proper interest in the matter.

Would we consider it "discrimination" for example, if an individual chose to go to a concert to hear a classical pianist rather than a jazz pianist? Certainly not. It would be viewed as evidence of the individual's taste.

Many people object, however, when an employer prefers to hire a white person over a black person, or a male over a female. The objectors claim that those not hired have been harmed. But what about the jazz pianist? Assuming a great many

people prefer classical music to jazz, is the jazz pianist not also harmed as a result of the limiting of his employment opportunities?

In fact, the jazz pianist is being "harmed." He would obviously be better off if more people preferred his music to that of the classical pianist. But if one person can find employment and another cannot, it means that one is rendering services which the community regards as worth paying for and the other is not. As Milton Friedman points out, there are two very different kinds of harm:

One kind is the positive harm that one individual does another by physical force, or by forcing him to enter into a contract without his consent. An obvious example is the man who hits another over the head with a blackjack. . . . The second kind is the negative harm that occurs when two individuals are unable to find mutually acceptable contracts, as when I am unwilling to buy something that someone wants to sell me and therefore make him worse off than he would be if I bought the item. . . . There is a strong case for using government to prevent one person from imposing positive harm, which is to say, to prevent coercion. There is no case whatsoever for using government to avoid the negative kind of "harm." On the contrary, such government intervention reduces freedom and limits voluntary cooperation.⁴

In our example, discrimination has occurred in both cases. The difference is that we sympathize with

the individual's choice, but we do not agree with the choice made by the employer. But what areas of the market are to be exempt from laws prohibiting free choice if the justification for such laws is the belief that one group may impose their tastes on another?

Discrimination involves the right to choose between values. The individual's right to choose is fundamental to the process of voluntary exchange. In order to make a choice between alternatives, he must possess the ability to distinguish between values. Laws against discrimination attempt to eliminate the differences in these values, in the process removing the ability to differentiate. Ultimately all exchange would come to an end. As F. A. Harper points out:

One cannot question the basis for a choice without questioning the right of choice itself. There isn't much sense to saying that I have the right, for instance, to select any kind of cheese I wish, but that I have no right to select one in preference to another because it tastes better, or has a more appealing color, or is made from the milk of better cows. The right of choice is the right of choice; the reasons therefor become a sacred part of the right of choice itself.⁵

Government Dictates Everything

Equal opportunity laws, if taken to their logical conclusion, appoint government as the sole determinant

not only of who is to be employed, but also where a person works, at what wages, conditions, hours, and so on. If it is admitted that government intervention is necessary in one area of individual consumption because some persons make choices which are deemed unacceptable, then shouldn't government dictate *all* choices?

Equal opportunity laws, if taken to their logical conclusion, appoint government as the sole determinant not only of who is to be employed, but also where a person works, at what wages, conditions, hours, and so on.

Soviet Russia and similar totalitarian countries are examples of nations that have attempted to eliminate freedom of choice in employment. Are we to think that there is greater opportunity in such countries? Are working conditions and living standards in these countries superior to those enjoyed by people who have been allowed some measure of free choice?

In any society, some individuals may indeed be extremely prejudiced or even bigoted. What must be recognized, however, is that prejudice and bigotry are impossible to eliminate by passing laws. Man should be entitled to whatever prejudices he

wishes. This is his opinion. What he should *not* have is the right to impose his prejudices on others. As Ayn Rand points out:

No man . . . has any claim to the property of another man. A man's rights are not violated by a private individual's refusal to deal with him. Racism is an evil, irrational and morally contemptible doctrine—but doctrines cannot be forbidden or prescribed by law. Just as we have to protect a communist's freedom of speech, even though his doctrines are evil, so we have to protect a racist's right to use and dispose of his own property. Private racism is not a legal, but a moral issue—and can be fought only by private means, such as economic boycott or social ostracism.⁶

Proponents of the equal opportunity laws are thus faced with the reality that what they advocate is actually an embodiment of the very principles which they supposedly abhor. By clamoring for "racial equality" they are, in effect, calling for a clear distinction among various minorities. This serves only to stereotype certain minority groups as underprivileged, uneducated, or whatever. One wonders who the real advocates of racism are if the title cannot be applied to those proponents who favor special treatment for some individuals at the expense of the rights of others.

We must then object to the equal opportunity laws for two reasons.

First, they do not accomplish what is intended. Indeed they are actually

detrimental to all parties concerned, including those whom they were designed to help.

Second, they are based on the fallacy of interventionism which, when taken to its logical conclusion, denies *all* men the freedom of choice, thereby violating the principles of individual liberty.

Assuming that the ends we desire involve a reduction in the extent to which minorities will suffer disadvantages in the market, what can be offered to provide these ends?

Clearly, it must be a system that provides incentives for employers and consumers to cast aside such differences in individuals as skin color, religion, background, and so forth. It must be a system that emphasizes man's productive ability and not who his ancestors might have been—one that rewards ambition and individual ability. This system is called free market capitalism.

The free market provides great incentive for producers to use the factors of production as efficiently as possible. An employer who practices irrational discrimination in employment will suffer as a result.

It is the free market that has provided minorities the greatest source of opportunity with respect to

their economic activities. The free market provides great incentives for producers to use the factors of production as efficiently as possible. An employer who practices irrational discrimination in employment will suffer as a result. Milton Friedman explains this process as follows:

... there is an economic incentive in a free market to separate economic efficiency from other characteristics of the individual. A businessman or an entrepreneur who expresses preferences in his business activities that are not related to productive efficiency is at a disadvantage compared to other individuals who do not. Such an individual is in effect imposing higher costs on himself than are other individuals who do not have such preferences. Hence, in a free market they will tend to drive him out.⁷

Similarly, a consumer must also bear the costs of his discrimination in the form of lost services. If he refuses to buy goods or services from individuals he dislikes, he thereby limits his range of choices. He may then have to go without such goods or services or will generally pay a higher price for what he does buy or receive elsewhere.

Far from being the enemy of minority groups, it is the free market that can provide real gains for all minorities as it continually imposes high costs upon employers who choose to hire on the basis of irrelevant characteristics instead of on the basis of merit and qualifications.

If some people make decisions which we view as immoral, the way to change these values is by peaceful persuasion. The solution is surely not to impose our values on others.

The market process of voluntary exchange will always be superior in its ability to satisfy consumer desires. Those who defend free market capitalism see discrimination as a necessary ingredient in this process. Our freedom to make choices is the basis for all market activity. In the words of F. A. Harper:

If there were no discrimination in employment—no rights of choice—there would be no means by which persons could find their best place to work; no means by which persons could develop and use their best talents; no means by which management could be good rather than bad; no means by which accomplishment and merit could find reward.⁸

Discrimination, then, is vital to the proper functioning of the market economy. It is a process of differentiation—a process by which we demonstrate our preferences. The individual must be free to choose. He must have the right to discriminate between values.

Laws which restrict two or more individuals from entering into voluntary contracts, or which force them to exchange against their will, cannot be shown to be the policies necessary for human progress. If some people make decisions which we view as immoral, the way to change these values is by peaceful persuasion. The solution is surely not to impose our values on others.

If our goal is to provide a system that will produce the highest standard of living for all men, one which provides the most efficient means of satisfying human wants and desires, one that is consistent with the principles of private property and voluntary exchange, then we must take every opportunity to advance the fundamental concepts of individual liberty. We must choose freedom. ☸

—FOOTNOTES—

¹Thomas Sowell, "Are Quotas Good for Blacks?" *Commentary*, June 1978, pp. 39-40.

²*Ibid.*, p. 40.

³Milton Friedman, *Capitalism and Freedom* (Chicago: University of Chicago Press, 1962), p. 114.

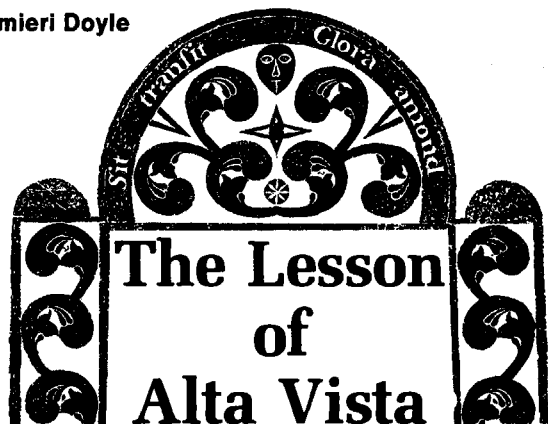
⁴*Ibid.*, pp. 112-113.

⁵F. A. Harper, "Discrimination," *Essays on Liberty*, Vol. II (Irvington-on-Hudson, N.Y.: The Foundation for Economic Education, 1954), pp. 370-371.

⁶Ayn Rand, *The Virtue of Selfishness* (New York: New American Library, 1963), p. 134.

⁷Friedman, *op. cit.*, pp. 109-110.

⁸Harper, *op. cit.*, p. 371.



The Lesson of Alta Vista

THE auto repair jack lifted my car from the oil-spattered floor. Were it not for a contrary device called an alternator, I could have been winding into misty, morning clouds on a shaded mountain road. Instead, I trudged across the red, Georgia clay toward the only excitement the city of Gainesville held within the reach of my tender, city feet—the cemetery. It beats looking at motel walls for two hours, I reasoned.

The old city with its noisy, dashing, morning traffic disappeared into the trees and rolling countryside as I climbed the hill. *Alta Vista*, highest view, they had called it. The peaceful hillside provided a classic scene of gentle, green Georgian beauty. I followed the grassy path strewn with wildflowers to the headstones.

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Some gravestones marked the resting spot of people born in the 1700's, but most were from the 1800's and early 1900's. The family unit had been treasured judging from all those buried in family plots. The ghastly reason was revealed in cold, stone figures. Members of households were often little more than transients. Memorial cradles dotted the hillside. The number of graves of children and babies horrified me. I stifled a belated cry of grief as I passed a plot holding eight tiny headstones. Many graves held the remains of young women, evidence that new life had been a risk to mother as well as child. Men, too, were no strangers to early death. Carved Bible quotations and messages revealed the pain of those who had loved, their unshakable faith, and finally, their acceptance.

I was overwhelmed by a sense of

loss that I could never meet those I walked among. In the relative history of man, only brief seconds had passed, yet their lives were remote from ours. They had lost wives, children, husbands as routinely as we in our mobile society lose addresses. Nevertheless, almost in defiance of the power of death, they had found the strength to cope with their mortality. The enormity of their courage made me feel insignificantly small.

I moved through the grass at the edge of the trees to the grave of James Milton Smith, Governor of Georgia, Lt. Colonel in the Confederate Army, Chairman of the Georgia Railroad Commission, and Superior Court Judge. I pictured Georgia as it was when Jim Smith was growing up—horses, carriages, kerosene lanterns, small academies and one-room schools. It was difficult for me to conceive of an American having the background to meet his many challenges without modern education. Yet, as a child, Governor Smith had been educated with little more than a few books and a slate—no electronic equipment nor standardized assessment tests, no alien experts were his measure. Magnificent simplicity.

I felt indebted to James Smith and all those buried at *Alta Vista* along with the multitude like them across the United States. They had striven valiantly to plant the seeds for our world of longer, better lives. They

had been free to choose an alternate path, but in their innate goodness, they had chosen to improve the quantity and the quality of our existence. I was awed with admiration. I had to admit I was also envious. It must have been glorious to have such freedom, such control over your own life! Though I shared the goals of those I walked among, I had to admit that the impassable gap that lay between us was larger than death.

Something frightening had happened between the lives of the people buried at *Alta Vista* and ours. It had begun innocently and benign. "They should do something about it!" was the cry and catalyst. The chorus of *they shoulds* grew larger and louder. They should widen this road. They should do something to prevent the deaths of pedestrians. They should protect us from unscrupulous merchants using dangerous chemicals to hide the fact that they are selling stale, spoiling food. They should help the poor. They should see that no one is denied a college education. They should assist those who cling to life by a fragile thread. The requests that *they* take action are endless.

To those buried at *Alta Vista*, *they* meant us. Today it is different. *They* has a life of its own, a life apart from ours. It is unapproachable, unreachable, untouchable. It is all powerful. It renders us helpless. Somewhere

through the busy years without our noticing, progress became more important than those it served. We created a monster of technology and information that turned on its creators diminishing the brilliant minds that conceived it, dehumanizing our good will. We stopped believing in ourselves and accepted the notion that we are no longer worthy of our own control. We are left stumbling, bewildered by a way of life that tells us what we may eat, where we may walk, and what medical treatment we may have.

The fruit of our labor is taken from us and the half-eaten remains are given back grudgingly, turning the pride of men and women into childish anticipation. We are so grateful to the provider for recognizing our right to consume and so pleased by the fruit's pleasant taste, that the means of its creation escapes us. We tend to think of the provider as an all-powerful god that created something from nothing. The fact that the provision's existence depends on individual initiative, effort, talent, and trade is as relevant to us as a traffic jam on the other side of the world—it means nothing to us far away on the receiving end. The flashy new packaging obscures our vision of the product. We don't even recognize our own creations and sacrifices. We forget that *they* took from someone in order to give—*they* took from us.

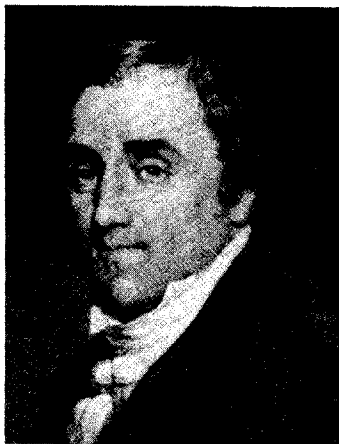
At the end of the road is our ultimate loss of human dignity. After being denied all the medical "long shots" at life, ironically, we lie with arms secured to prevent our interfering with the perverse, mechanical magic that forces cold, institutional air in and out of our weary, unwilling lungs in an absurd attempt to make human bodies last forever.

I reluctantly descended the grassy hill, my face and arms prickling with the sun's growing intensity. I had come to aging *Alta Vista* cemetery looking for something to entertain my city mind. I had received, instead, a country lesson from those who had long ceased to speak. We are a nation rich in people, each one different from the rest, each valuable to the others because of his unique way of meeting life's challenges, each a temporary gift to our nation. We are descendants of the courageous, intelligent, resourceful people buried at *Alta Vista* and across our nation, magnificent people who turned the death of children into long life spans and kerosene lanterns into laser spectaculars. Can we be any less than that we are made of?

I passed through the iron gates of *Alta Vista* into the buffeting gusts from passing cars, the ageless wisdom of Wordsworth resounding in my brain—"The world is too much with us." ☉

Fisher Ames:

Forgotten Defender of Liberty



WHEN students of the free society look back into history for the first exposition of the private enterprise economy, they rightly turn to Adam Smith's *The Wealth of Nations*. Smith contended that the wealth of a nation is not dependent on how much gold or other precious metals it has in its coffers, but on the quantity of the goods and services produced by the people. Individuals, if left alone by the state, Smith wrote, would work together in the competitive market to produce wealth for the whole of society.

Another outstanding historic defender of ordered liberty is the French economist, statesman and author, Frederic Bastiat. Writing at the time of the Revolutions of 1848,

Mr. Wolfe is completing his undergraduate studies at Hillsdale College in Michigan.

Bastiat combatted the socialist fallacies which were threatening to take over European society. Both in such written works as *The Law*, and in his role as statesman, Bastiat upheld the principles of limited government, private property, and the market economy.

In the context of early American history, and especially the founding of the United States, two of the best known proponents of a free economy were Pelatiah Webster and Thomas Jefferson. Webster warned Americans that inflation would destroy the economy by increasing the money supply without a corresponding growth in production, and thus debase the currency to worthlessness. And Jefferson is often quoted as saying that individuals competing freely in the marketplace will

help bring about a prosperous commonwealth.

But there is an American of the generation of the Founding Fathers who had read and understood the theoretical principles of the free market as expounded by Adam Smith, and, like Bastiat, had acted out these principles in the realm of politics. He is one of our forgotten defenders of ordered liberty, and deserves the attention of all serious students of the free society. Fisher Ames, of Dedham in Massachusetts, was a lifelong champion of private property, and of an economy unhampered by government intervention.

Educational Background

Born of a family long settled in New England, Fisher Ames received a superior early education, being steeped in the classics and a thorough knowledge of antiquity. Ames was admitted to Harvard College at the age of twelve and soon gained a reputation for his oratorical skills. After studying under one of Boston's leading lawyers, Ames joined the bar and rose to prominence in Massachusetts politics. He was sent to the Concord Convention which met during the Revolution to regulate prices, and also to the Massachusetts Ratifying Convention, which debated the newly-framed Constitution. Later, Ames was elected to the first two sessions of

the Congress of the United States, and participated in the writing of the First Amendment and in structuring the American government.

Fisher Ames's career in Congress was short, for as Russell Kirk has pointed out, Ames "was many years dying."¹ Plagued by illness most of his life, Ames was a melancholy man who had a pessimistic outlook on America's future. Yet, his was a penetrating intellect, and his warnings about the "dangers to American liberty" (as he phrased it) now carry a prophetic ring. In his later years, Ames set his ideas down in numerous essays, and this legacy shows a man who deserves to be recognized as one of the greatest advocates of the free society in American history.

Ames's ideas on politics and economics were formed during the tumultuous years at the close of the 18th century. It was during this period in Ames's native Massachusetts that such events as Shays' Rebellion forced men to come to grips with the relation of the state to society. In 1786 a number of rural inhabitants of western Massachusetts, aggravated by rigid financial policies and falling agricultural prices, prevented the meeting of the county court houses as a form of protest. Shays and his followers acted under the assumption that individuals had an inherent right to forceful protest. This anarchic attitude frightened and outraged

Ames and convinced him of the need for a state which would protect the rights of individual citizens. Ames thus came to the same conclusion that the Founding Fathers would reach: only through a limited but competent government could the individual's rights be protected from force or fraud.

Though Ames was convinced that government was needed to prevent anarchy in society, he by no means envisioned a state which intervened in the economy or the private affairs of citizens. To be sure, Ames felt the state should be vigorous and capable of carrying out its role of "umpire" and guarantor of individual freedom. He also crusaded for a strong, central government for the United States. But he wanted a government which would ensure peace and order, and would leave men *free* to pursue their own ends within the bounds of the law.

Private Property Defended

To Ames, private property was one of the essential requirements of a free society. Without the right to own and dispose of property as the individual saw fit, Ames felt society would degenerate into tyranny and mediocrity. For a man is free only when he can gain a livelihood and choose how to dispose of it. This fundamental right of private property Ames felt was jeopardized by such events as Shays' Rebellion. As

Theodore Sedgewick, a prominent Federalist and friend of Ames, wrote at this time: "Every man of observation is convinced that the end of government security cannot be attained by the exercise of principles founded on democratic equality. A war is now actually levied on the virtue, property and distinctions of the community."² Throughout his life, Ames would fight to defend private property.

Ames's convictions about the role of government in relation to the economy were clear from the beginning of his public life. At the very time when Smith's *The Wealth of Nations* was being published in England, Ames went as a delegate from Dedham to a convention in Concord. Called by the Boston Committee of Correspondence, the convention met to regulate prices during the Revolution. Ames's position at the Concord convention is summed up well by his biographer, Winfred Bernhard:

Ames spoke emphatically against the whole concept of restrictions. He was convinced that employing the power of the state to establish the value of commodities was false, as prices resulted from agreement and consent between buyer and seller and could not be arbitrarily determined. The embarrassment of a depreciating currency, he stated, was inevitable and could be met only with patience and fortitude.³

Ames was not heeded in his own

day; nor would he be heard today. Ames felt that the market could be supported only by moral and spiritual principles. Our own society has far less patience and fortitude than that of Ames, and it is doubtful whether most Americans could sacrifice their immediate satisfaction to any form of economic "hardship." Ames knew that freedom in society and the economy could arise only from a people whose souls were ordered and virtuous.

Freedom to Trade

In his statements at Concord, Ames displayed an understanding of the workings of the free market. His belief that government intervention was detrimental to the economy was reinforced by his reading of Adam Smith. During the First Congress, Ames admired and supported many of the economic proposals of James Madison. He felt sure that Madison had read Smith and was intelligently applying Smith's concepts to economic legislation. Ames's satisfaction did not last long, however, for Madison soon began introducing bills which in effect declared war on all of America's trading partners, using economic restrictions as weapons. Ames thought these efforts at forcing other countries to trade "favorably" with the United States would either be ineffectual or actually harmful. In one of his best orations in the House, Ames argued

against Madison's proposals. "Were I invested with the trust to legislate for all mankind," Ames declared, "it is very probable the first act of my authority would be to throw all the restrictive and prohibitory laws of trade onto the fire. . . ." Speaking of the regulations and tariffs in Madison's bill, Ames continued:

On the whole, the resolutions contain two great principles: to control trade by law, instead of leaving it to the better management of the merchants; and the principle of sumptuary law. To play the tyrant in the counting house, and in directing the private expenses of our citizens, are employments equally unworthy of discussion.⁴

Ames saw these measures as infringements on individual freedom as well as just poor economics. Madison's bill was eventually tabled and then abandoned, but the tide was against Ames here as elsewhere, and interventionist policies would triumph in time.

Ames was influenced not only by Adam Smith but also by another British liberal: Edmund Burke. Along with that philosopher of conservatism, Ames knew that a free economy existed only within a free society. But free societies do not arise out of some conscious "social contract" or from the abstract plan of the political metaphysician. Order, justice and freedom in the commonwealth emerge gradually as the laws and institutions of a people

build up the framework of society. Habit and custom, prescription and prejudice are the buttresses of the commonwealth. Tampering willy-nilly with the constitution of society can only break civilized forms loose from their grounding. Both Ames and Burke saw the American revolution not as a radical reconstitution of things, but as an effort to preserve the American colonial tradition from English innovation and meddling. These men knew that change would and should come. But for change to be true progress, it must be seen in the light of the experience and tradition of a people.

The French Revolution

The close of the 18th century was dominated by the French Revolution. That catastrophic political upheaval preoccupied Ames as well as Burke. To them, this was a real revolution, for it was an attempt to restructure French society according to an ideological system of ideas. Ideology, as understood by Ames and Burke, is a "second reality," an abstract set of ideas dreamed up in the mind of someone who is convinced his society is totally evil and unredeemable. The French revolutionaries sought to impose this ideological "dream" upon their nation, and the clash of ideology with reality culminated in the horror and bloodshed of the Reign of Terror. Ames feared that the ideology of the

French Revolution would take root in America, and he argued eloquently against it. The desire for innovation and reform, Ames said, perennially tempts people into accepting ideology.

The two main concepts to emerge from the ideology of the French Revolution were equality and natural rights. Though they are noble-sounding words, Ames knew them to be inimical to the free society. Instead of civil rights, based on man's spiritual nature and secured through centuries of tradition, the ideologists posited the rights of nature which existed in some idyllic pre-civilized time. If only men would throw off their institutions and laws which are corrupt and evil, a new dawn of freedom would come. But Ames understood man's nature to be fallen and not essentially good, and thus he realized that institutions and law were precisely the guarantors of order, and hence of freedom.

Ames believed that the ideological notion of equality was perhaps the most dangerous idea to come out of the French Revolution. Equality according to the ideologists meant not only equality before the law and before God, but equality of condition. This too arose from the idea that men in the state of nature were perfectly equal. The ideologists were not satisfied with the fact that the free society gives each man the opportunity to better his condition

through effort, discipline and sacrifice.

Ames held that the egalitarians would attack both private property and free enterprise in order to achieve their ends. "The philosophers among the democrats will no doubt insist, that they do not mean to equalize property, that they contend only for an equality of rights . . ." But, Ames goes on to say, "on close examination, it turns out, that their notion is, that all the citizens of a republic have an equal right to political power."⁵ As Ames warned time and again, the demagogues will promise "power to the people," but will take the purse-strings and wield the power themselves. Property rights inevitably will be violated by egalitarians. John Randolph of Roanoke formulated succinctly what he felt the demagogues were saying in the phrase: "We are numbers. You are property."

An Equality of Poverty

The drive for equality of condition, said Ames, would ultimately end in the loss of individual freedom, the impoverishment of the people, and the aggrandizement of the demagogues. State-enforced equality would end merely in mediocrity, an equality of poverty, Ames said. Without the opportunity to better oneself and enjoy the fruits of one's labors, there will be no in-

centive to produce wealth. At the end of his life, Ames believed that the very pillars of the free society were being destroyed. Fisher Ames, as Russell Kirk has put it, "expired sunk deep in despair, prophesying mediocrity in spirit, anarchy in society."⁶

This short survey of Ames's ideas does little justice to the man. His greatness lies not in the originality of his ideas, but in his learned and eloquent exposition of those principles of limited government and the free economy, and in his ability to apply those principles in the realm of public life. Despite the fact that he died expecting the imminent collapse of American liberty, Ames's prophecies have been fulfilled in many ways. To study Fisher Ames is to see that the clash of ideas between the proponents of the free society and its enemies is as relevant to our own time as it was to his.

—FOOTNOTES—

¹Russell Kirk, *The Conservative Mind* (Chicago: Henry Regnery Company, 1972), p. 70.

²Quoted in Winfred E.A. Bernhard, *Fisher Ames: Federalist and Statesman, 1758-1808* (Chapel Hill, N.C.: University of North Carolina Press, 1965), p. 47.

³Bernhard, pp. 35-6.

⁴Fisher Ames, *Works of Fisher Ames* (Boston: T.B. Wait & Co., 1809), p. 48.

⁵Ames, pp. 232-234.

⁶Kirk, p. 71.



IN his twenty-sixth book, *Seeds of Progress* (Foundation for Economic Education, \$6.00 cloth, \$1.50 paperback), Leonard Read talks a good deal about the Law of Attraction. Creation, he says, is a magnetic force. Wise men, applying the Divine Principle at the human level, draw others to their standard by their exemplary behavior. Whether Mr. Read interprets the Cosmic Order correctly or not I leave to the theologians. But as for himself, he has been a living embodiment of the power of attraction for many, many years.

Basically, one Read book is like another, for Leonard Read staked out his "freedom philosophy," with its free market and limited government principles, back in the Nine-

teen Thirties and Forties. Once he knew where he was headed, he never swerved—or, as he likes to put it, "leaked." But if one Read book resembles another in philosophical orientation, they abound in fresh nuances. Anatole France said criticism was the adventures of a soul among masterpieces. A Leonard Read book is the adventure of a soul among philosophers. Whether it is the stoic Epictetus or Saint Augustine, or the Goethe who unburdened himself to Eckermann, some newly encountered philosopher is always setting Leonard Read off on a fresh tangent in building or sustaining the case for the freedom philosophy.

As a result, Leonard Read gets away from the clichés of his subject. There is, for example, his discussion

of the idea of responsibility. A certain type of conservative can be counted on to say there are no rights without reciprocal duties. Implicit in this formulation is the suggestion of compulsion: you must do thus and so in order to earn a given right. The thing won't wash in law, for the Bill of Rights was not accompanied by a Bill of Duties. It won't wash under any theory of democratic politics, either, for if rights are dependent on duties it would set the State up as the arbitrator in a trade. The idea of "inalienable" rights would disappear. It would mean that a fifty-one per cent majority—or a logrolling alliance of several on-the-take minorities—has the power to force a single pattern of behavior on everyone. That way lies tyranny. Rights under such a theory become permissions, with dictocrats (a favorite Read word) telling the individual what he must do.

Leonard Read, a different sort of conservative (assuming that he is a conservative at all), does not link rights and duties. He prefers to talk about "the twin virtues of 'responsible and responsive'." People should be responsible for themselves. If they are, they will be responsive to others. Quoting Verna Hall, he says that, "to the extent that an individual turns the responsibility for self over to another or allows government to take it away, to that extent is the very essence of one's being

removed." Leonard Read also quotes Josiah Stamp, the English financier who was killed by a Nazi bomb. "It is easy," said Stamp, "to dodge responsibilities, but we cannot dodge the consequences of dodging our responsibilities."

Countries are saved, not by compulsory enforcement of a code of duty, but by those who are the self-responsible. We have all seen what happened when drafted soldiers were compelled to fight wars they couldn't believe in. One has a duty to defend one's country, but if one can't be "responsive" about it voluntarily as a matter of belief that the State has set a wise course in foreign policy the war will inevitably be lost.

Leonard Read's subtle distinctions about responsibility and responsiveness are important now that the idea of compulsory registration, including the registration of women, is once again in the air. The justification that is offered for compulsory registration is that it is good for the State to know where you are so that it can come and get you if it so chooses. Naturally, this assertion that one's body belongs to the State fails to create a feeling of responsiveness in the young. It results automatically in a "hell no, we won't go" reflex. A responsible government would be less fanatic about compulsion and more concerned with proving the case for a foreign

policy that would command free assent and so attract volunteers to the colors.

Speaking of duties, Leonard Read takes off from Goethe on the subject of finding one's duty. Goethe said that man is not born to solve the problems of the universe, but to find out what he has to do—"and to restrain himself within the limits of his comprehension." There should be no compulsion on people to work for the "common good," for there are far more conceptions of what constitutes the common good than there are people. Individual assessments of the common good vary from moment to moment with "billions of changing perspectives." Going from one philosopher to another, Read quotes William Graham Sumner: "Making the most of one's self . . . is not a separate thing from filling one's place in society, but the two are one, and the latter is accomplished when the former is done."

Most people who start with an idea and build an institution to support it eventually succumb to the feeling that the institution must go on regardless of what happens to its original *raison d'être*. Some time ago Ben Rogge led a discussion about the future of The Foundation for Economic Education. Leonard Read, at a FEE Trustees' meeting in a time of financial difficulties, turned thumbs down on the proposal

to launch a fund drive to establish an endowment to cover, through earnings or interest, the Foundation's operating expenses. Such a fund, he argued, might rob the staff of the incentive to do a good daily job of persuasion.

The Foundation, as Leonard Read notes, survived its period of financial troubles. Manna continues to come from heaven as long as the "exemplarity" of the FEE staff sustains its power of attraction. As to the question of the far future of the institution, Leonard Read quotes Ralph Waldo Emerson, who said "we do not guess today the mood, the pleasure, the power of tomorrow, when we are building up our being."

Taking Emerson at his word on "unguessability," Leonard Read concludes his book by saying that "there is only one appropriate aim for those of us on the Senior Staff: to so conduct ourselves that we shall have superior successors." The future will be determined by present performances. "The power of tomorrow, as related to human liberty," says Read, "is determined by our power on its behalf today. Let us not interfere or try to out-think the Great Ordainer. Be assured of a series of surprises—pleasant and rewarding ones!"

On such a note of affirmation Leonard Read ends his twenty-sixth book. I am sure he is already at work on his twenty-seventh. 

AMERICAN MADE: MEN WHO SHAPED THE AMERICAN ECONOMY

by Harold C. Livesay

(Little, Brown & Co., Boston) 1979

310 pages ■ \$11.95 cloth

Reviewed by Russell Shannon

WHAT is the reason for America's remarkable success? Some people say it's our religious heritage—the principles of Judeo-Christian morality and the Protestant work ethic. Others might argue that the cause is mainly political—the democracy which allowed first all white men and then anyone aged 18 or older to vote.

Yet still others claim that our economic system made America great—a vast market growing behind our expanding frontier, unhindered by trade barriers and other legal restrictions, promoting the efficiencies which arise from the specialization of labor and the economies of large scale production.

But what about individuals? An historian, Harold C. Livesay, argues persuasively that some of the credit for America's achievements is due to the contributions of great men. Livesay profiles nine individuals whose creative endeavors in the field of management revolutionized our system of production and converted the small craft shops of which Adam Smith spoke in 1776 to the

vast industrial enterprises of today.

Livesay begins with Eli Whitney, who introduced not only the cotton gin but also the use of interchangeable parts, thereby extending the employment opportunities for unskilled labor. Whitney also realized that producers should seek out opportunities provided by changing markets, for he switched from manufacturing gins to producing firearms when that became more lucrative.

Second on Livesay's list is Cyrus McCormick, inventor of the reaper. But before it could sweep the plains, the reaper had to be sold to farmers with precious little mechanical knowledge and even less ready cash. So, setting up shop in Chicago, McCormick established a chain of dealers to provide prospective customers with service, information, and financing.

Andrew Carnegie used the new cost accounting when he integrated production of steel. He realized that a corporation's goal is not simply to produce as much output as possible, but to make for stockholders the highest possible return. As an economist would say, if a producer cannot make money on his product, then the scarce resources he employs could be used more effectively elsewhere.

Thomas Edison institutionalized the process of invention. But while cutting costs and enriching himself,

Edison also wrought wonders for us. As Livesay writes, "before electricity most urban Americans lived dark, smelly, tattle-tale gray lives in the homes and streets lit by guttering wicks and flickering gas lamps, suffused with the reek of coal smoke, human excretion, and horse manure." By the same token, before Edison, "farm families (endured) numbing toil and embittering isolation." Edison helped bring an end to all that.

Similarly, Henry Ford made Americans more mobile. Pierre S. du Pont used market forecasting to stabilize production. Alfred G. Sloan likewise put General Motors on a sounder footing. Henry Ford II turned his father's faltering firm into a prodigious business on an international scale. And Edwin Land, in the tradition of Thomas Edison, showed that large modern organizations can enable the inventive inclinations of individuals to enhance the lives of all mankind.

Livesay does not make these men demi-gods. Their quirks and flaws are revealed—from Cyrus McCormick, who despite his openly professed Christianity opposed the abolition of slavery and allowed his hard-working brother a meager salary, to Henry Ford, who bought a Dearborn, Michigan, newspaper to broadcast his harsh and horrid anti-Semitism.

Readers of Livesay's lively book

will learn that, by improving agriculture, transportation, communication, and industrial organization, these American innovators have allowed greater numbers of people than ever before to visit, hear, enjoy, and even photograph the magnificent achievements of the past and to anticipate a more attractive future. That is no mean feat.

It was due in no small part to our open system which allowed for greater economic and social mobility. And now that we have flung open the doors of opportunity for women, blacks, and other minorities, there are even greater chances for individuals not only to advance themselves but also to enhance society. ☉

THE UNITED STATES IN THE 1980S

Peter Duignan and Alvin Rabushka,
editors

Foreword by W. Glenn Campbell
(Hoover Institution Press: Stanford,
California 94305) 1980

868 pages ■ \$20.00 cloth

Reviewed by Roger R. Ream

NO ONE can accurately forecast the events of the future. In today's complex and tension-filled world, it is even difficult to predict what next week's headlines will be. Yet we can make reasonable guesses, based upon the past, as to what problems the

U.S. will face during the decade ahead.

The editors of this tome have selected twenty-nine domestic and foreign policy topics which are likely to be major public policy issues during the decade. Taken as a whole, this book offers vital information on many important issues. Thirty-two scholars discuss different topics, providing a wealth of knowledge.

The book opens on an optimistic note with Rose and Milton Friedman arguing that the intellectual basis of Fabian socialism and New Deal liberalism "has been eroded as experience has repeatedly contradicted expectations. Its supporters are on the defensive. They have no solutions to offer to present-day evils except more of the same." Although it remains to be determined whether the ideas of human freedom will be the tide of the future, clearly the opportunity exists for reversing the ominous trends of the 1970s.

The Hoover Institution is taking advantage of this opportunity for change by offering specific public policy proposals. Each author, writing on a specific issue, analyzes a problem, discusses many of the available options, then offers practical recommendations. Among the contributors on domestic issues are Alan Greenspan, economic policy; Martin Anderson, welfare reform; Thomas Gale Moore, energy; Alvin Rabushka and Dan Throop Smith, each on vari-

ous aspects of tax policy; and John McClaughry, neighborhood revitalization.

Greenspan's essay is particularly important because he discusses an issue with long-term consequences: capital investment. He observes that unemployment and unstable economic conditions in recent years are due to inadequate private investment. Two important reasons for this inadequate investment are the inflation rate and the regulatory environment, both of which increase the risk premium. Capital expenditure is going into short-lived, low risk investments. Inflation introduces uncertainties concerning rate-of-return calculations and the regulatory process presents an unknowable assortment of rulings and delays. Greenspan argues that government programs must be curbed and acknowledges that "although the choices may be hard ones, the potential rewards are large. For if we are capable of defusing the underlying inflationary forces in our economy, thereby lowering risk premiums associated with potential new capital investment projects, the 1980s can usher in for the United States a period of sustained expansion. . . ."

The foreign affairs essays in this book cover "our dealings with foreign countries during the 1980s . . . [and the] need to understand and accept the limits of American power." Among the authors and topics in this section are: P. T. Bauer, foreign aid to

Third World nations; Ray S. Cline, U.S. intelligence operations; Hendrik S. Houthakker, world energy sources; and Edward Teller, writing on "Technology: The Imbalance of Power." This section also includes essays on six geographic regions of the world.

The general conclusions these authors reach, although not with absolute unanimity, are that the U.S. has lost much of its ability to influence events around the world; that foreign aid doesn't cure poverty, or bring modernization and democracy to the third world; and that the Soviets have achieved military superiority and therefore "the major problem facing the United States in the 1980s is to gauge the intentions and strategies of the Soviet Union." The general recommendations include increasing our currently slim technological superiority over the Soviets; pursuing a consistent policy of containment of Soviet-Cuban imperialism; and allowing the price mechanism to operate, thereby enabling us to get out from underneath our reliance on Middle East oil. They offer specific proposals for achieving these ends.

Richard F. Staar has a particularly insightful essay concerning opportunities for the U.S. vis-à-vis the Soviet Union. It is likely that a change of leadership will take place in Moscow in the 1980s. "One of the great weaknesses of the Soviet sys-

tem," Staar writes, "is that no means exist for any constitutional transfer of power or for the removal of overaged or otherwise disqualified leaders except by conspiracy." He predicts the struggle for power following Brezhnev's departure may "involve an extended period of disorientation in Moscow." However, following this period of vulnerability, the new Soviet leadership can be expected to remain narrow-minded and totally dedicated to their system of terror. Staar recommends specific actions we can take to be in position to exploit the opportunities created following Brezhnev's departure, including projecting the U.S. to the Third World "as a revolutionary system that has brought prosperity to the American working class . . . and where human rights are strongly upheld. . . ."

Compiling a volume as broad as this book can present several problems for the editors. There is the difficulty of selecting the issues which will be of greatest importance in the 1980s. While the verdict on this count cannot be handed down until 1990, it appears that all major areas are covered in this book with the possible exception of crime. The crime rate is approaching such a level in this country that peaceful political, social, and economic activity is endangered. The problems discussed in this volume contribute both directly and indirectly to the

increasing crime rate and stem from the same source, a growing disrespect for life and property.

The selection of scholars to contribute to the volume is also excellent. The topics are thoroughly covered and the proposed alternatives are accompanied with well-reasoned arguments.

It is unlikely any reader will find himself in complete agreement with a book of this breadth and diversity. Each author has his own somewhat distinctive philosophical outlook. The intention of the book is to offer public policy proposals. Solutions consistent with free market principles are sometimes dismissed because they are not politically viable. Several of the authors reluctantly "begin with the premise that any serious plan for . . . reform must be

politically, economically, and socially feasible. . . ." The difficulty here is that we sometimes find ourselves trying to make socialism work, rather than proposing bold initiatives which are consistent with the principles of freedom. By concerning ourselves with the politics of an issue, we sometimes offer solutions that are not wholly consistent with our principles.

The Hoover Institution has done a great service by publishing a book which forcefully analyzes problems confronting the U.S. and offers useful and creative solutions. The 1980s will present numerous opportunities to restore greater freedom and security to Americans. This book brings into focus many of the opportunities and challenges we are likely to face. 

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A MONTHLY JOURNAL OF IDEAS ON LIBERTY

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WHITHER INDEPENDENCE— 1980 A.D.?



It might be more appropriate to hold a memorial service for American independence than to celebrate it in the Year of Our Lord 1980 and of our independence 204. There is certainly reason for questioning the extent of our independence today. In any case, it is surely in order to assess where we seem to be headed on the matter of independence and to call to mind the ideals which called this country into being.

The "Fourth of July," Independence Day, is, of course, a day set aside to mark the anniversary of our independence from England. It was on that day in 1776 that those of the

members of the Second Continental Congress who could and would signed the Declaration of Independence. From the earliest years, however it came to mean more than that. It caught up the aspirations of America. The American dream of an empire for liberty took on body in the Fourth of July celebrations, which, before too many years, became national in scope.

The ideal of independence had at least three dimensions from the outset. They were not separate dimensions but were intertwined with one another. One dimension was *national independence*. A second was the *independence of the states*. The third was *personal independence*. All three dimensions were believed to be the necessary condition for individual liberty.

Dr. Carson has written and taught extensively, specializing in American intellectual history. He has further explored the subject of this essay in several books, including *The American Tradition*, *The Flight from Reality*, *The Rebirth of Liberty*, and *World in the Grip of an Idea*.

Almost from the beginning, national independence meant much more than removing English political control from America. It meant that, of course, and that was what the Declaration of Independence was about. Beyond that, however, thoughtful Americans were not long in concluding that it would be best to follow a politically independent course toward Europe generally. To that end, provisions should be made to retire the foreign debt, the United States should avoid making alliances which entangled them in European quarrels, and, in general, avoid dependence on foreign governments.

George Washington stated the ideal clearly and directly, yet diplomatically, in his Farewell Address:

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. So far as we have already formed engagements let them be fulfilled with perfect good faith. Here let us stop.

He went on to point out that the United States enjoyed the advantage of distance from Europe and could, by making the effort, gain the necessary respect to have other nations leave us alone. He recommended independence strongly:

Why forego the advantages of so peculiar a situation? Why quit our own to stand upon foreign ground? Why, by inter-

weaving our destiny with any part of Europe, entangle our peace and prosperity in the toils of European ambition, rivalry, interest, humor, or caprice?

He made clear, however, that in recommending independence he was appealing to enduring principles, not simply a favorable set of circumstances:

Harmony, liberal intercourse with all nations are recommended by policy, humanity, and interest. But even our commercial policy should hold an equal and impartial hand, neither seeking nor granting exclusive favors or preferences . . . , constantly keeping in view that it is folly in one nation to look for disinterested favors from another; that it must pay with a portion of its independence for whatever it may accept under that character. . . . There can be no greater error than to expect or calculate upon real favors from nation to nation.

But this was more than presidential rhetoric; it was the cogent statement of what was an American ideal in the nineteenth century. While he was President, Washington had to take a stand on American national independence. When war broke out in Europe in the wake of the French Revolution, both France and England tried to involve the United States in it. Washington proclaimed the neutrality of the United States, and this proclamation was later affirmed by the Congress.

During the Napoleonic Wars other Presidents and Congresses

took even stronger action to follow an independent course. There was the Embargo Act of 1807, the Non-Intercourse Act of 1809, and Macon's Bill Number 2, passed in 1810. Finally, when the United States went to war against England in the War of 1812, it did so independent of the other warring powers, or, as President Madison put it in his war message: "avoiding all connections which might entangle it in the contest or views of other powers. . . ." ¹ Indeed, until well into the twentieth century, the United States followed a resolutely independent course in international affairs.

National Independence from Control by Foreign Nations

National independence, then, means the independence of the United States government from domination, control, or political influence of foreign nations. It carries with it, of course, the freedom of the American people from such domination or control. It does not connote any opposition to trade, exchanges, or discourse between the people of the United States and those of other lands nor of the dependencies and interdependencies that may arise from these activities. And it certainly does not mean that the government of the United States is independent of the electorate, nor the branches of the government entirely independent of one another, nor

that the federal government is independent of the states.

The original states were independent of the United States government in that they existed prior to the national government. They were formed before the Articles of Confederation were adopted. They had governments and constitutions of several years standing when the United States Constitution was ratified. They retained most of their independence under the Constitution, and when new states came into the union they shared in such independence.

The federal system of government was devised for the purpose mainly of enabling the states to retain their independence. There was some talk at the Constitutional Convention of a consolidated government under which the states would become mere appendages. The idea did not gain favor. On the other hand, there was much sentiment in favor of a general government which would not be dependent upon the states for its revenue and force. They attempted to resolve the problem by tracing the authority and power of the general government to the people. This is not only stated in the Preamble—"We the people of the United States . . . do ordain and establish this Constitution for the United States of America"—but also by the method of ratification and choosing those who would govern.

There are some lines of dependence running both ways between the United States government and those of the states. For example, the original states were to come into the union by holding ratifying conventions. The initiative for doing so rested with the states. (The question never was answered as to what would happen to a state which did not ratify the Constitution, and the document itself is silent on the point.) Elections are held within states for Federal officeholders, and some of the rules are left to state determination. Moreover, in the original Constitution, Senators were to be appointed by state legislatures. The states are dependent upon the United States government for the conduct of foreign relations, for the regulation of commerce, and to "suppress Insurrections and repel Invasions." Also, the United States is charged with guaranteeing to each state a republican form of government.

Independence of the States

The ideal, however, was the independence of the states. At one place in the Constitution, as noted, the general government is authorized to suppress insurrections. At another, however, it says that "on the Application of the Legislature, or of the Executive (when the Legislature cannot be convened)" the United States shall protect each of them

"against domestic violence." The tendency of this is to leave to the states the initiative in seeking aid from the general government.

The crucial point, though, is that the powers to be exercised by the states are not set forth in the United States Constitution. They do not, therefore, derive from it. Certain powers are denied to the states. For example, "No State shall enter into any Treaty, Alliance, or Confederation. . . ." Beyond the denial of certain powers to the states, however, there is only the provision of the Tenth Amendment: "The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people." In short, the powers of the states have an origin independent of the United States. They exist in their own right and are not derivative.

There are beliefs so firmly ingrained, so generally accepted, and so much a part of a people's make-up that they do not feel a need to make extended statements about them. The belief in the desirability of personal independence was like that for Americans. They made no proclamations about it, issued no manifestos, nor ever set aside a day for it. (One exception comes to mind, the Declaration of Female Independence set forth in the 1840s. But that had political overtones.) Americans were

long vocal about their rights. Individual liberty was the subject of treatises, declamations, essays, and even poems. As George Washington said in his Farewell Address, "Interwoven as is the love of liberty with every ligament of your hearts, no recommendation of mine is necessary to fortify or confirm the attachment."

Independence of the Individual

By contrast, the desirability of personal independence was an assumed value. One can glean it from folk sayings such as that a man ought to stand on his own two feet, that he ought to be beholden to no one, and the longing with which boys looked forward to becoming men of their own. The belief in it as a value did lead some to write essays on self-reliance. It was the usually unstated means to the widely valued end of self-fulfillment. It moved Jefferson to write these words in favor of the agricultural over the industrial way of life: "Those who labor in the earth," he said, "are the chosen people of God, whose breasts he has made his peculiar deposit for substantial and genuine virtue. It is the focus in which he keeps alive that sacred fire. . . . It is the mark set on those, who not looking up to heaven, to their own soil and industry, as does the husbandman, for their subsistence, depend for it on casualties and caprice of customers. Depen-

dence begets subservience and venality, suffocates the germ of virtue, and prepares fit tools for the designs of ambition. . . ." Whether Jefferson was correct or not about the virtues of the agricultural life, he bespoke a common belief in the necessity of personal independence as the bulwark of a free republic. As he put it, "It is the manners and spirit of a people which preserve a republic in vigor. A degeneracy in these is a canker which soon eats to the heart of its laws and constitution."²

If one man had to be chosen as the apostle of personal independence in America, I would nominate Benjamin Franklin. He did not write much directly about it, yet it was the central concern of so much that he did write in *Poor Richard's Almanac*. Note these admonitions about going into debt:

. . . Then since, as he [Poor Richard] says, *The Borrower is a Slave to the Lender, and the Debtor to the Creditor*, disdain the Chain, preserve your Freedom; and maintain your Independency: Be *industrious* and *free*; be frugal and free.³

Franklin wrote ever and again about the importance of work, of rising early, of applying oneself diligently, of doing without luxuries, of saving, of investing, and so on. He did not always connect these admonitions with independence, but he did often enough to make clear that it was a central goal, as when he said:

"*Frugality and Industry* freeing me from my remaining debt, and producing affluence and independence. . . ."⁴

Perhaps the best evidence of all of the role of the ideal of personal independence is the great propulsive migrations by which America was settled. In the hope of independence, people crossed the ocean, went into the wilderness, hacked out a clearing, built rude houses, and sought to make a living. In the same quest, they moved out upon the Great Plains, devised ways to turn the heavy sod, learned to make do without trees, and began to produce the great quantities of grain for which America became famous. Nor did it end there. Others sought passes through the Rocky Mountains, loaded their Conestoga wagons, and pressed on to the Pacific. The vision that drew them was of a place of their own, hopefully fertile, where a man might raise his children in independence, and look after his own. This quest was in considerable measure the saga of America.

Avoid Entangling Alliances

George Washington believed that the key to national independence was to abstain from *permanent* alliances with foreign powers. Temporary alliances might properly be formed from time to time for joint purposes. He approved, too, acting with other peaceful nations to ad-

vance rules of trade and exchange. For example, presumably he would have favored such things as international copyright agreements. My main point, however, is that it was the permanency of alliances that he thought crucial. *Entangling* alliances were also often proscribed in the early years of the Republic. Those are alliances in which there are prior commitments to actions in which one may be drawn by other nations.

There is a clue in this to the maintenance of independence, whether of nations, states within a nation, or individuals. As noted earlier, independence does not imply a lack of relations with others. Indeed, there is some measure of dependency entailed in all interaction; production, construction, trade, commerce, sports, entertainment, public worship, communications, and so on, require interdependency. To forgo this would be to forgo all social cooperation, and if it were consistently carried out life itself would become impossible.

The distinction is not between independence and dependence or interdependence; rather, as Thomas Jefferson suggested, it is between independence and *subservience*. To put it another way, independence is threatened or being lost at the point at which dependence becomes subservience.

When does dependence become

subservience? Dependence is on the way to becoming, if it has not already become, subservience when it becomes permanent. Dependence is headed for subservience when one becomes so entangled with others in interdependency that he can no longer determine his course. To put it more broadly, dependency becomes subservience at the point at which one party regularly serves the other(s) at the behest of the latter. When interdependence loses its mutuality, subservience follows.

Seeds of Servitude Within the Family

Pathological conditions that sometimes develop in children-parent relationships illustrate the permanency factor. Infants and small children are dependent upon their parents, more or less absolutely. As the children grow up, they learn and are taught how to become progressively independent. If, however, the child insists upon being served by his parents regularly after he could do for himself, he is trying to induce servitude into the relationship. On the other hand, if parents cling to their grown children, insist on their living at home and doing for them, that can become a form of servitude. Permanent dependency begets servitude.

Entanglement is the mode of collectivism. Collectivist democracy is a device for getting everyone's af-

fairs entangled with everyone else's. Collectivism proceeds by describing our interdependencies as requiring common decisions. The decision-making process—the vote—becomes a means for rigidifying interdependency as entanglement.

Americans are by way of losing their independence. Individuals are becoming increasingly dependent upon government, and the dependence is becoming fixed. The states have lost much of their independence by changes in their relation to the federal government. Our national independence has been seriously compromised by both entangling alliances and by the belief that we should only act in foreign affairs in concert with other nations.

It is an attractive notion that Americans have been seduced into yielding up their independence, that they have been surreptitiously induced to sell their heritage for a mess of pottage, so to speak. It is not only attractive, but much evidence could be adduced in support of the notion. Undoubtedly, politicians have laid great emphasis upon the gains and downplayed the costs when they were advancing their programs. Undoubtedly, too, many intellectuals have drawn beautiful word pictures of the future their ideas would bring into being when put into effect. The thrust to socialism, by which so much of independence is being lost, has been ad-

vanced by every artifice known to man.

That, however, is a considerable distance from being the whole story. The Founders of the United States, who knew next to nothing about what we call socialism, would not have been surprised by the loss of independence by Americans. Many of them feared that the Republic they brought into being, the federal system they devised, and the rights they proclaimed would not last. They knew that constitutions are but pieces of paper unless men breathe life into and sustain them. They knew what we seem to have forgotten, that governments are derivative not originaive, and that republican governments derive their style and modes from the life of the people. When these have degenerated, the people will be "fit tools," as Jefferson put it, "for the designs of ambition," and rule will be by those who are most proficient in drawing up such designs.

Government Is Not Creative

The late Ludwig von Mises concluded that government cannot create money. On the contrary, money comes into currency by the valuations people place on certain goods as money. Governments can adopt such currency; they can place their stamp upon it, but its value does not derive from government. They can, of course, debase it, coun-

terfeit it, and flood the market with simulacrams of it. In short, they can exploit it, but they cannot create it.

In like manner, personal independence, the independence of states, and national independence arise from the habits and spirit of a people. If they are not there government cannot create them. If they are there, representative governments have rough sledding in debasing them. In fact, representatives lack the incentive for attempting it.

My point is this. Americans, by and large, lost the habits and spirit of independence before they yielded it up by way of government action. As recently as 1914, say, the United States was following a resolute course of national independence. The states were still on their historic path of independence from the general government. (It should be noted, however, that the Seventeenth Amendment had just been ratified, providing for the direct election of Senators, thus removing some of a state's leverage in maintaining independence.) Nor had the populace become dependent upon government to any significant degree.

Nonetheless, increasing numbers of Americans were already developing habits of dependence. Millions of Americans were going into factory, mine, and mill for work. There they became dependent upon others to provide them with a job. Millions of

others had become or were becoming share croppers and tenant farmers. These depended upon the landlord for housing, land, and for much of the capital with which to operate. In the absence of coercion, they were free, but to the extent that they remained in these conditions they became acclimated to dependence.

Indebted and Dependent

Living "on credit" became a way of life for many people. Farmers frequently borrowed against the forthcoming crop, not only for seed, fertilizer, and equipment but also for buying food and clothing. If the crop was not as large as anticipated, or if prices were lower, they would be unable to pay off the debt. Thus, they would go from year to year indebted and dependent upon the creditor. Wage-workers, too, often stayed in debt to storekeepers. "Easy terms" were becoming more generally available in the 1920s, and more and more people were availing themselves of the opportunity to "enjoy" new appliances and automobiles while they paid for them. Farmers borrowed from banks to buy farms, and many who got into straitened circumstances mortgaged their land and buildings to get money to operate. Businesses turned to credit for expansion. Indeed, by the late 1920s, an unprecedented number of people were trying to get rich on the basis of credit

by buying common stock "on margin."

Government did have a hand in this mounting dependence on credit. The Federal Reserve system fueled this credit binge by making easy money available on a large scale. (It was doing on a much broader scale what fractional reserve banking had been doing periodically for some time.) The habits of dependency were now widely formed and deeply ingrained.

The credit-fueled prosperity of the 1920s was like a house built upon sand. It could not stand when the storms of adversity came. The government gave, and the government took away. The Federal Reserve banks raised the rediscount rate and tightened the credit restrictions. A wave of selling hit the stock market, and as prices fell, more and more margin buyers had to sell. In the wake of the stock market crash in 1929, the house came tumbling down, so to speak.

Collectivist thought offered the solution that would be adopted. Habits of dependence prepared fertile soil in which collectivism could grow. In the 1930s, many people gladly availed themselves of one or more of the great array of programs which governments offered for aid and relief. Unionist collectivism made great strides as governments adopted policies promoting collectivist activity. Habits of dependence

were creased in the mold of permanence by the force which government intruded into the situation.

Stages of Dependency as Government Intrudes

There has been a pattern to the yielding up and loss of independence in America. First came the development of habits of dependence. The spirit of independence, where it had been acquired, was not strong enough to resist the lure of the gains from dependence. In this first stage, to the extent that government played a role, it was usually remote and indirect.

The second stage is widespread dependence of people on government. This has taken hundreds of forms: a moratorium on mortgage payments, government guaranteed loans to business, government guaranteed loans for farmers and homeowners, crop subsidies, relief payments, privileges for collective action, social security, government decreed minimum wages, housing projects, school lunch programs, and so on, almost endlessly. Much of the dependence has become permanent, and living off government favors a way of life for many people.

The third stage is the loss of independence by the states. They have become increasingly dependent on the federal government. Many programs have been enacted by which Federal funds are made available

when states provide their portion of the funds. Highway building has become increasingly dependent upon Federal funds. Federal funds for schools have become an ever more important source of monies for these. So called revenue sharing by which Federal funds are parceled out to the states is one of the more recent of such activities. (Since the federal government has been operating with a deficit, it has had no excess revenue to share. It might better be called sharing in the proceeds of the mounting Federal debt.)

Though the states yield up much independence of action by participating in these programs, they have also lost much of their independence by Federal intrusion. The centralization of power in Washington has been accompanied by its decline in the states. By congressional enactments and court decisions uniform rules prevail in many areas throughout the United States. The states are losing much of their authority over city and local governments because there is so much direct Federal aid and control over them.

The independence of the states is important as an expression of local preferences and ways, the political reflex of an independent people. Its ultimate importance, however, is as a counterweight to the overweening power of the federal government. Power diffused is power contained

and limited, the necessary condition for the liberties of a people. The intermingling of Federal and state power is hardly distinguishable from its being concentrated in one government and unrestrained.

The fourth stage, the yielding of national independence, has been the result both of the general decline in the spirit of independence and of the thrust to collectivism. Since World War II, the United States has followed a course compromising and detrimental to national independence generally. By participating in the making of the United Nations Charter, joining the organization, and participating in its decisions and actions, the United States has committed itself, symbolically at least, to collective action. The United States has committed itself to a series of mutual security pacts which were nothing short of permanent alliances. These, and other international agreements, constitute entangling alliance. Many American leaders have come to expect that other nations will, or at least should, act with the United States against their own interests. The compromise of national independence has succeeded only thus far in proving that George Washington was right in his Farewell Address.

Whither independence in 1980, then? Much of it remains only in the memories of some of our older citi-

zens. By their dependence upon government many have surrendered their independence for the promise of security. State and Federal action has been so intertwined, Federal control so vastly expanded, and local governments so drawn into a dependence on the federal government that what remains of state independence takes on the appearance of relics. National independence has been compromised, hamstringing the nation in international affairs with little compensating augmenting of power.

We have neglected the sage advice of the Founders, and we are reaping the consequences. Ask not for whom the bell tolls, as the poet said, the bell is tolling for the passing of American independence.

Rekindling the Spirit

I, for one, have no desire to attend a memorial service for American independence this Independence Day, 1980. The recalling of the signing of the Declaration of Independence can have but one useful purpose—to kindle anew the spirit of independence which gave rise to the events which we bring to mind. Better that the day should pass unnoticed, however, than that it be utilized simply for the call for some kind of political action. There is undoubtedly much political action needed to undo much of what has been done in the last half century or so. There was

much political activity which preceded and followed the signing of the Declaration of Independence.

But political activity from a people whose dependence has rendered them subservient would be little to the purpose. Republican government can hardly rise above its source in the people. It is the spirit of independence which produces independence. It is the habits of independence which maintain it. If we wait until the Federal Reserve system has been abolished to retire our personal debts, we will never be prepared to favor its abolition. If we wait to practice independent habits until the programs which foster our dependence are abolished, we could not endure it when it happened. When we have men who have resolutely trod the path of personal independence we shall have men who are worthy of political office, because they will be men, by and large, who do not want it. Then, we will have political action to the purpose.

Benjamin Franklin believed that personal independence was essential to individual morality. George Washington believed that national independence was essential to right action by nations. Thomas Jefferson believed that only those men who looked up to Heaven for their well-being would keep alive the love of liberty. Their vision of independence is surely worth recalling, and a day on which the spirit was rekindled would be worth celebrating. ☉

—FOOTNOTES—

¹Henry S. Commager, *Documents of American History*, vol. I (New York: Appleton-Century-Crofts, 1962, 7th ed.), p. 209.

²Quoted in Vernon L. Parrington, *The Colonial Mind* (New York: Harcourt, Brace and Company, 1954), p. 353.

³Edwin H. Cady, ed., *Literature of the Early Republic* (New York: Holt, Rinehart and Winston, 1950), p. 311.

⁴Gerald N. Grob and Robert N. Beck, *American Ideas*, vol. I (New York: Free Press of Glencoe, 1963), p. 126.

A Blessing in Disguise

IDEAS ON



LIBERTY

THE great truths of humanity do not spring newborn to each new generation. They emerge from long experience. They are the gathered wisdom of the ages. They are renewed in times of conflict and danger. In this sense, the current challenge to our political institutions may prove to be a kind of blessing in disguise. If the times in which we are now living do not bring a further understanding of the great traditions of our civilization and a deeper desire to affirm them, we are not worthy of our heritage.

E. SMYTHE GAMBRELL, "Our Principles of Freedom Must Stand"

John V. Denson



DEMOCRACY AND FREEDOM

A common error in political dialogue today is the interchangeable use of the words "democracy" and "freedom," as though they mean the same thing. They definitely do not; in fact, democracy can be a severe threat to freedom and individualism.

One of the most astute and intelligent observers of the American experiment with democracy was a Frenchman, Alexis de Tocqueville. His classic, *Democracy in America* was published in 1835, soon after his visit to America. The book is more pertinent today than when it was written. Tocqueville then theorized about the nature of democracy and its dangers to freedom, but these

theories have been proven correct, to a great extent, in the 20th Century.

Tocqueville recognized that aristocracy, monarchy, and such forms were quickly dying out in the West and that democracy was the wave of the future. The Old-World system of legalized privilege, which was inherited, and rule by the few, was being overthrown in favor of equality of opportunity and mass political control. Tocqueville stated very prophetically that, "The destiny of the world will be in the hands of America and of Russia; these two great nations, each going a different way, will determine what will happen."

Tocqueville further stated that "Democracy is irresistible, it is going to come." "Democracy has enormous benefits . . . but also

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democracy has the most dangers. We had better prepare for it so we take advantage of the benefits and avoid the dangers. Democracy is potentially the best of all forms of society and government; it is also one of the most dangerous forms of all society and government."

Potential Tyranny

One danger that Tocqueville saw was the potential tyranny of the majority and loss of individualism due to enforced conformity by an uninformed, and possibly, manipulated public. He also saw a threat to both civilization and culture in democracy. He pointed out that in aristocratic societies you saw instances of great wealth and extreme poverty, great learning and extreme ignorance. In a democratic society, the extremes would be more or less eliminated and a much higher general standard of living would be available. He stated, "a state of equality is less elevated but it is more just; and its justice constitutes its greatness and its beauty."

Tocqueville warned that a democracy must be very careful not to stamp out dissent which provides meaningful change. He recognized that differences of opinion often produce the most progressive changes and that conformity produced by a democracy could severely restrict such progress.

Tocqueville also saw that cen-

tralization of power in a government run by an unelected bureaucracy would continue to be the great threat to individual liberty in the democratic system just as it had been under the old, autocratic systems. He felt that centralization of power and democracy may be even more of a threat in a democratic state since the public would tend to be less suspicious of a government when the people possessed the right to vote and to elect their representatives.

When kings and aristocrats ruled, the people knew they had to be suspicious and careful of government since they realized that they had little influence or power. However, democracy had the potential to create a false sense of security from the force of government. One of the architects of the American system of democracy, George Washington, continued to recognize the true nature of government, even though democratic, when he stated: "Government is not reason, it is not eloquence—it is force! Like fire, it is a dangerous servant and a fearful master; never for a moment should it be left to irresponsible action."

Following the lead of Tocqueville in analyzing democracy, two English libertarians, in a later period, seemed to grasp, better than Tocqueville, that democracy would not necessarily change the true nature and danger of government.

Herbert Spencer stated: "When we have made our constitution purely democratic, thinks to himself the earnest reformer, we should have brought government into harmony with absolute justice. Such faith, though perhaps needful for the age, is a very erroneous one. By no process can coercion be made more equitable."

The Initiation of Force

Spencer's student, Auberon Herbert, correctly perceived that it was the initiation of force which was the key to tyranny and he stated: "Majority rule is not founded—any more than the emperor's rule—on reason or justice. There is no reason or justice in making two men subject to three men . . . no one has the moral right to seek his own advantage by force. This is the one unalterable, inviolable condition of a true society. Whether we are many or whether we are few, we must learn only to use the weapon of reason, discussion, and persuasion."

One of the authorities on Tocqueville's *Democracy in America* is history professor Henry Steele Commager. He recently appeared on the television program, "Bill Moyers' Journal," and analyzed Tocqueville's book. Commager commented that all governments, even democracies, advance like gravity in a natural flow, towards centralization, but that liberty does not. He

stated: "Liberty must be worked at, must be achieved, and it has rarely been achieved anywhere in the whole of history. It requires a most extraordinary self-control, self-denial, wisdom, sagacity, vision to protect liberty in the face of all the forces that mitigate and militate against it. And Tocqueville regarded centralization as the most dangerous of all the threats to liberty."

Commager's quote about the nature of government gives special emphasis to the earlier warning: "Eternal vigilance is the price of liberty."

Commager also reminded us that Nazi Germany was a result of the democratic process and "is perhaps the outstanding example in modern history of how an overwhelming majority can exercise the most ruthless tyranny over a minority." Governments throughout the democratic West continue to grow larger and to become more oppressive, especially in the area of taxation. Government domination of education and regulation of almost every form of human conduct, especially in economic matters, is far more extensive today under democratic governments than existed in the Old-World autocratic systems of the past.

Our present situation in democratic America, where we are being threatened with a peace-time draft and actually have a large portion of our Army stationed in Europe and

other foreign countries coupled with numerous entangling treaties, would have been unthinkable conditions to our founding fathers. Democratic governments in the 20th Century have shown strong militaristic tendencies and have produced the most widespread wars known to mankind. The noted historian, Arnold Toynbee, author of the massive, six-volume *A Study of History*, questioned the assumption that democracies were automatically more peace-loving or anti-militaristic than other forms of government. He also found "the suicidalness of militarism" by far the most common cause of the breakdown of civilizations.

Professor Commager, at the conclusion of Bill Moyers' interview, and after being asked to comment upon the future of democracy, said,

"I feel like Justice Holmes, late in life, when some of his young clerks came back to him and he said, 'I myself have little hope for change, but I'm happy to see that the younger generation consults its hopes and not its fears.'"

We must continue to recognize that democracy, while being the best form of government, nevertheless, like all government is potentially dangerous, depending upon its size and power.

No government, even a democracy, should have the right or power to initiate force; it should only repel or defend against force. Government must be kept extremely limited in its scope of influence, and individual rights must be carefully protected. We should never lose sight of this goal nor lose hope of achieving it. ☸

Democracy in America

OUR contemporaries are constantly excited by two conflicting passions; they want to be led, and they wish to remain free: as they cannot destroy either one or the other of these contrary propensities, they strive to satisfy them both at once. They devise a sole, tutelary, and all-powerful form of government, but elected by the people. They combine the principle of centralization and that of popular sovereignty; this gives them a respite: they console themselves for being in tutelage by the reflection that they have chosen their own guardians. Every man allows himself to be put in leading-strings, because he sees that it is not a person or a class of persons, but the people at large that holds the end of his chain.

IDEAS ON



LIBERTY

ALEXIS DE TOCQUEVILLE



THE WELFARE STATE AS A ZERO-SUM GAME

ALL educated Americans are aware that the eighteenth century was an era of intense international conflict, if for no other reason than the fact that the French and Indian War and the American Revolution were minor parts of the great international conflicts raging from England to India. Fewer of them are aware that the Americans were able to win their war against the far more powerful British precisely because theirs was a minor war, almost a side-show, in the bigger struggle which kept the British pinned down

around the world. Almost none of them know that this century of wasteful warfare (which I think should be called the First World War and our most recent one the Third) and its culmination in the catastrophe of the French Revolution and Bonapartism was highly "rational" from the standpoint of the political economic theories dominant among European rulers.

But how could such a vast waste of human life, of accumulated wealth cast into guns and shot instead of industrial investment, and of human creativity be "rational"? It's frighteningly simple when you understand the fundamental premises of Mercantilism, the political economic theory which dominated the thinking of rulers and most "practical" men.

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Mercantilist theory took the common-sense view of wealth and applied it to the national level. The key idea is that the precious metals, gold and silver, constitute the real wealth of a nation, so the nation should maximize its possession of gold and silver. The mercantilists also assumed that the primary way by which this could be done (in all nations without gold and silver mines) was by maximizing exports and minimizing imports. They would thus receive more payments of precious metals than were paid out. And, fatefully, they also assumed that the most efficient means of doing this is by controlling the foreign markets which buy one's exports. These assumptions led them to the logical conclusions that they should maximize their political (military) power to control colonies abroad (or, at least, markets) and, most fatefully, that they could only become more wealthy by decreasing the wealth of other nations by using such power.

One's Gain, Another's Loss

The mercantilist ideas thus led the rulers to look at their relations with other nations in a "beggar thy neighbor" way, or what economists call a zero-sum game: if you gain, I necessarily lose; if I gain, you necessarily lose. The only rational thing to do, if you wanted to be richer, or simply avoid getting poorer, was to

seize foreign markets and precious metals. Since everyone looked at it the same way—War.

All of those assumptions were wrong, as all economic history since then has shown, yet *almost* all of the brightest people, from goatherds to prime ministers and kings, believed those things implicitly. The genius of classical economics, especially of David Hume's theories of money and international trade, of Adam Smith's theory of economic growth or wealth, and of Ricardo's theory of comparative costs, consisted in showing how they were wrong and how all nations could get richer at the same time and at vastly accelerated rates by an international system of cooperative competition.

In vastly oversimplified terms, they showed that money is merely an aggregate symbolic representation of the exchange value of real goods, so that an increase in the quantity of money of any form will in time only produce higher prices (unless the real goods have increased); that this works internationally as well as within a nation; that all increases in real wealth come only from increased efficiency and investment; and, fatefully, that two of the major ingredients of efficiency are (1) task specialization, which allows those most skilled to produce goods at lowest cost and, thus, price, and (2) competition, which not only spurs people to greater effort to be

efficient, but also allows the natural selection of the most efficient and the subsequent redirection of the casualties into more efficient production.

The general implications were exactly the opposite of Mercantilism. A nation that only increases its money only increases its prices. (This is what Spain did by seizing the gold and silver of the Aztecs and Incas. The resulting inflation prevented the rise of industrial production because it was cheaper to buy from abroad, due to long time lags in the spread of the inflation, and produced a basic movement away from efficient investment. The most successful of all mercantilists was the biggest disaster.)

Free Trade

A nation that directs its wealth to the military destruction of wealth decreases its wealth. A nation that insists on buying its own goods when it could import them more cheaply because foreign task specialists are more efficient in those goods gets poorer, not richer. The general implication was that all nations should stop wasting wealth in war, concentrate on saving and investing and becoming more efficient, and compete peacefully (cooperatively) with complete freedom of economic competition among and within the nations.

These classic ideas of classic

liberalism (the opposite of American "liberalism" today) became the dominant ideas of the ruling elite in the first three quarters of the nineteenth century. *Laissez faire* ideas in international trade and politics were never completely applied even in England, but on balance they were distinctly dominant. This was an era of almost unbroken peace in Europe, a rare thing in European history, an era of exploding wealth, and an era without major internal economic civil war (class warfare).

That era began to end in 1870 with the Franco-Prussian war. That war owed much to the old bitterness between the two nations, especially the Prussian resentment of the defeat by Napoleon. But it is also very important that the German political economists had turned strongly toward a form of neo-Mercantilism embodied in the ideas eventually of the institutional economists, List and Sombart. (Germany never really accepted the liberal theories very much. The so-called classicists held sway until the institutional theorists entered the scene.)

The institutional economists argued strongly, even bitterly, that institutions, especially political ones, are the ultimate determinant of wealth. Most ominously of all, they argued that international free trade was rigged in favor of the rich and already efficient and, thus, was

against the interest of unindustrialized Germany. They insisted on protective tariffs to protect their industries from "unfair foreign competition." The defeat of France led to an immediate flip-flop of the French social analysts (especially the lions of Paris, Renan and Taine) from internationalism to nationalism.

A great, decade-long economic depression hit the West in 1873. Nations everywhere began building tariff walls to protect their industries from bankruptcy. The political voices of neo-Mercantilism became dominant even in England in the great new surge of imperialism in the late nineteenth century. The zero-sum game returned with vigor as nations tried to build their exports and minimize the costs of imports by controlling colonies. The armies grew, the navies grew. By the early twentieth century Europe was a "tinder-box" armed to the teeth, living breathlessly through one military-political incident after another, lulled by the century of peace and wealth produced by ideas now rejected as absurd, waiting unknowingly for the random match of Sarajevo. Zero-sum thinking produced the inevitable conflict.

The Growth of Socialism

The imperialist and protectionist theories were joined in the late nineteenth century by a far more rhetorically powerful zero-sum

theory—the melange of ideas known as Socialism. Socialism rejected all the ideas of the liberals and reinstated in somewhat different (and certainly in a hidden or "cleaned up" form) the ideas of the Mercantilists. Above all, they insisted that one man could only get wealthy at the expense of another: if one man hired another and got money from his efforts, then the hired man was "exploited," or lost, even though they both got richer by the transaction. Only complete equality, an end to the competition that gave the more efficient an advantage over the less efficient, and an end to the interest advantage of saving could lead to wealth for everyone. Otherwise, the zero-sum process would inevitably lead to greater concentration of wealth in fewer hands and the deprivation of more and more. The conclusion: class warfare within and across nations is inevitable and glorious—War!

All Western history has proven the socialist myth false. But myths are created and accepted because they appeal to deep feelings, especially those like envy, resentment, fear and aggression. These particular zero-sum myths could not be accepted by many educated people because they were so clearly wrong. But their emotional appeal led inventive people to find a new way—the Keynesian revolution.

Keynes himself did not agree with

many of the ideas of the socialist zero-sum game, though he was emotionally committed to the working class cause before he developed his theory.

"Oversaving"

The high unemployment rates of Britain during the 1920s (as much as 10 per cent) can be explained by classical economists as due to the deflation caused by Britain's return to the gold standard (at parity value) in the 1920s; higher taxes forcing capital abroad; an inefficient (thus more costly) work force at home, because of union monopoly powers granted politically in 1906, leading to the same capital flight; the growing taxes used to pay for the new unemployment benefits causing further flight; and the increasing incentives of the unemployment benefits to avoid work—to be unemployed.

Keynes decided, without considering this kind of argument, that there was an inevitable tendency of a sort even Marx had not seen—an "inevitable" tendency of advanced capitalist societies to "oversave," or save relatively more than they invested, so you inevitably get unemployment. The remedy was to have the government intervene by using its borrowing and taxation powers to "give" money to consumers and, thus, increase demand, which would then increase incentives to invest,

and eventually decrease unemployment.

The Keynesian Revolution consisted not only of this idea, but its combination with the old ideas of the socialist zero-sum theory. This started in Britain as early as the 1890s, became dominant there in the 1930s, and became dominant in the United States only in the 1960s. It now dominates the thinking of the great mass of our Western rulers and educated people. Everyone knows the ideas. Equality is the only way to maximize real wealth for everyone. Competition is the source of poverty, not wealth. Efficiency is repression. And, according to Keynes, we should emphasize consumption and decrease saving (oversaving).

Most fatefully of all, the instrument of all of this is the central power of government: government is to use its physically enforced powers of taxation to increase equality through redistribution of income and, most especially, by providing "services" to the "disadvantaged." (The implicit assumption, of course, is that under the laissez faire system the higher incomes of the few was due to their being unfairly "advantaged" by the system, not due to their greater efficiency in saving and investment and work—because it is always the case that one man's loss is another man's gain and vice versa—life is a zero-sum game!)

This melange of Keynesian ideas and neo-socialist zero-sum ideas is what we know as the Welfare State theory.

The Redistributive State

The theory itself teaches, even insists bitterly, that life is a zero-sum game. In order for the less well off to get better off, something must be taken away from others. (Sociologists who share these views, which is most of them by far, call this a "conflict theory." Fateful name.) But, even if the state and the intellectuals did not teach people this, they would probably understand it or believe it. (The zero-sum game is really the most ancient way of thinking, found in all primitive societies and highly exaggerated in peasant mentality.) In any event, they all come to act in accord with the theory in the Welfare State dominated by that theory. That is, they all act as if they know and believe with all their hearts that someone else getting more means they are going to get less, and that the crucial thing is to get more than someone else—maximize your intake of government services, money and rights, and minimize your outflow of taxes and duties. The conclusion is now apparent to those with memories and eyes—War!

In our pluralistic societies of pressure group politics, in which there are many massive groups and in

which political decisions are made by coalitions of these groups, the warfare is primarily between massive groups; but it also becomes more and more individual, as the individual comes more and more to play the same zero-sum game against the members of his own group. The overall effect is to pit each big group, and then individuals, against the others in an increasingly bitter struggle for the distribution of the pie—the rights, services, benefits, monies of the body politic—the spoils of victory.

In the societies that are relatively homogeneous, like Japan and Sweden, the war of all against all produced by the zero-sum assumptions of the welfare state comes much later and at a higher level of redistribution than in the highly pluralistic societies. The United States is unique among the Western nations (and very like Russia) in having a massive number of pressure groups and no dominant group. These groups, especially the ethnic and racial groups, already envied and resented each other, precisely as the nations of Europe did over the centuries. By greatly amplifying the zero-sum warfare games in our nation, the Welfare State Revolution has pushed us far along the road toward Hobbes' state of nature, that nasty and brutal war of all against all.

A nation that had little sense of

historical community, and was pasted together with shallow patriotism and deep shared self-interest in making the whole nation richer by the pursuit of capitalistic growth for all, has been ripped and torn in every seam of its national life. Everything has become politicized—work, sex, parent and child relations, life itself. The most ignorant mugger in the big cities now mouths the zero-sum theories of our "liberal" (socialist) politicians. But we have only begun down the road to that great calamity of civil war, the war of all against all.

The zero-sum game of internal war will inevitably slow our economic growth to zero and possibly begin the final stages of deprivation—disinvestment of the British sort. When the pie becomes stagnant (the glorious goal of zero growth, at last!) these human beings turned into wolves will hurl themselves on each other in all their fury, unless their fury is directed against a common foe in the time-honored way of tyrants—foreign war! Or unless we use the solution the Russian socialist zero-summers know so well—tyranny. ☉

Peace and Prosperity

WORLD leadership requires that we constantly defend the principles of individual liberty and free enterprise. At every opportunity we should call out to the world that only competitive private enterprise can lead to peace and prosperity. We have a glorious history of individual freedom and safety of property—the absence of nationalization and confiscation by an omnipotent state. Our recent excursions toward the Welfare State endanger our record—and ourselves. But if we will correct that trend, then with pride we can demonstrate to the warring world that individual liberty is the only durable foundation for peace and prosperity.

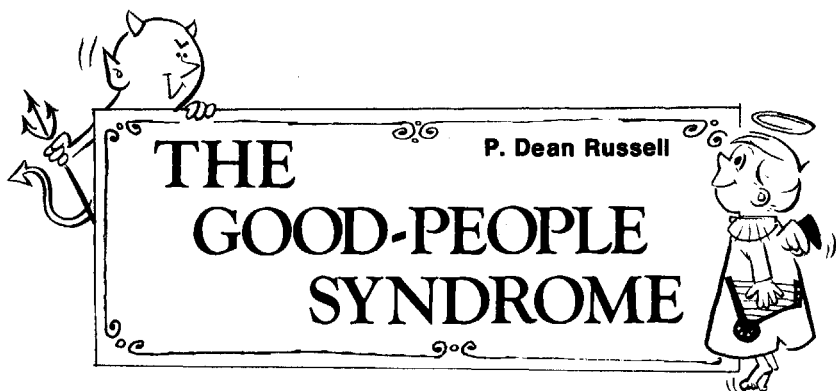
If our way is freedom, then other nations on their disastrous roads may someday listen to reason and follow us as all civilized nations followed Great Britain during the nineteenth century. Law, order, and peace may then return once again to a battered world suffering from an absence of individual freedom and free enterprise.

HANS F. SENNHOLZ, *Welfare States at War*

IDEAS ON



LIBERTY



Do you remember when we Americans thought of the Ayatollah Khomeini as a good man trying to help his people who were suffering under a dictatorial government? He was in exile in France, and he was getting a great deal of favorable publicity on international television as he taped his revolutionary messages and smuggled them back into Iran. His obviously sincere and deeply religious life-style—along with his promise of freedom and justice to his oppressed countrymen—won him the support of the overwhelming majority of the Iranian people. In addition, he soon gained the best wishes of good people all around the world, including millions of Americans.

Then the Ayatollah (the revered

leader of the religion of the majority of his people) gained *political* control of the nation. He immediately began approving the confiscating of property from the rich and giving it to the poor, the kidnaping of hostages for ransom and blackmail, the restricting of minority religions throughout the land, and the public execution of "traitors and other enemies of the Iranian people."

To show their approval of the Ayatollah's particular brand of freedom and justice, the Iranian people voted overwhelmingly for a new constitution that made him dictator for life. Apparently they felt they could safely entrust their lives to such a good man.

The universal appeal of this persuasive idea of giving political power to "good people" to be used for the benefit of everyone has always been with us. It was an already-

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popular literary theme in ancient Greece when the philosopher Plato developed it into the political theory still studied by students of government in all nations today. We hear it everywhere in the United States in this popular political maxim: If we elect good people to public office, we'll have good government.

Goodness and Power

As I watched the unfolding of the most recent disaster to the Iranian people, the thought struck me that perhaps most of the evil in this world is committed by good people who are sincerely trying to help. Let it never be forgotten that the Ayatollah Ruhollah Khomeini is a good man who is quite willing to make every personal sacrifice in his sincere efforts to help his people. He does not wish to become rich from his efforts. When he refers to himself as a servant of God and of the people, he is totally sincere. He has always worked hard and lived frugally. He devotes much time to prayer. He would be called a good man in any nation and age.

Invariably, however, these good people become corrupted by the political power they possess to help others. The fact that they may be deeply religious seems only to increase the terror they use to do good as they understand it. To see this, you need only study the history of the Christian church (or the history

of any religion) and note what happens when the religious leaders gain *political* power. Usually the corruption appears immediately. But sometimes it doesn't appear in a virulent form for a few months. Inevitably, however, this corrupting influence of power always appears, and the terror begins in one form or another. Even the leader of all Christians, Jesus Christ himself, recognized that fact when he indicated that the corrupting influence of earthly political power applied to him also. Thus he refused to accept it, even though he was tempted by the possibility of using it for a good purpose.

A primary reason that helps me to better understand this good-people syndrome (as well as to appreciate the corrupting nature of power and the desire for it) is that I once suffered from it myself. There was a four-year span in my life when I truly wanted to do good for the American people (and for the world in general) and wished I had the *political* power to accomplish my good intentions.

I was 16 years old at the time. I had just gone through a dramatic religious experience and I was firmly convinced I had discovered a sure way (and probably the only way) to eternal life. As a dedicated young man, I felt a responsibility to share my good fortune with my fellowmen. That's the nature of the

good-people syndrome, i.e., we want to share and to help the less fortunate. We really and truly do, and we'll go to any lengths to accomplish it.

Youthful Victims

Probably all of us have endorsed this compelling syndrome to some extent at one time or another. We just wouldn't be human if we hadn't. In my classroom discussions with those wonderfully idealistic students between the ages of 17 and 23, I encounter this good-people syndrome all the time. Most of those students truly want to help their less fortunate fellow-humans all over the world. And some of them literally lust for the power of government to do good to mankind. They are beautiful people. I respect them and wish them well. And I also suggest to them that the desire to use political power to do good to people is bad for *everyone's* health, including their own.

While young people are perhaps more susceptible to this emotional good-people syndrome than are older people, it's a mental aberration that can strike at any age. And it can last from a few days to a lifetime. The Ayatollah Khomeini at age 80 has a far more severe case of this syndrome than I ever had in my teens. But I can better understand the irrational thought processes and abnormal actions of that elderly

leader because I remember so well the devastating effect the syndrome had on me as a youth.

Beginning with my teen-age religious experience and continuing for several years thereafter, I would have been happy indeed to enforce a law that compelled everyone in the United States to join the "one true religion" I had accepted. I only wanted to help! And the idea of a government-enforced religion appealed to me then, just as it has appealed to many millions of Americans before me and still today. My reasoning at that time was as follows: "If I were blind to the truth like so many of my misguided neighbors, I would surely want them to do to me what I wanted to do to them—for their own good, of course." Fortunately for all concerned, I didn't have the power to impose my fantasies (my syndrome) on others.

In a like manner, the Ayatollah Khomeini will unhesitatingly use whatever means he has available to convert or destroy anyone who stands in the way of the advancement of *his* true-theological-political-system. Unfortunately, the Ayatollah has the political power to carry out many of his fantasies.

As often as not, the possessors of this good-people syndrome are fully prepared to die (literally) for what they believe will help other people. For example, I honestly believe that,

at age 16, I was prepared to give up my life if that became necessary in my campaign to save the immortal souls of others. The Ayatollah Khomeini has stated several times that he expects to be killed because of his religious beliefs and the political actions that are inspired by them.

In short, the motives of us victims of this syndrome are unselfish and pure. We are truly good people who only want to help. And we are fully prepared to pay a high price personally for our beliefs and our desire to serve the people.

Strangely, only *good people* seem to become possessed by this particular mental abnormality. This is so much the case that I have here named this syndrome in honor of all good people everywhere who want to use political power to do good to others. While bad people, i.e., murderers and rapists, can also suffer from this syndrome, they seldom offer it as an excuse for their anti-social and destructive behavior. But our very best people, i.e., those who are most eager to do good to mankind, almost always use the good-people rationale to defend their actions. The fact that their programs don't work as advertised doesn't seem to distress them in the least. The failures aren't their fault! And since they're good people who are sincerely trying to help, they're always willing to try again.

This good-people syndrome has

existed as long as mankind. It came with us; the first human beings to appear on earth were born with the desire to do good to others as they saw it. It is clear to me that this inherent emotion and compulsion was (and still is) necessary for the preservation of any sort of viable social order and for the survival of the human race itself. The absence of this compulsion, i.e., the absence of any desire to do anything at all to help any other human being, would obviously mean the end of mankind. Thus the only workable procedure we have (individually and then collectively) is to learn to control this inherent desire to impose our wills on others—even when we think it's for their own good.

I'm convinced this can be done because, to some considerable extent, I've actually learned to do it, i.e., I have resolved never again to use force or the threat of force (legal or illegal) to impose my will or viewpoint on any peaceful person. And I actually live by that principle to the full extent permitted by political reality and my own all-too-human fallibility. Thus while I may sometimes deviate from my own principle, at least I have a clear reference point and a basic guide to help me select the best alternative among the available choices.

Perhaps we could learn to follow this ideal: Let us help others by doing for them what *they* want done; if we

can't or won't, then at least let us have enough respect for humanity to leave them alone. It's simply not a good idea to try to make over another human being in your own image. It can't be done and, anyway, one is enough.

Do you suppose this inherent good-people syndrome that causes

us to try to impose our wills on others for their own good could be the "original sin" we're born with? At least that possibility would offer a logical explanation for those familiar allegories in all religions that tell us about cupidity and arrogance and ignorance—and the fall that comes with them. 

Popular Causes and Unpopular Effects

It is being discovered that good intentions are not enough. If good intentions are to accomplish anything, they must be translated into concrete economic measures, and such measures may or may not produce the intended effects. Even if they do, they are almost sure to produce unintended ones as well. Where some groups are benefited, others are hurt. Competition for productive efficiency tends to degenerate into a scramble for political favor. Government of, by, and for the people tends to become government of, by, and for pressure groups. The promise of cradle-to-grave security weakens economic incentive, tends to make men financially irresponsible and reduce them to the moral level of dependent children. Why should a man strain nerve and muscle to provide for himself, to keep his job, to lay something by for a "rainy day," to make provision for his old age, to protect his family from want, when a paternal state promises to do these things for him? Every personal financial misfortune, every source of dissatisfaction with one's economic lot, tends to become a grievance against the State. . . .

When our own and other governments assumed or accepted the responsibility of protecting the people against the risks of unemployment, disability, old age, and other hazards, they built into their economies an inflationary bias against which they are still striving, in most cases with very indifferent success, and which, unless arrested, must eventually bring hardship rather than welfare, insecurity rather than security, to the intended beneficiaries.

IDEAS ON



LIBERTY

PROGRESS IN A FREE ECONOMY

THE FREE MARKET, operating through the profit motive, has been responsible for the tremendous success of the American economic system. It has ensured the maximum possible effort to introduce innovations and to extend their application as rapidly as possible, with the result that in comparatively short periods of time revolutionary improvements have become commonplace. Because of this and because of the rapid adaptation it assures to all changes in economic conditions, it has rendered every crisis, from natural disasters, to wars, to absurd acts of government, a merely temporary

setback in a steady climb to greater prosperity.

The picture I have painted of a free economy is one of continuous progress and improvement. And so it has been in the United States over the last two hundred years, during most of which time we had a substantially free economy. As the free economy has come to be steadily undermined and the transition to a form of socialism drawn even closer, however, the foundations of economic progress have been eroded. For reasons that should become progressively clearer from now on, a controlled or socialist economy cannot have economic progress.

I believe that the advocates of socialism know this, or at least that they sense it, and that, as a result,

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they have launched a widespread campaign to try to deny the very possibility of continuous economic progress. The nature of their attempt is summed up in the phrase "The Limits to Growth." The motivation of the supporters of that phrase, I believe, is to be able to blame the end of economic progress not on the end of capitalism, but on the fundamental nature of the world.

Therefore, let us consider the basic facts that underlie the possibility of continuous economic progress.

How Knowledge Spreads

As far as man himself is concerned, the basic fact is that knowledge can be transmitted from generation to generation and that each generation has the ability to add to the total of what it has received. The only limit to this process would be the attainment of omniscience.

Let us consider the physical world in which man lives. Is there a limit to the supply of natural resources on earth?¹

Yes, there is. But the limit is utterly irrelevant to human action. For practical purposes it is infinite, because the limit is the entire mass of the earth. The entire earth, from the uppermost limits of its atmosphere to its very center, four thousand miles down, consists exclusively of natural resources, of *solidly packed natural resources*. For what is the earth made out of? It is

made exclusively out of chemical elements found in different combinations and in different proportions in different places. For example, the earth's core is composed mainly of iron and nickel—millions of cubic miles of iron and nickel. Aluminum is found practically everywhere. Even the soil of the Sahara desert is comprised of nothing but various compounds of silicon, carbon, oxygen, hydrogen, aluminum, iron, and so on, all of them having who knows what potential uses that science may someday unlock. Nor is there a single element that does not exist in the earth in millions of times larger quantities than has ever been mined.

Now this limit of natural resources has existed from the very first day that man appeared on earth, and in all the millennia since, it has not diminished by so much as a single atom. This is because chemical elements are never destroyed. They simply reappear in different combinations, in different proportions, in different places.

Resources Rearranged

Apart from what has been lost in a few rockets, the quantity of every chemical element in the world today is the same as it was before the Industrial Revolution. The only difference is that instead of lying dormant, out of man's control, the chemical elements have been moved

about, as never before, in such a way as to improve human life. For instance, some part of the world's iron has been moved from the interior of the earth, where it was useless, to now constitute buildings, bridges, automobiles, and a million and one other things of benefit to human life.

Some part of the world's carbon, oxygen, and hydrogen has been separated from certain compounds and recombined in others, in the process releasing energy to heat and light homes, power automobiles and railroad trains, and in countless other ways serve human life. Nor is the world running out of energy by virtue of the energy released in these ways. For heat from the sun every year provides a constantly renewed supply that is millions of times greater than the energy consumed by man. It follows from these facts that all that has occurred as a result of the Industrial Revolution is that man has *improved his environment*.

Production Means Improvement

It should be realized that by its very nature, production means an improvement in the environment. All that production of any kind fundamentally consists of is the rearrangement of the same chemical elements that nature gives us, but in ways that make them stand in a more useful relationship to man. Consider further examples. To live,

man needs to be able to move his person and his goods from place to place. If an untamed forest stands in his way, such movement is difficult or impossible.

It represents an improvement in the environment, therefore, when man moves the chemical elements that constitute some of the trees of the forest somewhere else, and lays down chemical elements brought from somewhere else to constitute a road. It is an improvement in the environment when man builds bridges, digs canals, opens mines, clears land, constructs houses, or does anything else that represents an improvement in the external, material conditions of his life. All economic activity has as its sole purpose the improvement of the environment: it aims exclusively at the improvement of the external, material conditions of human life.

In trying to restrict man's freedom to improve his living conditions, the misnamed "environmental movement" seeks to force man to live in a less favorable environment.

Now because the world is composed entirely of natural resources and possesses a virtually irreducible and practically infinite supply of energy, the problem of natural resources is simply one of being able to obtain *access* to them, of being able to *obtain command over the resources*, that is, of being in a position to direct them to the service of

human well-being. This is strictly a problem of science, technology, and the productivity of labor. Its solution depends merely on learning how to break down and then put together various chemical compounds in ways that are useful to man, and having the equipment available to do it without requiring an inordinate amount of labor. Human intelligence certainly has the potential for discovering all the knowledge that is required, and in a free, rational society, the incentive of profit virtually guarantees that this knowledge will both be discovered and provided with the necessary equipment to be put to use.

An Impressive Record

The record of the last centuries, certainly, demonstrates that such a society has no problem of a scarcity of accessible natural resources. While the total volume of chemical elements in the world has remained the same, the volume of *useful* elements and compounds *at the disposal of man* has been enormously increased. Today, for example, because of improved knowledge and equipment, it is probable that man can more easily extract minerals from a depth of a thousand feet than he could a century ago from a depth of fifty feet. In the same way, he has learned how to use elements and compounds he previously did not know how to use—such as

aluminum and petroleum, which have only been in use for approximately a century, and, more recently, uranium.

There is no reason why, under the continued existence of a free and rational society, the supply of accessible natural resources should not go on growing as rapidly as in the past or even more rapidly. Further advances in mining technology, for example, that would make it possible to mine economically at a depth of, say, ten thousand feet, instead of the present limited depths, would so increase the portion of the earth's mass accessible to man, that all previous supplies of accessible minerals would appear insignificant by comparison. And even at ten thousand feet, man would still, quite literally, just be scratching the surface, because the radius of the earth extends to a depth of four thousand *miles*. In the same way, dramatic advances are possible in the field of energy, such as may occur through the use of atomic energy, hydrogen fusion, solar power, tidal power, or thermal power from the earth's core, or still other processes as yet unknown.

Untouched Reserves

Because the earth is literally nothing but an immense solid ball of useful elements and because man's intelligence and initiative in the last two centuries were relatively free to operate and had the incentive

to operate, it should not be surprising that the supply of accessible minerals today vastly exceeds the supply that man is economically capable of exploiting.

In virtually every case, there are vast *known* deposits of minerals which are not worked, because it is not necessary to work them. Indeed, if they were worked, there would be a relative overproduction of minerals and a relative underproduction of other goods—i.e., a waste of capital and labor. In virtually every case, it is necessary to choose *which* deposits to exploit—namely those which by virtue of their location, amount of digging required, the degree of concentration and purity of the ore, and so forth, can be exploited at the lowest costs.

Today, enormous mineral deposits lie untouched which could be exploited with far less labor per unit of output than was true of the very best deposits exploited perhaps as recently as a generation or two ago—thanks to advances in the state of mining technology and in the quantity and quality of mining equipment available.

As just one example, and a very important one, consider the fact that there are petroleum deposits in shale rock and tar sands in our own Rocky Mountain states and in Canada of a size far exceeding the petroleum deposits of the Arab countries. Until now, these deposits

have not been exploited, because it has been cheaper to obtain petroleum from liquid deposits. Even though oil obtained in these ways would be more expensive than oil obtained in its liquid state, still, it is undoubtedly cheaper—in terms of the labor required to produce it—to obtain oil in these ways today than it was to obtain liquid petroleum a century ago and probably even a generation or two ago.

Technological Advancement

There is no reason why further advances in mining technology and in the availability of mining equipment would not enable oil obtained in these ways in the future to be less expensive than oil obtained in its liquid state today. Similarly, there are vast untapped known coal fields in the United States containing enough coal to supply present rates of consumption for many centuries.

In some important respects, these coal fields must be considered not merely a substitute, but the full equivalent of petroleum deposits. For it is possible to produce some of the identical products from coal as from oil—for example, gasoline. This too has not been done commercially until now, because it has been cheaper to produce gasoline from petroleum. But there is no reason why, with the further progress of technology and the availability of equipment, gasoline produced from

coal in the future should not be cheaper than gasoline produced from oil today, just as gasoline produced from coal today would undoubtedly be cheaper than was gasoline produced from oil in the past.

"The reader of this book may very well finish it with a radically different understanding of such events as the oil and natural gas crises, chronic power failures, and the decline of rental housing in places like New York City."

—From the introduction by
William E. Simon

If it were necessary, a free American economy could respond to a loss of foreign supplies by turning to such other sources of oil and gasoline as these, and, in not very much time, both through reducing their costs of production and by developing other, newer sources of fuel, would enjoy lower costs and more abundant supplies of energy than ever before. In a free American economy, it would not matter in the long run if the Arabian peninsula and its oil simply did not exist. As a free economy, we would not need Arab oil. Neither our survival nor our long-run progressive prosperity would depend on it.

The growing threat to the supply of natural resources that people are beginning to complain about is not the result of anything physical—no more than it was the result of anything physical in the days when these terrible words of despair were written:

"You must know that the world has grown old, and does not remain in its former vigour. It bears witness to its own decline. The rainfall and the sun's warmth are both diminishing; the metals are nearly exhausted; the husbandman is failing in the fields, the sailor on the seas, the soldier in the camp, honesty in the market, justice in the courts, concord in friendships, skill in the arts, discipline in morals. This is the sentence passed upon the world, that everything which has a beginning should perish, that things which have reached maturity should grow old, the strong weak, the great small, and that after weakness and shrinkage should come dissolution."²

That passage is not a quotation from some contemporary ecologist or conservationist. It was written in the *third century*—ages before the first chunk of coal, drop of oil, ounce of aluminum, or any significant quantity of any mineral whatever had been taken from the earth. Then as now, the problem was not physical, but philosophical and political. Then as now, men were turning

away from reason and toward mysticism. Then as now, they were growing less free and falling ever more under the rule of physical force. That is why they believed, and that is why people in our culture are beginning to believe, that man is helpless before physical nature. There is no helplessness in fact. To men who use reason and are free to act, nature gives more and more. To those who turn away from reason or are not free, it gives less and less. Nothing more is involved.

Scarcity Is Inevitable if Socialism Prevails

There are no significant scarcities of accessible raw materials as yet. But the enemies of reason and capitalism sense the consequences of the social system that they hope to impose, and they project it on to the present. Thus they admonish us to save every little tin can and every scrap of paper. Their world, if it ever comes, will have to live like that. But we, who are capable of producing in abundance—we do not have to regard bits of garbage as priceless treasures.

To us, used tin cans, paper wrappings, and the like, which cost us hardly any labor to produce or to replace, are generally not worth the trouble of saving or reusing. In fact, it is usually wasteful for us to do so: it wastes our labor and our time, which are the only things in life we

should be concerned about not wasting. For if we can produce new tin cans easily, by scooping iron ore out of the earth in ten or twenty-ton loads, it is simply ludicrous to take the trouble to gather up each little tin can and carry it off to some recycling center, because in doing so we spend far more labor than we save.

Nor is it "wasteful" or uneconomic in any way that we use so many tin cans or so many paper wrappings. If we consider how little labor it costs us—in terms of the time it takes us to earn the money we spend for it—to have things brought to us clean and fresh and new, in new containers and new packaging, and what the alternatives are for the spending of that money or the use of that time, it becomes clear that the expenditure is well made. For consider the alternatives: We could have our food and other goods wrapped in old newspapers and put in jars, bags, or boxes that we would have to carry along with us whenever we went shopping, or which we would have to make a special trip to go and fetch whenever we came on something unexpectedly that we wanted to buy.

We could then use the money we saved in that way to buy a handful of other goods. Conceivably, we could use the money we saved to work a few minutes less at our jobs each day, and earn correspondingly

less. But these alternatives would simply be bizarre, because neither a handful of extra goods nor working a few minutes less at our jobs each day would compensate us for the loss of cleanliness, convenience, aesthetic satisfaction and also time saved in shopping that is provided by modern packaging.

Let the ecologists adopt the poverty-stricken life-style of Eastern Europe if they choose. Let them go about like old Russian grandmothers in Moscow, with an ever-present shopping bag and herring jar, if that is what they like. Let them pick through garbage pails while pretending that they live in a spaceship—"spaceship Earth" they call it—rather than in the richest country of the planet earth. But there is absolutely no sane reason why anyone should or needs to live this way, and certainly not in modern America. Above all, let them keep their peculiar values to themselves and not seek to impose them on the rest of us by the enactment of laws. 

—FOOTNOTES—

¹I limit the discussion to the resources available on earth. Actually, advances in space technology are making it clear that this restriction is far too narrow.

²The quotation appears in W. T. Jones, *The Medieval Mind*, Volume II of *A History of Western Philosophy*, Second Edition (New York: Harcourt, Brace, and World, 1969), p. 6.

"Every commentator on current affairs who is not a fully trained economist ought to read this book if he wants to talk sense. I know no other place where the crucial issues are explained as clearly and convincingly as in this book."

—F.A. Hayek

THE GOVERNMENT AGAINST THE ECONOMY

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Government, Heal Thyself



A belief is growing among supporters of free market economics: "There is nothing wrong with the American system of medical care that more governmental intervention could not make worse." As we examine governmental intervention in the health care field, we discover it has inflated health care costs to the patient and has failed to deliver a better medical product. If the advocates of more governmental control have their way, a program such as hospital cost containment or a program of nationalized health insurance (socialized medicine) will skyrocket health care costs, increase bureaucratic regulations, turn medical care into a "public utility" to be

dispensed by government, and reduce the quality of health care.

The U.S. government uses the dollars of taxpayers to provide health care to the elderly (Medicare), to aid states via grants to provide aid for the poor (Medicaid), and to subsidize hospital construction (e.g., Hill-Burton). The federal government also operates hospitals to provide care to veterans, merchant seamen, military personnel, and American Indians.¹

Advocates of government regulation in the health care field maintain that health care is a "unique good" and that the principles of the free market, especially the law of supply and demand, do not apply to it. Since it is "unique," only those wise and all-knowing government bureaucrats are qualified to plan and allocate health resources. These officials demean the free market and

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promise, through more governmental intervention, better health care services at lower costs. The performance, however, never meets the promises. As governmental regulations increase, a poor medical product is delivered at greater and greater costs to the patient, either directly through higher premiums or indirectly through higher taxes.

The health care field is not immune to the laws of the marketplace. Experience has shown that more governmental intervention leads only to chaos and confusion.

Cost Containment

The major effort of the current national administration to deal with rising health care costs was by placing government-mandated price restraints on the nation's hospitals. While outwardly rejecting controls for other sectors of the economy, the federal government imposes on one industry its "inflation control" program. Citing hospital costs as rising faster than the Consumer Price Index, these advocates of expanded centralized control would set an amount for cost increases before mandatory federal controls would go into effect.

The proposed solution, by ignoring certain economic facts in the health field, would create more problems than it would solve.

It is a fallacy to compare the hospital cost increases with the rate of

increase of the Consumer Price Index. The comparison ignores two important factors in the health care field: (1) the provision of services to a growing population, and (2) the growth in "service intensive" costs including capital investment in diagnostic and remedial equipment. The great advances in medical services in the United States such as kidney transplants, cardiac surgery, and coronary care and burn treatment units have come about because the incentive has been available to develop and produce new medical technology. Better and more effective treatment increases the cost of specialized care; such a climate of freedom to develop new medicines and better machines for health care prevents stagnation in the health care field and brings about greater advances for mankind.

The United States devotes about nine percent of its Gross National Product to health care, a percentage similar to that of other countries like Germany, Sweden, and the Netherlands.² Despite the claims of some politicians that the poor in the United States do not receive adequate health care, Dr. Harry Schwartz of the research department of the Department of Surgery at the Columbia University College of Physicians and Surgeons has documented that the poor in the U.S. get on the average at least as much medical care from physicians

in hospitals as do those in higher income groups.³

Regulatory Measures

Restrictions on costs in patient care and on development of new health care equipment can lead to a rationing of health care. This rationing will place the best interest of a free people secondary to the cost policies of government bureaucrats.

Even in the hospitals where waste and inefficiencies exist, government-mandated controls will only have a limited effect because relative cost cuts will look impressive on the surface. It will be the efficient and cost-conscious hospitals which will be forced to cut costs to meet governmental guidelines—and the area for the quickest cost cutting will be in the area of serving patients.

A large measure of the health cost increases comes not from deficiencies in the free market but as a direct result of governmental controls. Personnel costs occupy a significant part of a hospital's budget, and government-mandated increases in the minimum wage have significantly increased costs in the hospital industry. Increasing governmental regulations through Medicare and Medicaid have placed additional costs on hospitals through an abundance of new regulations. A two-year study by the Hospital Association of New York state revealed that government reg-

ulation was a major factor in increasing health costs. This study, focusing on hospitals in the state of New York, estimated that twenty-five percent of hospital costs were attributable to meeting government regulatory requirements at an annual cost of one hundred fifteen million man hours or over one billion dollars per year! The report noted that each of four hospital departments (administration, personnel, social services, and utilization review) devote over fifty percent of their costs to complying with government-ordered regulations.⁴

Additional Government Controls

A careful examination of the health care industry shows a myriad of government controls which hamper the operation of the free market in medical care—and drive up costs for the consumers.

The federal government adopted the certificate-of-need program as a control mechanism to prevent hospitals from putting resources into "excessive investment" in health care facilities. The passage of Public Law 93-641 in 1974 required states to establish certificate-of-need programs in order to qualify for federal subsidies for health planning and other federal grant programs. What has been the result of this government cost control program? The program did not reduce the total dollars for hospital investment but merely

changed the direction from investing in hospital beds to investments in more sophisticated medical equipment. In addition, the certificate-of-need program failed to reduce substantially the rise in hospital costs per capita and to bring about any significant savings in health care costs.⁵

Government intervention in the medical market place brings decisions by government bureaucrats rather than medical experts. These government bureaucrats have added non-health criteria before even granting the certificates-of-need. In the District of Columbia, a private nonprofit hospital received approval for a renovation and modernization project only on the condition it would change the sexual and racial composition of its governing body. In New Jersey, an attempt was made to coerce a certificate-of-need applicant to allow an outside organization to select members of its governing body. In Colorado, a hospital was told its certificate-of-need would be granted only if the applicant reduced its number of obstetric and pediatric beds.⁶ All of these examples, as well as others, show that the certificate-of-need program has been used by government bureaucrats to do certain things which are unrelated to the original purposes of the program. These bureaucrats practice political medicine by imposing arbitrary and unfair requirements

on those hospitals which seek renovation, modernization, or additional facilities.

Professional Standards Review

Another government-promoted cost containment proposal led to the adoption of the Professional Standards Review Organization (PSRO) as part of Public Law 92-603 in 1972. The promoters of this reform sought to reduce unnecessary medical procedures while minimizing the length of stay in hospitals; they sought to encourage the use of outpatient and extended care facilities. The omnipotent government regulators aimed to accomplish this objective through a detailed review procedure in implementing the PSRO. However, studies by the Institute of Medicine and medical procedure experts concluded that PSROs had not appreciably reduced costs or brought about a significant improvement in the quality of care. In fact, the limited amount of savings appeared insufficient to cover the cost of the review process.⁷ Even government promoted tax incentives to employers to encourage individuals to buy health insurance policies have had the effect of promoting the buying of packages of health insurance without any careful analysis of needs or costs since the program is government subsidized.

During the very time a major ef-

fort was underway to promote the adoption of a hospital cost containment program, another branch of the Health, Education and Welfare complex issued preliminary regulations for a new government regulatory measure—the SHUR (System for Hospital Uniform Reporting) program. This totally new government-mandated method of keeping hospital records would have greatly increased administrative costs for all hospitals.

The other attempts to interfere with the free market in health care to contain costs have all been failures resulting in more regulations, additional costs, and a threat to the quality of medical care. It is assured that any hospital cost containment program will bring the same failure. One Congressman, Representative David E. Satterfield III of Virginia, predicted the failure of such a measure to his colleagues during debate on the bill on the floor of the U.S. House of Representatives:

It is not a bill which would contain hospital costs. It is a hospital revenue control bill, and the real growth in hospital revenues is not due to inflation. The only savings [this bill] could achieve would be through reduction in the amount and quality of hospital care made available to the American people.⁸

The Intervention Record

Those advocates of increased government power over the health field

prefer to ignore the lack of accomplishment and the new problems such intervention brings.

Voluntary efforts by the hospital industry succeeded in limiting the increases in health costs—a decrease from 15.6 per cent in 1977 to 13 per cent in 1978 and 13.4 per cent in 1979. Yet, the hospitals operated by the federal government experienced in 1977 a cost increase of between 19 and 22 per cent.

The federal government has a poor record in estimating and controlling costs even in programs it directly controls. The Department of Health, Education and Welfare estimated that the cost for Medicare hospitalization for the first year would be less than one billion dollars. The actual cost was three billion four hundred million dollars—more than three times the original estimated cost. The tenth year cost estimate was \$1.7 billion but actually was \$12.6 billion, or seven times the original estimate. The cost for Medicaid in 1977 was \$17.1 billion or more than sixteen times the original estimate.⁹ Viewing the Fiscal Year 1981 budget, the estimated outlays for Medicare are \$37.3 billion and \$15.9 billion for Medicaid.¹⁰

The evidence of experience with centralized medical systems such as those of Canada and Great Britain should be a lesson for Americans. While eliminating the price

barrier by a government controlled system, the government has caused the following long-term results: a net reduction of resources channeled to health care, an increase in the maldistribution of doctors, no new doctors produced, and no new hospitals built or even financed.¹¹ The lessons are clear that further intervention will increase, not decrease, health care problems. J. Enoch Powell, who served the British government as Minister of Health for three years, has pointed out that under a government-controlled medical system where demand is unlimited and where medical care is "free," there has to be a method to squeeze demand to equal supply:

In brutal simplicity, it has to be rationed; and to understand the methods of rationing is also essential for understanding Medicine and Politics. The task is not made easier by the political convention that the existence of any rationing at all must be strenuously denied. The public are encouraged to believe that rationing in medical care is immoral and repugnant. Consequently when they, and the medical profession too, come face to face in practice with the various forms of rationing to which the National Health Service must resort, the usual result is bewilderment, frustration and irritation.¹²

He noted that the people desiring medical care are put on the waiting list. If they are on long enough, they will die, usually from some cause

other than that for which they joined the line. Or, they "frequently get bored or better, and vanish."¹³

Conclusion

Government attempts to intervene further in the health field will erode the quality of medical care and will substitute bureaucratic decisions which should be made by health experts in the market place. Cost containment will result in "price control," leading to a rationing of health care. Considering the past record of governmental intervention in the health (and other) fields, the results will be negative and individual choice will be narrowed as the power of government is expanded in the decision-making process. Controls will not curb inflation or bring beneficial results to the U.S. economy; the prospect of failure is the same even if they are only applied to the hospital industry.

Emphasis needs to be placed on expanding the opportunity for competition in the health care field, not expanding government controls. The free market solution is to increase competition through such initiatives as certification of health providers rather than occupational licensure, repeal of fair practice laws, more advertising of services, and greater use (and direct reimbursement) of health professionals (e.g., nurse practitioners) and emphasis on preventive care and the

individual's responsibility to maintain his or her own health.¹⁴ When government administrators come forth with a complex set of interventionist measures to "solve" the government-created health care crisis, advocates of freedom need to resist and give these government planners the admonition: "Government, heal thyself." ☸

—FOOTNOTES—

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Arguments Against Socialized Medicine

IDEAS ON



LIBERTY

It is a mistake for the government to consider the problems of the sick apart from those of society as a whole. . . . The broader problem is, in a moral sense, one of promoting respect for the individual and the furtherance of initiative and self-providence; in an economic sense, one of increasing production for the benefit of *all* citizens; and in a political sense, one of removing government as a battlefield for special favor and substituting cohesion and solidarity for division and disintegration.



The Philosophy of Ludwig von Mises

AN invitation to speak at Grove City College is a great honor, doubly so, in that I've been asked to talk about Ludwig von Mises. But I am humbled when I contrast the size of the debt I owe to Mises with the meager gesture that is all I am able to offer as a token payment.

I had read Mises' major works before I met the man. I then had the rare privilege of getting to know one of the finest minds in our time, a man who belongs with the great masters of his discipline, Economics; a scholar who advanced that discipline in several particulars by his own genius. And not only that, Mises was an inspired teacher; from

the days of his celebrated Vienna Seminar almost till the end of his life, men and women sat at his feet, and some of them have become famous in their own right. The Misesian influence spreads and will continue to manifest itself.

Mises lived his active life during the first two-thirds of this century—a period of world turmoil which affected him personally and tragically, forcing him out of his native land and finally out of Europe, losing most of his precious library and other belongings in the course of his escape. Some refugee scholars came to America in the late thirties and early forties and we rolled out the red carpet for them. But not for Mises. Mises had set his entire life resolutely against the ideological absurdities of the twentieth century which produced the

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This article appears here, by permission, from a lecture of February 26, 1980 at Grove City College as part of a series in tribute to Ludwig von Mises and his work.

totalitarian upheavals in Europe, as well as the milder but related political and social events in America.

Those European intellectuals who had opposed European fascism and communism in the name of socialism were welcomed here by their domestic counterparts—American socialists, liberals and New Dealers. Lectureships, academic appointments and other honors were made available to them. With Mises it was different. His teachings were a threat to every variety of statism, whatever the label: communism, fascism, Naziism, state interventionism, national planning.

Communist and fascist gangs fought pitched battles in the streets of European cities, but these brawlers were really brothers under the skin; both were statists and collectivists. They fought each other for power; they hankered for the authority to put a nation under red shirts versus brown shirts versus black shirts. But they had a common enemy, and they knew it. The common enemy of all the totalitarians was the old-fashioned Whig philosophy, which, in the second quarter of the nineteenth century began calling itself "liberalism."

Classical Liberalism

Classical liberalism believed in liberty and justice for all; it severely restricted the role of government and politics; it stood for the Rule of

Law, private property, and the free market economy. It designed a set of rules which maximized every person's opportunity to pursue his personal goals; it worked for equal freedom by abolishing the legal privileges which had hitherto given some groups in society unfair advantages over others. It got rid of serfdom and slavery.

Mises was a liberal in this old-fashioned sense, at a time when the intellectual currents in Europe and America were nearly all moving in other directions. And so, his arrival in New York went almost without notice. But Mises did have readers in this country, and one of them was Henry Hazlitt, who had reviewed Mises' great book, *Socialism*, shortly after the English translation became available. Mises and Hazlitt had exchanged letters, and Hazlitt tells about receiving a phone call one day in 1940, a short time after Dr. and Mrs. Mises arrived in Manhattan. "The voice at the other end of the line," Hazlitt recalls, "said 'This is Ludwig Mises.' It had the same effect on me," Hazlitt continues, "as if the voice had said 'This is Adam Smith.'" Such—in the eyes of a select few—was the stature of the man who arrived in New York on the 2nd of August, 1940.

Cast your mind back about a quarter of a century, to the mid-fifties. Mises had been here for fifteen years, he had gained a number of

friends and his influence was spreading. Yale University had published his monumental *Human Action* and reprinted his *Theory of Money and Credit* and *Socialism*. These are among the great books of our time, although their time is yet to come.

The news began to filter down into the universities that here was a man of massive intellect and broad cultivation who had devoted a lifetime of rigorous thought to expounding and defending the free market economy—call it capitalism—together with its correlate, the old-fashioned liberal social philosophy. This was but the echo of a forgotten language on most campuses, where orthodoxy in the social sciences included central planning of the society and governmental regulation of the economy among its basic tenets. It occurred to several faculties that it might be a nice gesture in the direction of academic balance to give Mises an hour on campus to tell the students all about capitalism.

Mises has told us why he refused to accept these invitations. "Some of these teachers," he wrote, "try . . . to demonstrate their own impartiality by occasionally inviting a dissenting outsider to address their students. This is mere eyewash. One hour of sound economics against several years of indoctrination of errors!

"If it were possible to expound the operation of capitalism in one or two short addresses," he continued, "it

would be a waste of time to keep the students of economics for several years at the universities. It would be difficult to explain why voluminous textbooks have to be written about this subject. It is these reasons that impel me reluctantly to decline your kind invitation."

I am in perfect accord with the sentiments expressed in this letter of Mises; Mises' philosophy is not to be summarized; not in an hour, not in a semester. I shall not try; but if I succeed in intriguing even one person into reading *Human Action* who otherwise might have neglected it the purpose of this lecture will have been achieved.

Mises as a Man of Thought— A Man of Action

Ludwig von Mises was a man of action; but by action I do not mean "activity." As the world tends to judge activity, men of action are presidents, generals, explorers, mountaineers, race car drivers and the like. Mises' action was thought, and thought is the most intense form of action there is, and the most enduring. If some present day Emerson were to write an essay on *Man: As Thinker*, he could do no better than to hold up Mises as his exemplar. In Mises, thought and action joined, and were as one.

I do not mean to suggest that when Mises was asked to list his occupation he wrote in "Thinker," or

"Philosopher." I suspect he wrote "Economist." In popular understanding, an economist is someone who concerns himself with the workings of business, industry, and trade or one who forecasts the ups and downs of the stock market. Now, these are indeed important human concerns; and Mises did write several big books about production and distribution, capital and interest, money and credit, work and wages, the business cycle, and the several other topics dealt with in academic courses in economics. But Mises' thought and his writings ranged over the whole spectrum of knowledge, from epistemology to history; he wrote about human action over time—from the inner motivations which give rise to action to the remote consequences of a person's decision to act one way rather than another.

I used to walk past a store window in a town where I lived, in which was displayed a drawing of the old pirate symbol, a skull and crossbones. As you walked past this drawing of a death's-head it changed, all of a sudden, as if by magic, into the portrait of a lovely woman. Change perspective and things have an entirely different focus. Misesian economics represents a new focus; the subject matter changes from a mere bread-and-butter affair into an affair of the mind and spirit; economics deals

with valuing, purposeful, goal-seeking man.

"Production is not something physical, natural and external," writes Mises, "it is a spiritual and intellectual phenomenon. Its essential requisites are not human labor and external natural forces and things, but the decision of the mind to use these factors for the attainment of ends. . . . The material changes are the outcome of spiritual changes."

A Disposition Toward Freedom

Nearly everyone in the modern world has a disposition toward freedom, and this disposition is powerfully strengthened by the Christian philosophy. Nevertheless, freedom lives precariously in our time in the few places where it survives at all. Freedom may be lost because people do not care enough for it, but that is not our trouble. We want it, but perversely we try to implement freedom by social policies which inhibit and destroy it. There is an anti-economic mentality; it is a refusal to face up to the way-things-are in this significant portion of the human situation.

The theologian may give lip service to the idea of God's overlordship of the whole of life yet in practice refuse to admit the existence of an economic realm in which prevails a regularity of phenomena to which he must adjust his action. Man may

try to deny his creaturehood in this area, and think to annul economic laws by statute. But if there are regularities here, man must reckon with them; or they will have their reckoning with him.

It is a fact of the human situation as such—regardless of the nature of the social order—that mankind does not find, ready-made in its natural environment, the wherewithal to feed, house, and clothe itself. There are raw materials only, and most of these are not capable of satisfying human needs until someone works over these natural resources and transforms them into consumable goods. Man learns to cooperate with nature and make use of natural forces to serve his ends. He has to work in order to survive. Work is built into the human situation; the things by which we live do not come into existence unless someone grows them, harvests them, manufactures them, builds them, transports them.

Learning to Economize

Work is irksome and things are scarce, so people must learn to economize and avoid waste. They invent laborsaving devices; they manufacture tools, they specialize and exchange the fruits of their specialization. They learn to get along with each other, our natural sociability reinforced by the discovery that the division of labor benefits all. Division of labor and volun-

tary exchange constitute the market place, which is the greatest labor-saving device of all.

"This division of labor, from which so many advantages are derived," wrote Adam Smith, "is not originally the effect of any human wisdom which foresees and intends that general opulence to which it gives occasion. It is the necessary, though very slow and gradual, consequence of a certain propensity in human nature . . . the propensity to truck, barter, and exchange one thing for another. . . . It is common to all men, and to be found in no other race of animals."

The longest journey must begin with a single step, and it is a very long journey that leads from those primitive beginnings to the complex economic order of our time. But at every step along the way there is that human need to cope with scarcity, to satisfy creaturely needs, to provide for material well-being. And it is just as true now as it ever was that human labor is required before goods appear, and that prosperity depends upon productivity.

Signs of the Market

The visible signs of our economic activities are all about us; factories, stores, offices, farms, mines, transportation systems, power plants, and so on. These are the locations where work is performed, things transformed, services rendered, goods

exchanged, wages earned, money spent. This is the economy, and the hallmark of the free society is that the economy is not under governmental control; politicians do not regulate the economy, consumers regulate the economy by their buying habits. The billions of consumer decisions made daily in the market place to buy or not to buy determine what goods will be produced, in what quantities, sizes and colors. Consumers, by their market-place decisions, determine who shall stay in business, and how large and prosperous a business shall be. The changing needs, desires, and tastes of consumers regulate wages and salaries. If an entrepreneur makes a profit it is a sign that consumers approve of the services he renders them. In the market place the consumer is sovereign.

The free society has an indispensable role for government. The law, in a society of free people, protects the life, liberty, and property of all persons alike, ensuring peaceful conditions within the community. Government performs as an impartial umpire, by interpreting and enforcing the previously agreed upon rules. A free society endeavors to secure and preserve freedom of personal action within the rules, and the rules are designed to maximize liberty and opportunity for everyone.

Government, in the interest of

maximum freedom, uses lawful force against criminals in order that peaceful citizens may go about their business. The use of lawful force against criminals for the protection of the innocent is the earmark of a properly limited government, and it stands in utter contrast to the state's use of tyrannical force on peaceful citizens—whatever the excuse for such action. It's the contrast between defensive force and aggressive violence; it's the rule of law versus oppression.

Laissez-faire Capitalism

In a society where people are free the economic order is referred to as capitalistic. Some prefer to call it the market economy, or the private property order. Laissez-faire capitalism—when the term is shorn of the pejorative connotations that opponents have injected into it—laissez-faire capitalism is the ideal of individual liberty and voluntary association applied to the workaday economic world. It is the economic counterpart of a social order where individual persons have maximum latitude to pursue their personal goals.

Mises believed in the unhampered market economy, and with enormous erudition in several large volumes he expounded the operations of this intricate system. Starting with the self-evident truth that people would rather be more prosperous

than less prosperous, other things being equal, Mises demonstrated with devastating logic that every political interference with the market hurts some people and makes the entire society poorer. The way to make the nation richer and benefit everyone is to turn the market loose; remove every obstruction that interferes with people's freedom in the market place and the nation's wealth will be maximized. There is no way to upgrade the general welfare except by increasing productivity, and a free people is more productive than a politically regulated people.

Political Intervention

Government is not an economic institution; government is a political institution, and there's no way that you can employ a political means to accomplish an economic end. All political interventions can do is transfer wealth from one set of people to another set; political action does not produce the wealth it redistributes. Furthermore, government is society's power structure, and when the government uses a power play to garnishee wealth from producers it will redistribute that wealth to those who possess enough political clout to go to Washington and lobby for subsidies. And this will not be the poor.

The welfare state operates, ostensibly, for the benefit of "the poor,"

but "the poor" are in reality its principal victims. Every economic program launched by government defeats the purposes for which the program is proposed. For example, government embarks on a vast public housing project, and Mises demonstrates that the end result will be a misallocation of resources and fewer housing units than would be available were housing left to the market.

The welfare state is a misnomer; a more apt label for what we have is the provider state. The theory back of the provider state is that government will supply the material wants of the people by way of food stamps, public housing, free schooling, medical care, direct relief, or whatever.

Now, the government has nothing of its own to give away so what it gives to Peter it must have first taken from Paul. The government takes from producers a portion of everything they manufacture or grow, and it takes a portion of everything people earn by rendering services of one kind or another. The government redistributes a portion of the wealth siphoned into its coffers by taxation, and thus another accurate label for the kind of government we now have is the redistributive state. The market place allocates rewards peacefully, and then government forcibly reshuffles the original apportionments.

It goes without saying that the

market place does not always proportion reward to merit. But the state is not a meritocracy either! The populace, when free, rewards its heroes, and they may not be yours. On the other hand, the market place never punishes merit; the rack, the wheel, and the stake are exclusively instruments of the state. If the state is allowed autocratic power in the market place it will curb freedom everywhere else.

If the mood of the citizens is to demand or accept government handouts a new breed of politicians will emerge, soliciting votes on the promise of more government largess to satisfy the demands of the various pressure groups and lobbies. The siren song is: Vote yourself a raise in pay, or vote yourself better housing, cheaper food, free medical care, and the like.

What Government Gives, It Must First Take Away

Now we know that this world of ours is not run along the lines of something-for-nothing; there is always a *quid pro quo*. If government gives you something-for-nothing or something-for-less, it is obvious that this same government is forcing some of your fellow citizens to take nothing-for-something, or less-for-something. Your gain is another's loss; you are living at the expense of someone else. Other people are being victimized for an assumed

benefit you enjoy. This is unfair; it is immoral.

The ethical code is violated whenever you pick another person's pocket or steal his purse, and the violation is compounded when you do it legally, that is, when you allow government to do your thieving for you. But only a people with larceny in their souls will write a form of theft into their statutes. Some cynic has suggested that robbery is the first laborsaving device. He's at least half right. And if people do covet their neighbor's property they will surely find legal ways to get their hands on it, and conscience will bend around to approve.

An exclusive preoccupation with economizing may lead some people to neglect ethical and other considerations in their single-minded drive to have their own way, to succeed, to get more for less—more reward for less effort; maximum gain, regardless; something for nothing, whenever possible. So economic science, from the very beginning, has been joined symbiotically to a philosophy of society called Whiggism or Whiggery in the eighteenth century, later to adopt a more fitting label, liberalism. The term, Whig, derives from Whiggamore, a label contemptuously applied to some of the seventeenth-century English Dissenters and Nonconformists who led the opposition to the court party. Adam Smith was a Whig, so was

Edmund Burke, and so were most of the men we speak of as Founding Fathers. The Whig Party of England became the Liberal Party in 1829.

The Wealth of Nations

Adam Smith, writing in 1776, described the prevailing "mercantile system, in its nature and essence a system of restraint and regulation." In contrast to this "system of restraint and regulation" Adam Smith offered "the liberal plan of equality, liberty and justice." These words of Adam Smith shed a good deal of light on our efforts to understand what men like Mises mean by "laissez-faire capitalism."

Laissez faire has never meant a free-for-all; capitalism has never implied the absence of rules. Adam Smith does speak of "allowing every man to pursue his own interest in his own way," and if those words are lifted out of context they do suggest a desperate no-holds-barred, rough and tumble struggle for money and power. But when we know that these two lines I have quoted from Smith follow one another in the same sentence his meaning is unmistakable. He is advocating a society based on equality, liberty and justice.

Once you have a society whose rules are designed to offer equal justice for all persons, then everyone is free to pursue his personal goals. This is the free society of classical

liberalism, and the free economy—or capitalism—is the only way a free people can conduct their economic affairs.

Spiritual Foundation

Classical liberalism presupposes a religious philosophy which regards man as a created being who bears a unique relation to God, being formed in His image—meaning that man possesses free will and the ability to initiate and command his own actions. This free being is under the moral law laid down in the original constitution of things, responsible for discovering this law and obeying it. He is given dominion over the earth. He is commanded to work in order that he might eat; he is the steward of the earth's scarce resources and held accountable for their economic use.

Classical liberalism, in other words, is the secular projection of Christian philosophy. The American Dream, as Jacques Maritain put it, kept "alive, in human history, a fraternal recognition of the dignity of man—in other words, the terrestrial hope of man (expressed) in the Gospel." The thing called "liberalism" today, bears no resemblance whatsoever to classical liberalism; it has nothing in common with the Whiggism of Adam Smith or the liberalism of Ludwig von Mises.

Mises wrote a book entitled *Liberalism*, describing liberalism as

"a doctrine directed entirely towards the conduct of men in this world . . . it has nothing else in view than the advancement of their outward, material welfare and does not concern itself directly with their inner, spiritual and metaphysical needs."

A Deeper Meaning

Now, some critics of classical liberalism have judged it to be crass, too neglectful of man's higher nature. Not so, says Mises: "The critics who speak in this vein show only that they have a very imperfect and materialistic conception of these higher and nobler needs. Social policy with the means that are at its disposal, can make men rich or poor, but it can never succeed in making them happy or in satisfying their inmost yearnings. . . . All that social policy can do is . . . further a system that feeds the hungry, clothes the naked, and houses the homeless. Happiness and contentment do not depend on food, clothing and shelter, but, above all, on what a man cherishes within himself. It is not from disdain of spiritual goods that liberalism concerns itself exclusively with man's material well-being, but from a conviction that what is highest and deepest in man cannot be touched by any outward regulation."

Mises further describes some of the central principles of classical liberalism as individual liberty,

equal treatment under the law, and the elimination of class privileges; private property, the free market, free trade, and the peaceful cooperation of all mankind. Most Americans still respond positively to these ideals because they are part of our heritage inscribed in our basic documents, celebrated on patriotic holidays.

Man has an innate urge to live better, including the drive to improve his material circumstances and enjoy more prosperity. To this end he has always engaged in some degree of specialization, and he's traded and bartered things he wants less for whatever it is he wants more. These voluntary exchanges are market transactions.

The Cultural Framework

The market has always existed; voluntary exchanges occur among primitive peoples, and there is a brisk under-the-counter market in communist nations like Russia and China. But mere wishes do not transform the market into the market economy. The market economy emerges only when the cultural conditions prepare the ground for it, as was the situation in certain western nations in the eighteenth century.

When a nation's cultural framework includes such spiritual ingredients as the rule of law, equal liberty, security for property, a high

level of morality, and that respect for rationality which makes science and technology possible, then the impulses and incentives which everywhere produce the market will give rise to capitalism, or the market economy—which is the market institutionalized.

"The reformers of the oriental peoples want to secure for their fellow citizens the material well-being that the Western nations enjoy," writes Mises, "... they think that all that is needed ... is the introduction of European and Western technology." What they really need, Mises continues, is "the social order which in addition to other achievements has generated this technological knowledge. ... The East is foreign to the Western spirit that has created capitalism."

How can a society whose worldview includes such doctrines as Maya, karma and caste produce the social structure upon which the market economy is based? Accept the idea of Maya and you exclude the idea of a rationally structured, cause and effect universe. The doctrine of karma makes it virtually impossible for individuals to have the necessary self-responsibility and will to succeed which are essentials for a going-concern economy. And caste divisions in a society are incompatible with the idea of inherent rights and equality before the law. Capitalism is rooted in the cultural

heritage of the West, Christendom, and you can't have the fruits without the roots; you cannot merely *wish* an end result—to will the end is to will the means.

A Creative Intelligence

The pivot on which Western culture has turned is the conviction that a Creative Intelligence is working out its purposes through nature, history and persons; and that every individual enjoys a unique relationship with this Power. Because he is a created being, there is a sacred essence in man, which, in the fullness of time was understood as conferring certain rights and immunities in the political sphere.

By the eighteenth century, our philosophical forebears regarded as self-evident the truth that all men are created equal, possessing certain rights endowed by the Creator. Government was to be structured around the sovereign person so as to secure his rights and protect his private domain. Americans organized themselves politically around a spiritual framework which, paradoxically, regarded politics as relatively unimportant. The law was to protect life, liberty and property, so that men and women could better attend to the more important things in life—such as religion, art, education, science, sociability and play.

The philosopher-king idea had

prevailed in most ages: Find the wisest and best men and then give them power over the nation so as to magnify their capacity to do good. The American notion was just the opposite. Americans had had some experience of the corrupting influence of power, and they were aware of the depravity of human nature—that man is a fallen creature. So the brand new political idea adumbrated on these shores was to limit political power so drastically that even if evil men do seize power they can't do much harm. I'd phrase their insight this way: Never advocate any more power for your best friends than you would want to have wielded by your worst enemies.

The Political and Economic Aspects of Freedom

Two centuries ago things came to a head, in two great social achievements. In the Declaration of Independence and Constitution we had the political philosophy and the legal structures for a society of free people. The economic counterpart of our unique politics was the free economy, which promised a society of prosperous people.

But at this very period, Western civilization was to undergo a process of radical secularization which virtually destroyed the ideas of human nature and destiny which undergirded our freedom and prosperity. The human person underwent a rad-

ical devaluation; once regarded as the lord of creation he came to be looked upon as the accidental end product of natural and social forces—"little more than a chance deposit on the surface of the world, carelessly thrown up between two ice ages by the same forces that rust iron and ripen corn."

Gone was the idea of a moral law for man's guidance and fulfillment; gone was the idea of free will: a man's character was not made *by* him, but *for* him. Man was the mere creature of circumstance, deprived of initiative, he could not act, he could only react.

An English critic named Christopher Booker, writing on Samuel Johnson, makes reference to this enormous transformation in the human outlook. "On the eve of the French Revolution and the age of Romanticism, European civilization stood on the verge of one of the most astonishing and fundamental shifts in collective consciousness in history—the keynote of which was to be an almost exact reversal of every truth about human nature and experience which Johnson had fought through to with such remorseless honesty and pain . . . it was proclaimed that human happiness *could* be achieved by political means, that the causes of most human ills did not lie within us, but outside us. If there was one belief which was to characterize western

civilization with ever increasing force from the time Johnson passed away, it was that most human suffering is caused by external factors. In Marx, in Freud, in almost every philosopher and thinker who has shaped western attitudes over the past two hundred years (with one or two towering exceptions, such as Dostoevsky), we find this same overpowering drive to offload the blame for all our guilt, our pain, onto others, onto society, onto our parents, onto political structures, onto our material circumstances." (*The American Spectator*, October, 1978.)

The Consequences of Error

The religious and philosophical errors of the eighteenth and nineteenth centuries produced the social and personal disasters of the twentieth century—faulty thinking and fallacious ideas have come to violent issue in the wars of our time. We tried, and we erred; but we can learn from our mistakes. Try a new direction, and we may succeed. Indeed, we are succeeding as more and more thoughtful people examine the philosophy of freedom in its several

dimensions and deeper levels. And as they search, more and more people are encountering the towering figure of Ludwig von Mises. Here was a man of unwavering integrity, a man who lived the truths he taught.

It is impossible to summarize the philosophy of Ludwig von Mises, but I shall close with what might be construed as a personal testimony by Mises himself, which does sum up the character of the man. It is a paragraph from his little book *Bureaucracy*.

"Mankind would never have reached the present state of civilization without heroism and self-sacrifice on the part of an elite. Every step forward on the way toward an improvement of moral conditions has been an achievement of men who were ready to sacrifice their own well-being, their health, and their lives for the sake of a cause that they considered just and beneficial. They did what they considered their duty without bothering whether they themselves would not be victimized. These people did not work for the sake of reward, they served their cause unto death." ®

Books by Mises

Of the numerous volumes written by and about this outstanding economist, a dozen or more are stocked for resale by: The Foundation for Economic Education, Inc., Irvington-on-Hudson, N.Y. 10533.

Ask for "A Literature of Freedom" catalogue and order form.

THE SQUEEZE

JAMES DALE DAVIDSON, the chairman of the National Taxpayers Union, is a forceful man of action, as those who have watched his efforts in behalf of a constitutional convention to balance the budget are well aware. He is also a true man of letters. His *The Squeeze* (Summit Books, 1230 Avenue of the Americas, New York, N.Y. 10020, 281 pp., \$11.95) is both a trenchant and witty analysis of what happens when the money system of a great country goes sour and an item-by-item prescription for dealing with ills that are most uncomfortably close to reaching a point of no return.

We are, says Mr. Davidson, victimized by nine separate squeezes (he lists them as money, taxes, quality, underemployment, health-care, housing, legal, bureaucratic and energy), though it is obvious that all of them derive from the central fallacy that money is something that

should be under the control of politicians. Since Mr. Davidson's concern here is not with international politics, he does not mention the biggest squeeze of all, which is the one exerted by the Russian bear hug. That, however, is the unspoken part of his picture; if we don't do something about the nine domestic squeezes, our general debility will be such that the bear hug will get us with only a perfunctory effort on the part of the bear.

Mr. Davidson's theory is that most of our woes derive from a system that allows the government an extreme latitude in monetizing its debt. This results in an ever-accelerating emission of paper which represents no production. What happens is that Say's Law—the law that says production creates its own purchasing power in the form of wages, payments for raw materials, dividends and interest—is sabotaged. The money created by

political fiat enters the bidding stream, disrupting the closed circuit of J. B. Say's truism.

The original beneficiaries of the government's paper emissions—such as bureaucrats, government contractors—cash in before the general populace is aware that the signals of exchange have been distorted. What Mr. Davidson calls the "information deficit" could be avoided if the federal budget were balanced. With government income equaling government outgo, there would be no need for the federal borrowing that creates "securities" that can be used as the basis for inflationary bank credits.

Balancing the budget, however, would not be enough to rid ourselves of the nine squeezes. Theoretically, the budget would be in balance if the government were to tax the underlying population at 100 percent, giving back to people whatever it chose to leave to individual discretion in spending. There would, of course, be no production under such a dispensation, for the incentives to invest and earn would be nil. It is obvious, then, that the place where the budget is balanced is all-important. Mr. Davidson recognizes this when he gets to talking about the "three species of capital."

Three Forms of Capital

The individual trying to get along in the world has three choices. He

can, says Mr. Davidson, throw in his lot with productive capital, which was the way favored by the nineteenth century. But in an inflationary age, with productive capital earning little if anything in excess of the inflationary gap, the temptation is to divert one's wealth into static capital (i.e., gold, silver, diamonds, works of art). Finally, with the growth of the State, there is a third alternative. Financial writer Scott Burns has used the phrase "transcendental capital" to describe the right of those favored by politicians to latch on to money laid out by the government in one form or another. Bureaucrats, of course, are prime beneficiaries of transcendental capital. But the Chrysler Corporation, which is attempting to avoid bankruptcy by applying to Washington, is seeking a transcendental-capital claim to a cash-flow that the market has denied to it.

Inflation means less money for productive capitalists for the simple reason that people can do better for themselves by seeking a store of value in precious metals, fallow land and old masterpieces. Those who lack capital to put into static forms will, of course, be tempted to settle for bureaucratic employment that carries with it all sorts of perquisites. The typical federal employee, says Mr. Davidson, receives almost twice as much vacation pay—\$1,140—as the typical employee of

business—\$636. And government sick leave is more than 200 percent more generous than that provided by most private firms.

The illusions that one can permanently better one's self by betting on the market for old masterpieces or latching on to an early-retirement government pension must, at some point, be shattered. For it is productive capital that provides the money needed to keep people housed, fed and clothed. When the productive side of the economy falters, general impoverishment results. So it is important to balance the budget at a point that will leave plenty of money in the hands of producers. We need, in addition to a constitutional amendment to balance the budget, an overall limitation on the percentage of the gross national product that politicians are entitled to seize. When they grab more than thirty percent of the GNP the result is chronic stagflation.

Interventions That Fail

Mr. Davidson's treatment of the nine squeezes is generally brilliant. He warns us that any effort to halt inflationary price rises by compulsory wage and price controls will result in a severe quality depreciation. Enterprisers who are forbidden to pass the cost of qualitative improvement along to the buyer will simply degrade their wares. It is the only way that bankruptcy can be

avoided in a controlled economy.

We have a health-care squeeze, says Mr. Davidson, because the monopoly achieved by our doctors precludes experimentation with "paramedics" who are perfectly qualified to do hospital work without spending four years in medical school to get a physician's license. We have a housing squeeze because building codes and zoning regulations deprive people of the right to make their own decisions about how and where to build. We have a bureaucratic squeeze because of the built-in incentives that federal commissions and bureaus have to extend their empires. We have an energy squeeze because it is profitable for government to create crises that can be used to extend the reach of the professional allocator and price fixer.

Accepting the "imperative" to free productive capital, Mr. Davidson urges people to strike out for themselves as their ancestors did when they built sod houses on the prairie. He wants to see a compulsory budget-balancing amendment combined with a provision for proportional taxation. He favors a redeemable currency based on silver and gold. He would abolish capital gains taxes. He would do away with monopoly forms of medical licensing. He does not say that lawyers should be denied the right to enter Congress, but he does think that

voters should be aware that if they send a lawyer to represent them he will have a vested professional interest in passing more complicated laws.

Finally, Mr. Davidson would limit government service. This would force people to give up their transcendental right to squeeze the productive side of the economy for a lifetime.

All in all, Mr. Davidson has written a great book. It is both analytic and constructive, in a heartening blend that allows for just enough optimism to have a creative effect. ☉

LAW, LEGISLATION AND LIBERTY, Volume 3: The Political Order of a Free People

by F. A. Hayek

(The University of Chicago Press, 5801 S. Ellis Ave., Chicago, Ill. 60637)
244 pages ■ \$14.00 cloth

Reviewed by Paul Westman

F. A. HAYEK, 1974 Nobel laureate in economics, is the foremost living exponent of classical liberalism, the philosophy which largely dominated economic and political thinking and policies during the nineteenth century in Great Britain, America, and to a large extent the Continent—until World War I.

The ideal of classical liberalism was individual liberty, promoted

through limited government and the free market. Among Hayek's intellectual forebears, as the footnotes to this volume testify, are John Locke, David Hume, Adam Smith and John Stuart Mill.

The aim of the volume under review is to provide "a guide out of the process of degeneration of the existing form of government, and to construct an intellectual emergency equipment which will be available when we have no choice but to replace the tottering structure by some better edifice rather than resort in despair to some sort of dictatorial regime."

He continues, "Government is of necessity the product of intellectual design. If we can give it a shape in which it provides a beneficial framework for the growth of society, without giving to any one power to control this growth in the particular, we may well hope to see the growth of civilization continue."

In 1960 Hayek wrote *The Constitution of Liberty*, a major attempt to restate the principles of classical liberalism for modern readers. *Law, Legislation and Liberty* in three slender volumes, was intended to fill the gaps left by that work, but is actually a comprehensive philosophical statement in its own right.

The first volume in the series, *Rules and Order* (1973), deals with the distinction between legislative law and natural or "grown" law, and

its implications for freedom. Volume 2, *The Mirage of Social Justice* (1976), attacks the widespread contemporary belief in political redistribution and "social justice" (the latter a myth, Hayek argues).

Hayek argues persuasively that modern society has destroyed the original conception of the legislature, and that as a consequence there has been a miscarriage of the democratic ideal. Ours has become a "bargaining democracy," in which government is little more than the football of special interests.

In tracing precisely how and why this situation arose, Hayek confronts the central flaw of modern democracy: the notion of government as sugar daddy, confiscating income and doling it out to those with the greatest political clout. To halt this destructive process, Hayek urges "the containment of power and the dethronement of politics," together with the rules which permit the formation of a "spontaneous order" in which law is king and government has neither a mandate nor the power to achieve particular—as opposed to general—ends. He logically demonstrates the inconsistency of a centralized, governmentally-controlled society with freedom. The two, he insists, are incompatible.

Hayek's astounding intellectual range encompasses politics, philosophy, economics, anthropology,

sociology and the history of ideas. His language is nontechnical, possessing clarity of style and thought. The book has a consistency, brilliance, insight and accessibility rarely found among thinkers of any age, much less our own. Reading Hayek is a bracing experience, something like the intellectual equivalent of drinking from a cold, clear brook. 

POWER GRAB: THE CONSERVER CULT AND THE COMING ENERGY CATASTROPHE

by James A. Weber

(Arlington House, 333 Post Road West,
Westport, Connecticut 06880) 1979
407 pages ■ \$12.95 cloth

Reviewed by Tommy W. Rogers

THE author contends that the energy crisis confronting the United States today is not due to insurmountable scientific or technical problems, nor is it the result of dwindling energy sources. The energy crisis is in large measure attributed to a power grab by an ideological "Conserver Cult," which serves a variety of constituents ranging from utopians envisioning a low-energy, low-technology future to those who would erect a totalitarian police state in the present. Since the United States must either grow in domestic energy use or go down the drain of history for lack of energy

capabilities, the wrong energy policy would be catastrophic in its result for the American people.

The Conserver Cult is said to be fueled by the aversion of elite, upper class members of society to anything which might adversely affect their positions and comforts, including advancement of people lower than themselves on the socio-economic ladder. Having already attained a high standard of living, most of the conserver cultists see little gain for themselves if others should improve their economic standard. Those who can afford the hot tub under the trees, pastoral sequestration, and installation of solar energy provisions may find it virtuous for others to trim the fat off their hoped-for consumption; but note that the clamor for doing without energy is not heard from blacks, the poor, the elderly, or the retirees—people for whom self-denial is imposed as a steady, grinding, daily way of life.

It is, of course, one thing to select a lifestyle for oneself, quite another thing to impose a lifestyle on someone else who neither chooses nor desires it. What changes would the Conserver Cult impose on America? Mr. Weber quotes a recommendation—typical of its silliness—of a "Low Energy Scenario for the United States: 1975-2050," which envisions the "phase out of fast food services and other 'junk' commerce. The popular fact that McDonald's

hamburger chain uses enough energy a year—largely for packaging—to provide electricity for the cities of Pittsburgh, Boston, Washington, and San Francisco illustrates the American penchant for throwaway containers." Defending the youngsters who happen to like hamburgers with all the trimmings, Weber asks, "Who would have thought that Ronald McDonald was an enemy of the people?"

Weber comes to factual grips with such issues as the Carter policy on energy, the realities of "hard" energy and "soft" energy, energy and environment, energy and safety, energy and price controls, energy and conservation, the turning off of growth in the production of domestic energy in the United States, and the motivation of the elitist elements who would summarily turn off growth in hard energy production.

Insofar as government has instituted laws, regulations and controls which have retarded energy development, it has hurt the American public by denying them needed and vital energy resources. The author examines the techniques, vision, ideology, and programs of those who would squelch energy production, and provides a convincing argument that "the price of the Conserver Cult utopia is not only the throttling of future energy production but the end of our free society." ☉

the Freeman

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INTERNATIONAL TERRORISM: THE DEADLIEST PLAGUE

GOVERNMENTS around the globe today shudder in the grip of a violent force as ancient as that which took the life of biblical Abel. One after another, nations are shutting down normal channels of international diplomacy and replacing them with the brutal tactics of terrorism and war. Both advanced and primitive social orders lurch from crisis to crisis, eventually being wrenched asunder by rebellious forces who sprout humanistic rhetoric while slaughtering all who oppose them.

These forces are often terrorists and they speak with the voice of guns. They claim to be advance cadres of liberation armies but their intent appears to be to liberate hu-

manity from any trace of the veneer of civilization which still exists.

What are the roots of terrorism? Why have terrorist tactics so thoroughly saturated modern political behavior? Is there any possibility of restoration of less violent modes of persuasion or is our time destined to sink beneath a morass of mutual slaughter? These questions hang in the wind, haunting our era. Unless answers are found, and soon, the fire of terrorism may decimate the entire civilized world.

Epidemics race through susceptible populations, leaving death and disability in their wake. If the epidemic is virulent enough or host resistance low enough, entire nations may fall and in retrospect only is it then labeled a plague. The historical record acknowledges plagues caused by infectious micro-

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organisms but mistakes those caused by infectious ideas for other things. They are called wars, or crusades, or invasions, or migrations, or a host of other names which disguise the infectious origin of the ideas which precipitated the events considered.

Virulent, destructive ideas resemble infectious micro-organisms in that they do not disappear—the host organisms merely develop resistance. The original Black Plague bacillus is still with humanity, waiting for the conditions to recur which once allowed it to run amuck. So is the polio virus, the syphilis spirochete and the tuberculosis bacterium. In a similar way, Hitler's ideas on racial superiority are still around and still causing problems.

Ideas Have Consequences

The epidemic of terrorism now with us is the natural and inevitable consequence of ideologies almost universally endorsed and supported by existing governments and dominant institutions. This is especially true of institutions of higher education. The more these ideologies proliferate and the more complete their societal implementation, the more likely are they to result in the destruction of all existing governments, social orders and institutions. This includes, but is not limited to, institutions of higher education.

The apparently diverse mix of ideas which have linked to spawn terrorism appear more similar in what they deny than in what they advocate. Marxism, hedonism and determinism all agree that man or his creations (the state or social order) are the ultimate arbiters of individual behavior. In so doing they deny the existence and preeminence of a source of behavioral standards external to the mind of man. That could be a suicidal mistake.

The significance of this denial of an external primary source of morality is that morality must then spring from subjective sources. Social orders which take this first step seal their own fate, only the manner of death is in question, for the First Rule of government is thereby abandoned. That rule is that government must serve the common good. If this rule of right is lost in a culture it is but a matter of time before all traces of that culture sink into the abyss of timeless anonymity.

When confusion and subjectivity enter a social order and the common good is no longer self-evident, then that society is in danger of extinction. But what is the common good? Merely that which has stood the test of time as being fair and equitable. This also defines justice, and for justice to serve its function properly it should be a concrete, recognizable and objective principle. The appro-

priate implementation of justice, then, is based upon the common acceptance of objective principles of behavior—or upon morality.

As is obvious, searching for a definition of morality, justice or the common good becomes an exercise in circuitous logic *unless* a reality which precedes and is independent of man's mind is acknowledged. Such a reality, whether it is labeled God, Tao, the natural order or whatever, is precisely what modern man-centered ideologies deny. This denial has helped to bring on the current plague of terrorism, and until this truth is recognized by enough thinking men we will remain infected by this virulent force.

The Rule of Expedience

When the rule of right is abandoned, it is most often replaced by the rule of expedience. Whose expedience? If the expedience of the wealthy few, then we have oligarchy, if the state bureaucracy itself, then we have socialism. In any case, the rule of right is defunct and replaced by a subjective code implemented through the use of coercive tactics. This is the rule of force and the rule of force is lawlessness: it says that you may do whatever you please to your neighbor, provided your weapons are more numerous and deadlier than his.

In such circumstances any force that works will receive societal

sanction, for standards of morality are no longer applicable. Can it be true that even the U.S., born of the Constitution and nurtured on the principles of the Bible, has succumbed to the rule of force? Let us examine the evidence.

In her 1957 book *Atlas Shrugged*, author Ayn Rand defined appropriate government as follows, "The only proper functions of a government are: the police, to protect you from criminals; the army, to protect you from foreign invaders; and the courts, to protect your property and contracts from breach or fraud by others, to settle disputes by rational rules, according to *objective law*."

This is a definition that appears to resemble the ideal that the U.S. founding fathers had in mind when the Constitution and Bill of Rights were drafted and implemented. It endorses a concept of limited government intervention in the affairs of citizens. In the same work quoted above, Rand goes on to describe her version of a government gone berserk.

"But a government that *initiates* the employment of force against men who had forced no one . . . is a nightmare infernal machine designed to annihilate morality. Such a government reverses its only moral purpose and switches from the role of protector to the role of man's deadliest enemy, from the role of policeman to the role of a

criminal vested with the right to the wielding of violence against victims deprived of the right of self-defense."

Violation of Property

It is especially inimical to liberty and justice if government fails to respect private property. So it follows that if government uses coercion to extract private property or wealth from one citizen in order to distribute it to another it has abandoned the rule of right in favor of the rule of force. The victims are the inventive, productive, thinking minority who have been hoodwinked into accepting an ideology which betrays their minds.

All property and all forms of wealth are produced by man's mind and his directed, purposeful labor. In a free society, each productive person has the right to determine the disposition of his own property (wealth, products, services). Totalitarian societies, on the other hand, often forcefully take property away from individuals and dispense it as the government sees fit.

It does not make the government any less evil or totalitarian if it dispenses such forcefully looted property to other needy citizens, other needy countries, or simply retains it within its own coffers. The common good has been breached, for coercion was used to take private property from a productive citizen. The basic premise of the ideology of

Marxist socialism is, "from each according to his ability, to each according to his need." This premise thus appears to fly in the face of the rule of justice.

A state which implements this socialist premise will use force if necessary to take assets from the productive and distribute them to the indolent. Do the income tax and welfare systems accomplish this end? Does my neighbor's need entitle him to use a gun to remove food from my table? Does handing the gun to an agent of the state make the actual act of armed robbery less evil?

Forms of Lawlessness

The use of force to accomplish ends not in the interest of the common good is lawlessness, whether done in the name of a national government or a so-called Liberation Front. The use of the process of education to inculcate abandonment of morality endorses lawlessness whether accomplished with government funds in modern colleges or in jungle huts in Africa. The use of public funds to purchase murder is lawlessness whether it buys the firing squads of Ayatollah Khomeini or the suction catheters of the abortionists.

When enough Americans learn to recognize identities, we will understand why terrorism is sweeping the globe. The Marxist ideology which

saturates the halls of higher education both here and abroad endorses the rule of force and abandons the rule of justice when it disavows private property. It places the mythical state in the place of God, and in so doing replaces the rule of objective morality with the rule of subjective expedience. Such a system denies something very basic to the human being and results in destruction and dissolution, not love and sharing.

The something basic that is crushed is very likely the spirit within, which requires a moral environment in order to achieve expression. Individualists are compelled to flee or rebel against a social system which demands conformity, for mindless conformity is alien to their personalities. Some, the terrorists, are fascinated by and drawn to violent rebellion. They are the lawless breed spawned by governments which have abandoned the rule of right in favor of the rule of force.

So that is quite possibly why onlookers experience ambivalence to terrorist scenarios. When two lawless gangs engage in combat the result is entertainment, *not* a moral conflict. From the murder of the Israeli athletes at the 1972 Munich Olympics to the current stalemate in Iran, one glaring theme prevails: terrorism is theater. It seems just and fitting that an era so hypnotized by the myopic, numbing gaze of

television should bring into being outlaws who gauge their effectiveness by the amount of prime-time coverage they garner.

A Barrage of Violence

Day after day, sacraments of violence are flashed into our homes to outrage, thrill, titillate and amaze us. Tourists are shot down or blown apart in airports, children assaulted, executives and politicians snatched or slain. And with each escalation of violence our sensation-saturated culture grows more indifferent and jaded. The passive acceptance of these heinous events may in itself be as dangerous an omen as the terrorist acts themselves, for it suggests a culture insensitive to evil.

Often, in fact, the perpetrators of these violent assaults are accorded a glamorous notoriety akin to that given motion picture idols. The bold, reckless and flamboyant nature of their deeds appears to excite admiration and the antisocial, destructive aspect of their actions is nearly overlooked. Such, then, have become the heroes in this age of decadence: nihilistic malcontents who lay down the lives of others at random in the guise of a noble cause.

To heap adulation upon such individuals is but one more symptom of the demise of morality in our social order. An element in producing this state of affairs has been the misconception that absolute, unrestricted

personal freedom was not only possible but desirable in a social setting. The perverse effect which follows from this concept is that the ultimate good is pleasure, and that full gratification of the appetites and passions is a worthwhile individual aim.

This philosophy of hedonism has also been cultivated by our institutions and commercial enterprises. Such an ideology compels the believer to view the social order with its restrictions, rules and regulations as an inhibiting influence upon his behavior. Thus, this is also a philosophy of lawlessness.

By contrast, in a society in which moral precepts function as a guide to the equity of human and property rights, internal individual controls function as powerful tools of behavioral restraint. If the majority of citizens truly believe that stealing is wrong, then they will choose not to steal and the job of guarding property will be relatively easy. Repeated reiteration of the moral code, especially to the young, will serve to inculcate within them the capacity for shame. Shame is, in such cases, a painful emotion caused by the consciousness of guilt, shortcoming or impropriety. The susceptibility to this emotion will be especially marked in those families in which the parents appear to function by the same moral code they teach their children.

So, we see another ideology which is an obvious invitation to social disaster. Hedonists place sensual enjoyment at the pinnacle of their preference code, and the end justifies the means. The Marxist places the mythical proletariat at his pinnacle, and again the ends justify *any* means. Likewise, the Machiavellian power brokers playing the game of control and dominance in all the capitals of the world worship ends and rationalize all means as acceptable.

Blaming the Environment

The individual capacity for shame is diminished by yet another prevalent modern idea, that is the concept that man is no more than the final result of the forces acting upon him. In this ideology, man cannot be guilty of wrongdoing. The blame is cast upon the environment and hence evaded by transference and projection. The terrorist, it would propose, is not an evil, angry man acting on his own destructive impulses, he is merely another victim of society. He has been passively infected, so to speak.

Man, thus, is not responsible for his own lawlessness—it is hereditary or due to any number of external forces. The blame *must* belong to the non-criminal who has somehow fostered the repugnant chain of reactions we call crime. Intrinsic to this ideology of determinism is that the

personality of an individual is almost solely a consequence of social interactions, especially his early infantile relationships.

But is that true? Anyone who has watched newborn infants in a nursery knows that these squirming, screaming miniature humans are not inert lumps of clay. Each one is different somehow from all the rest and from all who have gone before or who will follow. Determinists credit differing intrauterine environments or differing chromosomal make-up for these inherent differences in response patterns. Perhaps they are correct.

Perhaps, though, what we see in newborn infants is the initial expression of free will. Within each there may be a spirit beyond man's intellectual comprehension which modifies and shapes the individualistic responses to identical external stimuli. Perhaps, too, this undefinable spirit within possesses both the capacity for moral behavior and for wrongdoing, and the direction in which it moves is influenced by the free will of the organism.

Free Will

Free will is, always has been, and always will be a major causative element underlying specific individual behavior. It cannot be ignored merely because it cannot be quantified by behavioral scientists. People who will themselves toward

success tend to enjoy full, stimulating lives and tend to minimize dullness and repetition in their career choices. Is it not possible that terrorists and major criminals of other types engage a similar motivational mechanism into their personality and will themselves toward crime?

The drive to achieve power, notoriety and excitement can be expressed in ways very harmful to society, and that appears to be what happens in the case of the unrepentant criminal. Any number of legendary lawbreakers in published biographies and autobiographies refer to the stimulating challenges they found in their calling. Malcolm X, in his ghost-written autobiography was specific and particularly graphic in describing the thrills associated with his life of crime and debauchery. His conversion to the Muslim religion and to an accompanying life style of evangelistic fervor and self-denial speak strongly for the role of free-will in modifying behavior.

What is missing in the ideology of determinism is any absolute standard of moral conduct. Neither justice nor a viable social order may be possible without such standards—and it is this truth that the voice of guns is spelling out to us all.

So, the plague of terrorism sweeps the globe, invading host nations whose resistances are impeded by ideologies which either foster or for-

give terrorist acts. As long as hedonistic and Marxist ideologies dominate the intellectual climate of our colleges and universities these institutions will turn out products who will serve the rule of expedience rather than the rule of morality.

As long as governments and the criminal justice system endorse and implement an ideology which defines the lawbreaker as the passive victim of external forces we will breed more lawbreakers. When lawbreakers are coddled, not punished, then the rule of justice is extinct.

It is possible that the deadly plague of terrorism now loose in the world is but a warning of worse

times to come. Perhaps if men of thought and action take steps to restore the rule of morality to government our drift into lawless chaos may be reversed. Liberty, private property and objective standards of moral behavior are inextricably linked in a free society. One cannot be sacrificed without the others eventually tumbling away.

Unless we take warning, "From each according to his ability, to each according to his need" may sound the death knell to civilization. The terrorists may merely be one of many deadly plagues that we may soon face. 

Violence as a Way of Life

I can still remember when the income of farmers came from willing exchange; when people lived in houses built with the fruits of their own labor; when wage earners, for the most part, were no more compelled to join unions than businessmen were forced into chamber of commerce membership or parents into the P.T.A. Violence as a way of life was in those days perhaps at an all-time minimum.

Man either accepts the idea that the Creator is the endower of rights, or he submits to the idea that the state is the endower of rights. There is no third alternative.

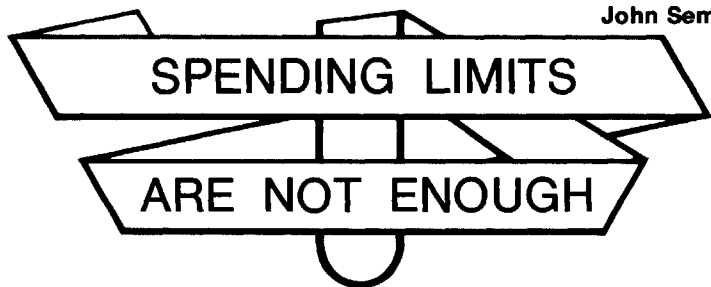
Those who accept the Creator concept can never subscribe to the practice of violence in any form. They have been drawn to this concept, not coerced into it. If we would emulate, as nearly as we can, that which we have learned from this relationship, we would confine ourselves to this same drawing power. As Gerald Heard so clearly puts it: "Man is free to torture and torment himself until he sees that his methods are not those of his Maker."

LEONARD E. READ

IDEAS ON



LIBERTY



THE enormous increase in government expenditures over the last fifty years has inspired efforts to place some sort of control on the expansion of government budgets. One popular approach, favored by the National Taxpayers Union, would enact a Constitutional amendment requiring a balanced budget. Another approach, favored by economist Milton Friedman, would limit government revenues to a fixed percentage of the national income.

While these ideas have merit as devices for placing some degree of constraint on the government's consumption of resources, they are not enough. In fact, unless such proposals are explicitly recognized as interim measures, they could lay the groundwork for a more serious erosion of property rights later on.

The balanced budget proposal fo-

cuses on the government's deficit between receipts and expenditures. Beyond question, the perpetual resort to deficit finance must result in the diversion of resources from the private sector to the government's coffers. This can happen either through the "crowding out" of would be private borrowers when large public debt issues absorb available investment capital, or by inflating the money supply. The "crowding out" phenomenon shifts resources from more productive private purposes to less productive government purposes. Inflation employs legal means to diminish the value of all dollar holdings and fixed income receipts. The havoc wrought in the corporate bond markets, where top-rated bonds issued when interest rates were two and three percent now sell for fractions of their original cost, is a dramatic demonstration of the ill effects of both phenomena.

Stopping these ill effects is a worthy objective, but a balanced

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budget alone will not achieve it. The government may just as easily balance the budget by raising taxes as by cutting spending. An increase in taxes does not require Congressional action. The government has all the power it needs to increase taxes without going through the trouble of enacting new levies, although the enthusiasm shown for the imposition of a "windfall profits" tax on oil illustrates the willingness of Congress to use manufactured crises as a means of raising taxes. Because the tax system is "progressive," i.e., the rates increase as the taxable resource rises in nominal value, the government can raise taxes by inflating the money supply. The heart of the President's plan to balance the budget is to increase the tax take by pushing taxpayers into higher tax brackets.

While a balanced budget might be an improvement over the current situation, the key weakness of such a device as a control over government spending is that it says nothing about the magnitude of that spending. The primary evil in government spending is not that it is deficit spending, but that it is consuming ever larger proportions of the nation's wealth. In the last 50 years, the government's "take" of the national income has risen from under 15 per cent to over 40 per cent. It is to remedy this situation that we have the proposals to limit

government spending as a percentage of the national income.

Spending limitation measures have been discussed and even, in some jurisdictions, passed as a means of controlling the government's appropriation of resources. Without limits, the projected outcome of existing trends is for the government to consume the entire national income within 30 years. A number of proposals have been introduced in Congress. Whether any of these can serve as a real constraint on spending, however, is doubtful. On the one hand, it is a fundamental principle of legislative procedure that a subsequent body of Congress cannot be bound by an action of a prior body of Congress. Any limitations legislated in one session may be overridden by a simple majority vote in a later session. It is obvious, then, that if a spending limit is to be binding, it must come in the form of a Constitutional amendment.

Limiting spending by Constitutional means was the route taken by the Arizona Legislature in 1978. The problem with virtually all of the proposals to use Constitutional means is the overwhelming reluctance to draw a hard line on the spending issue. Such was the case in Arizona. While the Constitution now limits state spending to no more than 7 per cent of the personal income of the inhabitants, the deter-

mination of what constitutes state spending is a matter of legislative enactment. Not all state spending is state spending, or so it seems. Certain categories of revenues and outlays are declared exempt from the spending ceiling. Curiously, the rationale for exemptions is that services rendered for fees should be excluded from the spending limit. This says much about the character of the remaining outlays—namely, that they are not services rendered for fees. This is an admission that the bulk of state government expenditures are for activities that would not be purchased on a fee basis.

One should not be surprised to discover attempts at reclassification of which expenditures are to be exempt. It is barely a year since the enactment of the Arizona spending limit and the legislature has already passed a measure designed to exempt additional gasoline taxes from the 7 per cent limit.

The fundamental problem with the spending limits proposed to date is the lack of respect for basic private property rights. The proposals rest on the premise that the government is entitled to take as much of the national income as it needs. This explains the universal provision for loopholes and escape clauses. In essence, the spending limit proposals are concessions to the current taxpayer outrage. The government is willing to reach a

temporary compromise and agree to limit itself to a specified percentage—unless it needs more for unforeseen “emergencies.”

Valid as a contingency plan might be—the usual example is a conjured vision of world war—it will be abused. The government itself can create the emergency through its own ineptitude or malicious intent. The “emergency” in Arizona is the deterioration of the road system. If the rather drawn out consequences of inadequate highway maintenance can qualify as an “unforeseen emergency” that necessitates a breach of the spending limit, then there is, in fact, no spending limit.

Arbitrary spending limits concede the government too much. The involuntary nature of taxation has enabled government to decide for itself how much it will take from its citizens. Merely fixing a percentage limit does not deal with the valid issue of the purposes of government activity. It is all too likely that spending limits will serve to legitimize a claim to a portion of the national income that is not subject to question. If the government provides some services or encounters “emergencies” it will have little difficulty enlarging its take.

If there are genuine functions to be performed by governments, then the historical experience of man’s economic activities quite clearly indicates that the proportion of income

consumed in the provision of such services should be declining. No services can be more valuable or necessary than the provision of food, clothing, and shelter. The marketplace has been coping with the provision of these items for years. In the last 50 years, the proportion of the national income consumed in the production of food, clothing, and shelter has declined by 33 per cent, 50 per cent, and 17 per cent respectively.

The efficiency of the free market is responsible for the decline in cost of these fundamentals of life. The pressure of competition drives suppliers to cut costs. The prosperity engendered by the free market enables consumers' real income to rise so that individuals can afford more than just the necessities.

The government is not subject to the forces of the marketplace. As a result, the proportion of the national income consumed in the public sector has risen by 212 per cent during the past half-century. Insulated from competition, government becomes less and less efficient. Bureaus and rules proliferate, consuming more resources to do less. Unable to generate a desirable product, government, via legislation, simply helps itself to larger shares of consumers' income.

Logic and experience warn that entitling the government to a fixed cut of the national income or de-

manding that its budgets be balanced is not enough. The government acts beyond the beneficial guidance of the market regimen. This has bred a sloppiness that has led to a dangerous obesity of the public sector. For its own good, the government must be put on a more healthy diet. Its intake must be matched by its output. As much as is possible of its activities must be cut free from the tax-fed trough. Services that are conducive to operating on a fee basis should be placed on a fee basis. Services which are not conducive to such an arrangement require an alternative regimen. Since, by definition, such services cannot be marketed, we must simulate the discipline of the marketplace. One apparent means of doing this would be to enforce spending reductions. Just as the shares of national income going to the production of food, clothing, and shelter have been reduced, so too should government's share be reduced. A *shrinking* spending limit could serve as an artificial simulation for the pressures of competition.

Bloated as it is, the government cannot handle even its traditional responsibilities. It cannot protect its own diplomats. It cannot keep the streets safe. For its own good and for our own good, the government's debilitating obesity must be more than halted, it must be reversed. Spending and taxation must be reduced.Ⓜ

Totalitarian Collectivism in America

"NOTHING IS more striking to a European traveller in the United States than the absence of what we term . . . government." So wrote Alexis de Tocqueville of American society in the 1830s. What American in 1980 could possibly think of our society as one characterized by an "absence of government"?

Government at all levels now directly controls nearly forty percent of our wealth through *direct* taxation, yet anyone with a smattering of economic knowledge knows that the indirect taxation mandated by government regulation is also huge.

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This article is from the preface of his book, *The Myth of the Welfare State*, forthcoming.

American society today is a government-controlled society, a society in which all of us are controlled in innumerable ways by a vast number of proliferating government bureaucracies, agencies, committees, police powers, legislative bodies, judicial decisions.

Tocqueville recognized that government powers might someday grow in America into the huge bureaucratic administration of life that had earlier characterized the mercantilist monarchies of Europe. He realized that the welfare of any nation necessitated the legislation of general principles for the whole society by the central government. But he had forebodings that the American government would go far beyond that and turn mass democracy into democratic tyranny. If the central power, he argued, "after having established the general prin-

ciples of government . . . descended to the details of their application; and if, having regulated the great interests of the country, it could descend to the circle of individual interests, freedom would soon be banished from the New World." Any educated American in 1980 knows that our huge government bureaucracies now dictate minute details of our everyday lives and enforce their dictates with vast police powers.

America Today an Imperial Bureaucracy

America today is ruled by an Imperial State Bureaucracy headed by an Imperial President. Certainly there are significant differences in the forms of our imperial government; but any historian of the ancient imperial states or of those of the sixteenth-century mercantilist monarchies will easily recognize that the differences are only surface phenomena, while the basic realities of power and its administration are very much the same.

It is only political rhetoric and the ignorance of history now almost universal even among our so-called educated people that makes it possible for people to pretend that "America is still the land of liberty." Certainly America is still more free by far than those nations now ruled over by the terrible socialist state bureaucracies. Indeed, we are still significantly more free than the

cowed peoples of the democratic socialist nations of Scandinavia, once-Great Britain and elsewhere. But anyone who has studied the trends of recent decades knows that we are closing the political gap between ourselves and their state tyrannies at a terrifying rate.

We scholars who several years ago hoped selfishly that we might at least be spared in our lifetime the terrors of pseudo-democratic state tyrannies must now recognize that our hopes are fading rapidly. We social scientists know that in the past few years alone the federal bureaucracy has moved relentlessly to establish committees at all our universities to review our research and, thereby, to control what we can know and say about our society. What greater power can any government possibly wield than the power to determine what can be known and how it can or cannot be known?

And yet there has been no great outcry, no widespread screams of outrage or anguish from our people. The reason for that is that they are firmly in the grip of the myth of the welfare state, the myth that their individual welfare depends upon and is served by the ineluctable ratchet-up in state powers. They believe this myth for many irrational non-reasons. The politicians are paying them off with their own tax-monies and erstwhile liberties:

the politicians use police powers to take from them their wealth and their individual liberties to determine how they will live, and then return part of this to them under government constraints—but only on the proviso that they support the politicians who use police powers to take away their wealth and their liberties. It is not too difficult to see how our peoples, in the grip of the great temptation of greed and mystified by the pseudo-science theories that tell them it is all necessary to surrender their liberties in order to have liberties, can be so easily deceived.

Even more ominous than the relative lack of outcry from our people has been the lack of serious outcry from our intellectuals and scientists. Most ominous of all, it is they who have been clamoring the loudest for ever greater imperial state controls. It is even the academics who administer the thought control programs of the federal bureaucracies now trying to dictate how we shall do research. Those who remember that it was the intellectuals and social scientists in Germany who clamored for more state power over German life, and they who repressed any opposition to Nazi thought controls once they came to power, will recognize that the seeds of mass-democratic tyranny are already firmly planted in our society.

The most effective tyranny, and

thus the most terrible tyranny, is always imposed by the people upon themselves, at least in the beginning, and they have almost always done such an irrational thing only when their intellectual leaders have convinced them that such tyranny is necessary and good—that it will serve the greatest welfare of the people themselves.

Political Deceptions

Mass democratic tyranny will probably always be built upon the two great political deceptions of mass equality and mass welfare. Those deceptions will take many specific forms, always conforming to the particular political rhetoric already widely shared in a particular society, but the general message will be the same and so will the result.

In a mass democracy that has triumphed over all traditional values there is no truth, no justice, no social welfare beyond that of the voice of the people. The people determine what is just and good—they determine everything by their votes. One man, one vote. One vote, one unit of truth and morality. Majority rules. More votes, more truth, more morality. As our "liberal" intellectuals today would say, what could be more conducive to the general welfare than for all individuals to have an equal voice (vote) in deciding what is to their welfare? Even when

they do not say so, most of our intellectuals have now so completely absorbed this tenet of mass democracy that they have nothing but contempt for those who try to remind them of the ancient truth that direct rule by collective ignorance—by mobocracy—always leads in time to tyranny, first to the tyranny of the majority and then to the tyranny of the few when the ignorance of the majority has produced its inevitable social catastrophes.

In America today the same nuclear physicist who would laugh uproariously at the thought that the average businessman should have a vote on whether to allow physicists to study the atom would immediately turn around and insist that he as a citizen and nothing more should have the right to vote on whether the owners of Texas gas wells should have the right to set their own prices for their gas, whether the Federal Reserve should increase the money supply at a faster rate, or whether the federal government should "stimulate" the international economy by running budget deficits and "talking down" the dollar in exchange markets.

The same sociologist who asserts with contempt that the average politician knows nothing about the realities of drug use and their effects would assert with aplomb, and without thinking to consult a single study or learning economic theory,

that the government should "solve" the problem of inflation by imposing wage and price controls upon all those businessmen who "set their prices to rip-off obscene profits."

And the average citizen voter, who can barely read at the so-called tenth grade level, asserts blandly that his votes justify the politicians' use of police powers to dictate to doctors the standards of medical care and the maximum charges they can ask for their services.

Confusing the Issue

Why? Why does the physicist think he should have a vote to determine what price Texas gas owners can ask for their gas, whereas it is ludicrous for the Texan to vote on whether the physicist be allowed to investigate the atom? Because, says the physicist, the price of gas is a "political question" that affects us all, not a question of scientific fact. But our physicists have forgotten that there are few things in a world of interdependent markets that do not affect almost everything else in some way. What could be more important in determining the future—or lack of future—of all human beings than nuclear research? By our physicist's own standards, what, then, could be more "political," and thus more subject to decision by mass vote, than nuclear physics?

And, if our sociologist can use his

vote to dictate the asking price for gas in Texas, why cannot the gas owner use his vote to dictate the grading standards of the sociologist, or his hiring standards, or his subject of research?

And is it not totally logical for the same politician who dictates medical standards and prices of doctors to dictate for our Mr. and Mrs. Every person the standards of their work, the prices of their labor, and ultimately the standards of their most intimate acts and thoughts?

The logic of totalitarian collectivism is simple, brutal and entirely consistent. Once a people has decided, whether actively or more commonly, by default, to allow politicians to decide by legislation, and without severe constraints of custom or law, what is right and wrong in a basic realm of life like property rights, then there can be no logical constraint upon their exercise of power in other realms of life.

As John Locke saw, even in the vastly more simple and self-contained society of the seventeenth century, without property rights no other rights can long be sustained. The government that controls all of my property controls my right to the pursuit of happiness, my right to free speech and to the publication of that speech, my right to take a spouse or have children, my right to life itself—for all things of life are totally dependent upon the material

goods and the subjective controls of those goods we call property and property rights. The government that has the right to legislate gas prices in Texas, or income distribution nationwide, has every logical right to dictate research standards in physics, hiring standards in sociology, wage rates for black teenagers in New York, parental care standards for all parents, and—everything else in life.

Totalitarian Logic

When the American people used the power of their votes to give the politicians the power to legislate away our ancient economic rights they unknowingly gave them power to legislate away all our ancient rights. The American Imperial State Bureaucracy is now pursuing that relentless logic of totalitarian collectivism at an astounding rate. Once our people had accepted that totalitarian logic, there was nothing left to protect us but our isolated individual sense of outrage and our underground resistance movements. Each sector of the economy, each corporation, each besieged individual is now left alone to fight his rearguard resistance against the unconstrained might of the Common Welfare, the Welfare State.

The welfare state is built on the totalitarian logic: when the goal of the state becomes that of pursuing, without basic constraints of custom

or law, the common welfare of all, then the welfare of any individual or sub-group becomes irrelevant. Thus we eventually arrive at the logical conclusion of the Egalitarian Welfare State, the conclusion Rousseau reached two centuries ago: the equal welfare of all demands that the individual welfares of everyone be totally sacrificed. And so the modern juggernaut of the Welfare State trundles onward, crushing beneath its bureaucratic powers the ancient freedoms of one group after another—to serve the Welfare of All, of course. Today the businessmen, the gas producers and the steel makers; tomorrow the doctors; then the parents; and someday the Whole World.

The opposite of the logic of totalitarian collectivism is, of course, the logic of individualist freedom. The logic of collectivism computes the individual welfare, if at all, in terms of the collective welfare, that is, in terms of "aggregates" like gross national welfare, income distributions, and distributive justice. The logic of individualist freedom does the opposite, that is, it computes the social welfare, if at all, in terms of the individuals' welfares as defined and experienced by the individuals.

The American Constitution was built upon the logic of individualist freedom. The American government was founded to promote the common

welfare, but to the eighteenth-century liberal minds of our constitutionalists that meant the exact opposite of what it means to the average American today.

Because they assumed that welfare could only be defined individually, the American constitutionalists intended the government to promote the common welfare by remaining as small and weak as it could while serving the one and only collective form of welfare, that of the common defense against foreign powers which wanted to impose Big and Powerful Government on Americans. Thus it is that they discovered that revolutionary American idea of individual freedom: minimizing the power of government will maximize the welfare of all. Thus it is that when Tocqueville visited America in the 1830s he found a remarkable "absence" of government and an equally remarkable high level of individual welfare—a land of freedom and of peace and plenty.

Unhappy Nation

The government-dominated America of 1980 is a deeply unhappy nation, a nation torn by deep dissension as never before since the civil war. Each American today is fighting his own desperate guerrilla warfare against the relentless growth of government power. Worst of all, the massive use of government power to

tax and control each of us "for the common welfare," has logically turned each of us into the enemy of all the others.

Our collectivist Marxists tell us that the free market capitalism of Tocqueville's era was evil because it turned each man against his neighbor in economic competition. But the truth is the exact opposite. America under the free market was a land of pervasive friendliness and cooperation, of neighborly feeling and public interest politics, of self-sacrificing parents and children and charitable citizens. Now that we are all fighting desperately against each other for our shrinking piece of the welfare-state pie, we have become a surly and terribly conflictive society, a society dominated by selfish pressure-group politics, a society of sniveling self-pity in which each person blames "the society" or, more appropriately, "the Government" for all of his problems and demands that the Government solve his problems for him, a society in which

parents have little control over their children and parents are deserted to the cold treatment of the state-financed nursing home, a society in which charity has been taxed away, a society in which love itself is poisoned by the political conflict for a collectivist "Equality."

Self-reliance was once the iron string to which all American hearts beat, but it was a self-reliance buttressed by all the strength of family love and cooperation, by neighborly cooperation, and by a spirit of public interest. The hearts of Welfare-state Americans beat to the totalitarian tunes of bureaucratic regulations and state-dependency. A free America was a land in which the average man and woman believed that their nation was like a shining city on a hill toward which all human beings could look longingly and hopefully. Welfare-state America is a land without pride, a nation in which the best have replaced a sense of public interest with a sense of public shame. ☉

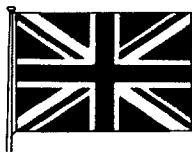
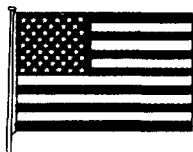
Sir Algernon Sidney

IDEAS ON



LIBERTY

FOR as liberty solely consists in an independency upon the will of another, and by the name of slave we understand a man who can neither dispose of his person or goods, but enjoys all at the will of his master; there is no such thing in nature as a slave if those men or nations are not slaves who have no other title to what they enjoy than the grace of the Prince, which he may revoke whensoever he pleaseth.



The Imitation of England

It is no accident that the American economy has followed a pattern set earlier by England, that the dollar has declined in value and been devalued in foreign exchange as the pound has been, that the United States is suffering trade imbalances as the English were doing well before now, that welfare programs are increasingly burdensome in America as they have long been in England, that production is on the wane here as in England. These parallels, I say, are not accidental. The decline of the British pound was an effect of the same cause that has successively weakened the dollar. In like fashion, many other developments in the United States have a similar cause to those in England.

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But the relationship between what has happened in England and what is happening in the United States is closer and more direct than the above may convey. It is not simply that like causes produce like effects in both England and the United States, though they do. It is more than that. The United States has followed in the path toward socialism that was first trod by England. The United States has imitated England. We have borrowed and imitated tactics devised in England. We have followed in England's footsteps in concentrating and exercising political power. We have even aped many of the legislative acts of England. Small wonder, then, that the same consequence should befall us.

It is not my point, however, that all the socialist influences on the United States came from England.

In the broadest sense, the imitation of England was the imitation of much of Europe, as socialist influences from the continent were important as well as those from England. Nor is it my point that the American bent to socialism was a foreign import entirely. American thinkers did not originate socialism, but they did much to acclimate it to American circumstances. It is rather that the particular variety of socialism that has had greatest influence on the United States originated in England, that most developments occurred in England before they did in the United States, and that the imitation of England was the most pronounced feature of the American thrust to socialism. For these reasons, what has befallen England is most relevant to the American situation.

The Fabian Approach

Socialism has been introduced in the United States piecemeal and gradually. This tactic was most trenchantly set forth by the English Fabians whom Americans imitated. The Fabian Society was organized in England in 1884 and, because it drew into its ranks and orbit such talented writers as George Bernard Shaw, H. G. Wells, Sidney and Beatrice (Potter) Webb, and Graham Wallas, was not long in beginning to have an impact. By the 1890s, a periodical was being published in

the United States called *The American Fabian*, and Fabian ideas were being introduced politically by way of the Populist Party.

The rise of Fabians signaled the emergence of evolutionary socialism as a distinct idea, though it would be several years before Eduard Bernstein spelled out the concept. Most socialists prior to this time had been dogmatists who advanced some particular panacea for curing the world's ills. There were anarchists, syndicalists, revolutionaries, single taxers, land redistributionists, communitarians, and so on.

Karl Marx caught much of this in his theory of revolutionary socialism, but for him "the revolution" became the panacea. By contrast, the Fabians had no one particular panacea. Unlike the anarchists, they believed in the use of government power. Unlike the Marxists, they believed in working within the existing framework of institutions. Unlike the syndicalists, they launched their appeal to the society at large. They saw the task as much broader than something that could be accomplished by a single tax or inflation or land redistribution, although any one of these efforts, or all of them, might find place among their proposals.

The Fabians were gradualists. More, they were eclectic. There was no one particular way to socialism for them; any act that brought govern-

ment control over anything was a step in that direction. They were statist, who proposed to arrive at socialism democratically.

How to Come to Power

The central problem of socialists in the latter part of the nineteenth century, aside from their difficulty in coming to agreement with one another, was how to come to power. It was a large problem indeed. Everywhere, they were a small minority of the population—tiny might be more accurate—consisting usually of dogmatic and quarrelsome intellectuals. Generally, they lived on the fringes of society, were held in low esteem, and were often harassed by the police. How could they gain respect? How could they gain influence? How could they come to power?

The Fabians proposed to solve this problem by what they called "permeation." An historian of the Fabians describes the tactic this way: "In its most general sense, it meant that Fabians should join all organizations where useful Socialist work could be done, and influence them. . . . Taking a broad interpretation of the meaning of Socialism and having an optimistic belief in the powers of persuasion, the Fabians thought that most organizations would be willing to accept at least a grain or two of Socialism. It was mainly a matter of addressing them

reasonably, with a strong emphasis on facts, diplomatically, with an eye to the amount of Socialism they were prepared to receive, and in a conciliatory spirit."¹ George Bernard Shaw, a leading Fabian spokesman, described the tactic of permeation in more detail:

We urged our members to join the Liberal and Radical Associations of their districts, or, if they preferred it, the Conservative Associations. We told them to become members of the nearest Radical Club and Co-operative Store, and to get delegated to the Metropolitan Radical Federation and the Liberal and Radical Union if possible. On these bodies we made speeches and moved resolutions, or, better still, got the Parliamentary candidate for the constituency to move them, and secured reports and encouraging little articles for him in the *Star*. We permeated the party organizations and pulled all the wires we could lay our hands on with our utmost adroitness and energy; and we succeeded so far that in 1888 we gained the solid advantage of a Progressive majority, full of ideas that would never have come into their heads had not the Fabians put them there, on the first London County Council.²

Bending Existing Organizations to Socialist Purposes

To appreciate fully the tactic of permeation it needs to be viewed in the broad context of socialism generally. Most socialists looked askance at existing organizations. Anarchists and revolutionists believed that they would have to be de-

stroyed. Those of a more peaceful bent usually thought in terms of establishing their own communities and organizations. Land redistributionists have been inclined to think in terms of breaking up large farms and parceling them out to those who would tend them. Socialists of a political bent favored forming their own political parties, and the usual result was a proliferation of parties, each pushing its particular panacea and very particular doctrines.

By contrast, the Fabians accepted the existing system of organizations. They accepted the government, the political parties, the businesses, the educational institutions, the churches, the newspapers, and so on. That is not to say that they did not want to make changes in them, for that they did, but what they envisioned was subtle, and sometimes not so subtle, alterations, not abolition, destruction, or replacement. They wanted to permeate them, influence them, and eventually control the course of their development.

The Fabian Society had only a few members at its inception. Eventually, there would be several thousand members, but it never became a mass organization. It would not have been to their purpose if they could have had one. (Convinced and determined socialists constitute only a small minority of the population in any land.) What they sought

may be best conceived as *intellectual leverage*. That is the underlying meaning of permeation.

Intellectual Leverage

Intellectual leverage does not require quantity; it needs quality instead. Organizations concentrate decision making power: in cabinets, boards, committees, and ultimately in individuals. All that is necessary to alter their course is to influence the decision makers. One man can play a pivotal role on a board, committee, commission, or cabinet simply by adroitly advancing his ideas. The commitment of the Labour Party to socialism at the end of World War I required only the permeation of its leadership.

Intellectual leverage has a broader impact than may be suggested by influence within particular organizations. Ultimate intellectual leverage is achieved by the creation and domination of the intellectual climate. This, too, the Fabians eventually achieved in England. They made socialism respectable, at least that variety they propounded. Indeed, for a time—particularly in the 1940s—they made it about the only respectable outlook. Their eclecticism made the task much easier than it would otherwise have been. They could draw into their framework reformers, interventionists, welfarists, nationalizers, and what have you. After all, an inflationist

was a socialist, too, even despite himself, for Fabians were inflationists, and they were socialists.

Permeation was a most useful tactic in dominating the intellectual climate. One does not have to own a newspaper in order to determine what books get good reviews. For that, one needs only to be the book review editor, and, sometimes, only the reviewer. Careers are made and unmade in such fashion, and an intellectual climate is shaped. When that has been accomplished, mere politicians tend to be but reflexes of the prevailing ideas.

The American Pattern

In a general way, it is clear that Americans used tactics similar to those advanced by the English Fabians. Americans have certainly moved gradually, and episodically, toward socialism. They did not, for example, rush out and take over the railroads in one fell swoop (except briefly during World War I). Instead, they passed mild regulation at the first, in the late nineteenth century. Then, over the years they tightened the regulation until the Interstate Commerce Commission had a virtual stranglehold on them. Then, the government began to encourage the consolidation of competing lines. In the course of time, the federal government has taken over providing some of the rail services and some railroads. Control over the

money supply was not achieved all at once. It was done step by step and gradually over the better part of the century. It was not complete until the final steps were taken in making it outright fiat money in the late 1960s and early 1970s.

It is equally clear that Americans would use government to move toward socialism, just as the Fabians had proposed in England. Existing organizations were neither abandoned, abolished, nor destroyed. Instead, they have generally been penetrated by government power and, where possible, instrumented to the purposes of those who govern. Existing political institutions have been preserved, such as those of state and local government, but they have been increasingly drawn into dependence upon the federal government and serve as instruments to do its will. The framework of popular government has been preserved and extended, but the significance of elections has shifted more and more toward ideological considerations.

Political Strategy

The tactic of permeation has been much used by American intellectuals. Indeed, no new political party emerged to gain major following in the United States in the twentieth century, as did the Labour Party in England. Instead, intellectuals of a reformist, welfarist, and, ulti-

mately, socialist bent penetrated and permeated the Democratic and Republican Parties. In the 1920s, however, many of those of that persuasion became Progressives and never returned to the Republican fold. Instead, from the 1930s onward the Democratic Party became the main instrument of the thrust toward socialism. In many ways, it became the American equivalent of the British Labour Party, relying heavily on labor unions, their financial contributions and the votes of their members.

Intellectual leverage, perhaps the single most important of Fabian contributions to evolutionary socialism, became as important in America as England. The Fabians did not have movies, radio, or television when they began to move to gain intellectual leverage. At first, they relied on tracts, pamphlets, newspapers, magazines, and books. The later inventions made possible a degree of leverage difficult to imagine earlier. A few men located at pivotal positions in the three American networks can decide what gets shown, what interpretation is made of it, who is allowed to speak, and in what way. Above all, it is the power to determine what are issues worth considering that makes so much difference.

There were, of course, major differences between England and the United States. One difference that

impressed both British and Americans was that the United States has a written constitution. Ramsay MacDonald, British Fabian and eventual Prime Minister, put it this way in 1898: "*The great bar to progress is the written constitutions, Federal and State, which give ultimate power to a law court.*"³

Constitutional Issues

The American Fabian, an American publication begun in 1895 in conscious imitation of the British, described the difficulty more fully: "England's Constitution readily admits of constant though gradual modification. Our American Constitution does not readily admit of such change. England can thus move into Socialism almost imperceptibly. Our Constitution being largely individualistic must be changed to admit of Socialism, and each change necessitates a political crisis. This means the raising of great new issues. . . ." ⁴ American intellectuals did, of course, eventually devise ways to move toward socialism with few written constitutional changes, but that was owing to American ingenuity mainly, not to British.

Another difference was that Americans generally have never bought socialism when it was packaged that way. No party with the avowed intent of establishing socialism has ever come close to get-

ting an electoral majority nationally. This difference, however, made British Fabianism more important to Americans with a socialistic bent, not less. The Fabians were avowedly and explicitly socialists. Most American intellectuals of their stripe were not, after the early twentieth century. Yet to go anywhere requires that the destination be conceived somehow. By imitating the British, Americans could be assured, or at least believe, that they were headed in the direction of socialism.

Common Influences in Britain and America

The influence of British socialism on American intellectuals has been continual over the years. Not only do Americans share a common language with the British but also a common heritage and intellectual framework. Twice in the twentieth century the United States has gone to war allied with the British, and in these wars their relations have been particularly close. The influence sometimes surfaces as when American intellectuals propose that the British system of government is in certain ways superior to our own—requiring a new election, or a new government, when the leadership suffers an adverse vote on a major measure in the House of Commons, for example, or having effective party discipline.

Often, however, it was much more direct than this might suggest. Here is an example. Graham Wallas, one of the first members of the English Fabian Society, came to Harvard to lecture in 1910. There he met and became close friends with Walter Lippmann, a student there at the time and active in socialist circles. A few years later when Lippmann published *Drift and Mastery*, a subtle gradualist work, he dedicated it to Wallas. Wallas replied in kind with his new work, *The Great Society*, a phrase that would crop up again years later as President Lyndon Johnson's program for the United States. "The British Fabians H. G. Wells and Graham Wallas," says one historian, "visited the Harvard campus and, as Englishmen, made economic heresy respectable. Lippmann was later convinced that even William James had been converted to socialism by the dynamic Wells."⁵ Walter Lippmann became, of course, one of the most adept at maintaining intellectual leverage by way of journalism.

The Impact of Keynes on Economic Theory

Perhaps the best known example of British influence is that of John Maynard Keynes. It is not certain that Keynes was a member of the Fabian Society during the years of his greatest prestige, but he was closely associated with many Fa-

bians, and rendered signal service to their cause. Keynes did not, as some may suppose, invent the notion of manipulating the money supply to achieve social ends. There were inflationists around before he was born. Nor did he invent national planning and government control over the economy. He did provide a ponderous gloss in justification of these activities with his *General Theory*. Almost singlehandedly, he made macro-economics respectable, if not comprehensible. He carved out a niche for intellectual leverage over the economies of nations, including the United States.

The dependence of Americans on British socialism is suggested in this description of his activities by Robert Hunter who was for years a leader in the Intercollegiate Society of Socialists but who later renounced socialism:

When I was a resident at Hull House in Chicago, at Toynbee Hall in London, and at the University settlement in New York, I was drawn by some bond of sympathy into close association with labor and socialist leaders of the three great cities. For many years at home and abroad, I passed from one group to another in a world little known at the time—a world almost exclusively occupied with social problems and their solutions. The groups in America were small and without influence, but in Europe the leaders were in Parliament, and lines were forming for the class conflicts which followed the World War.⁶

The significance of British influence on American intellectuals lies, of course, in the eventual influence of these last on America. For that, we turn now to some particulars of the imitation of England.

It has been noted already that those advancing socialist measures in the United States had constitutional problems. Although they were not so forbidding, so did the British. The British had a separation of powers in their government, one which became the model for many other governments in the nineteenth century. They had an hereditary monarch who had long been head of state and chief executive. They had an hereditary House of Lords which served, in effect, not only as a legislative body but as a supreme court which was the ultimate arbiter of the Constitution. The House of Commons was, of course, the seat of popular government in the realm.

Concentration of Power

In the early twentieth century, virtually all governmental power was concentrated in the House of Commons. Part of the concentration had come about gradually and by attrition. The monarch had been losing power for the better part of a century. George III (1760-1820) was the last monarch to assert himself over the government. The two kings who followed were weak and irreso-

lute men who lacked the will and determination to be anything much but figureheads. Queen Victoria (1837-1901) was respected and beloved, but not because of any actual control she exerted over the government. As one historian notes, between "1874 and 1914 while the person of the monarch may even have gained importance as a figurehead, it steadily lost power as a factor in government."⁷

How low monarchy had sunk was well illustrated in 1910. The Liberals in the House, with a large majority behind them, were determined to break the power of the Lords. They were afraid, however, that the Lords might reject the legislation by which it would have to be accomplished. H. H. Asquith, the Prime Minister, went to King George V to ask him that if it became necessary would he appoint enough new Peers—"pack the House of Lords"—to get the legislation through. The King assented, though, as it turned out, it was unnecessary.⁸

The House of Lords was shorn of its effective veto powers over legislation in 1911. In the case of money bills, if they were not passed without amendment by the Lords within two months of being sent to them they became law without the assent of the Peers of the realm. Other types of legislation could be delayed much longer, but if Commons persisted they could become law without the

approval of the Lords. There was no longer any effective constitutional restraint on the House of Commons. There should be no doubt, either, that this constitutional change was made to facilitate a socialistic bent in the legislation from the House of Commons. The Lords had refused to accept a budget bill which steeply taxed inheritances, income, and land. The concentration of power was rounded out in World War I when great powers of decision were vested in the prime minister and that portion of his cabinet which dealt with the conduct of the war.

Reserving the Safeguards

There was not only a separation of powers in the United States but also a dispersion of powers between the federal and state governments. The written constitutions which socialists saw as an obstacle to their programs were, then, augmented by separations exceedingly difficult to overcome. The United States does not have party government in the formal sense; hence, intellectual leverage is difficult to achieve.

The first major step was achieved in reducing the dispersal of powers by the passage of the 17th Amendment in 1913. This provided for the direct election of Senators by the voters rather than by the state legislatures. This shifted the Senate away from representation of the states toward nationalization. No

longer could Senators be held to account by state governments for the manner in which they defended the powers of the states.

The second major change was in the direction of developing presidential government. This may be seen most directly in the development of programs by presidential candidates, programs with names and directions. This development surfaced into plain view for the first time in the election of 1912. Theodore Roosevelt presented his program as the New Nationalism, and Woodrow Wilson as the New Freedom. Franklin D. Roosevelt carried it considerably farther with his New Deal, and his successors advanced such programs as the Fair Deal, New Frontier, and Great Society.

The second Roosevelt moved most swiftly, deftly, and directly toward presidential government. In the early days of the New Deal, legislation was drawn up in the executive branch and swiftly passed by the Congress. Much of this legislation was drawn by what was called a "Brain Trust," which gave great leverage to intellectuals over the government. Roosevelt attempted to concentrate power even more by campaigning in primaries against members of his own party who had aroused his disapproval and in his ill-fated "court packing" proposal. This last was reminiscent of the notion of packing the House of Lords.

Downgrading the States

Presidential government did not in itself reduce the independence of the states. That has been accomplished mainly in two other ways. The most subtle assault on the independence of the states has been by the grant-in-aid. The English Fabians saw the possibilities of the grant-in-aid for nationalizing power in England from their early years. They called it "the middle way," the middle way, that is, between centralization and local autonomy. "The middle way has," says one of the *Tracts*, "for half a century, been found through that most advantageous of expedients, the grant in aid. We see this in its best form in the police grant. . . . A grant in aid of the cost of the local police was offered to the justices and town councilors—at first one quarter, and now one half, of their actual expenditure on this service, however large this may be."⁹ That increasing grants could be accompanied by increasing central control they did not point out, but that has certainly been the case in the United States.

Land grant colleges were first authorized in the nineteenth century, but the grant-in-aid really got underway on any scale in the United States with Federal aid in building highways. In the 1930s it was employed in such programs as welfare and unemployment compensation. Since the 1960s it has assumed

gargantuan proportions as virtually every conceivable program, from education to police work, is partially subsidized from Washington. President Nixon pushed the idea of the federal government sharing its tax receipts with local governments. The idea, as he presented it, was that the federal system of government would be preserved by the program. What has happened, of course, is that state and local government have become increasingly dependent upon these monies, and that the national bureaucracy uses the threat of withholding grants to force these governments to comply with their rules.

Changes by Court Interpretation

The other major means for subordinating the states has been by court interpretation. Since court interpretation has also been used to remove most of the substantive constitutional obstacles to socialism, the two may be discussed jointly. By the early twentieth century, American reformers with a socialist bent had figured out what had to be done and how it could be done gradually. Herbert Croly described the constitutional problems this way: "The regulation of commerce, the control of corporations, and the still more radical questions connected with the distribution of wealth and the prevention of poverty—questions of this kind should be left exclusively to the

central government; or in case they are to any extent allowed to remain under the jurisdiction of the states, they should exercise such jurisdiction as the agents of the central government."¹⁰ But much of what he had in mind could be accomplished without amendment, he thought; "and in most respects it should be left to the ordinary process of gradual amendment by construction. . . ." ¹¹ Walter Weyl, Croly's colleague later at *The New Republic*, declared that the Supreme Court could "by a few progressive judicial decisions . . . democratize the Constitution."¹²

Whether the Supreme Court has "democratized" the Constitution or not, it has certainly construed it so as to subordinate the states, concentrate power in the general government, and remove the obstacles to socialist type legislation. By 1960 the interstate commerce clause had been construed to be so inclusive in its grant of power that the states had only a remnant of power over commercial activity.

Court Initiated Reforms

The courts have long since taken to initiating changes and reforms, and it is widely accepted today that the Supreme Court is some sort of super legislative body, empowered to alter the Constitution to contemporary requirements. In this role, the courts have been aided and abet-

ted by the media—the seats of intellectual leverage—by having many of their most radical decisions hailed as the “law of the land.”

Whether or not the United States Constitution has been “democratized,” it has certainly been “Britishized.” The early Fabians were right in their assertions about the basic difference between the British and American constitutions. While there are documents which constitute a portion of the British Constitution, it is not a written instrument. Nor does it require extraordinary procedures to alter it. Changes in custom and tradition, new precedents, court decisions, and acts of Parliament may and sometimes do alter the constitution. It consists of a complex of inherited institutions, of established procedures, of legal developments, and of legislative acts. It lends itself readily to gradual and incremental changes.

The United States Constitution is not like that. It is a written document; the procedures for amending it are specified, and amendments are extraordinary. Increasingly since the late 1930s, however, the Supreme Court has treated the Constitution as if it were a tradition only to be altered with changing conditions. In England, they revoked the veto power of the House of Lords to open the way for socialism. In the United States, the negative

power of the courts was transformed into a positive power to alter and change. When the American colonists broke from England and founded their own political system they continued to use the common law inherited from England. Under the impetus to socialism the Constitution is now treated as if it were a part of the common law. That is how the United States Constitution has been “Britishized.”

The Subtle Differences

Americans imitated the British gradualist approach to socialism. Like the British before them, they accepted and worked within existing organizations. They permeated them. Like the British, American intellectuals moved to vest power in government, to concentrate it, and to gain intellectual leverage over it. Both claimed to be democratic. The states were turned increasingly into instruments of the federal government, and the Constitution treated in the British manner as if it were flexible and alterable at will, not fixed by the language in which it is written.

The significance of the American imitation of England comes out most directly in the following ways. First, it helps to establish the fact that we are bent toward socialism. That has not been easy to do, because American programs have usually been advanced as measures to cure particu-

lar ills. By contrast, the British have often been explicit about their aim to achieve socialism. In so far as we are imitating the English, we are moving toward socialism, whether we will or not. Second, both in England and America the removal of many of the restraints on government power have been preludes to assaults on property and reductions of the control which the inhabitants have over their own affairs. Third, the British have gone farther down the path toward socialism, and they did so earlier. Hence, the consequences of socialism are more visible there.

The Resulting Paralysis

First from the British, then from the American experience, we can conclude that the consequences of socialism are paralysis. It begins as partial paralysis, because of gradualist methods, but over the years it tends to extend into more and more areas. To the extent that the hope of gain motivates productive activity, the assault on profit making is an assault on productivity. The graduated income tax takes away much of the surplus for future investment. Inflation reduces the gain and fosters hoarding: of land, antiques, untaxed securities, and so forth. Redistribution of the wealth encourages consumption and discourages production. Economic planning by government makes it

increasingly difficult for individuals to make plans. It shifts the power to act from the individual to the government, thus partially paralyzing—delaying, limiting, preventing—economic action.

The paralysis induced by gradualist socialism evinces itself as national decline, as social disintegration, and as nihilism at the individual level. Social disintegration occurs as the breakup of families, the loss of hold of institutions, decreasing vitality in voluntary organizations, and the breakdown of the power of social prescription. Individual nihilism shows itself as lawlessness, loss of self-respect, loss of respect for others, contempt for property, and the frantic pursuit of thrills. That much of this has been fostered and facilitated in the same intellectual atmosphere that has advanced socialism is demonstrable.

It is written that on a certain day there came to the attention of Jesus a man who had suffered an infirmity for 38 years. The man was lying on a bed beside a pool which, it was claimed, was a place where one might be cured if he could enter the waters immediately after they had been disturbed by an angel. Jesus asked the man if he would like to be made whole. Undoubtedly he would, but, he pointed out, he had no one to help him and when the time came someone else always got in ahead of him. Jesus said to him, "Rise, take

up thy bed, and walk." And he did. (John 5:5-9)

Whatever else may have ailed the man, he was almost certainly suffering from what we would call a dependency syndrome. He was lying beside the pool waiting for a miracle to happen. All he needed was someone to help him get into the waters at the right time. He must have been dependent on others for a long time to provide him with his necessities. If he was not at least partially paralyzed he might as well have been.

The people of the United States are suffering from a dependency syndrome, and we have been partially paralyzed for at least 38 years, if not longer. We have depended upon European ideas for intellectual sustenance. We have imitated England in adopting gradualist socialism. We have become dependent upon government for all sorts of aid and benefits. It is a paralyzing dependency. Many are lying by a pool, figuratively if not literally, expecting to be rescued by some miracle. We would get in the water, too, if we just had others to help us.

Jesus took the cold turkey approach to the dependency syndrome. "Rise, take up thy bed, and walk." Stop lying around the pool expecting a miracle. Stop imitating all those others lying flat on their backs.

Stand on your own two feet. Take responsibility for yourself and your own. Manage your own affairs. Would it be that easy? No, but it would be at least that hard. Those who think it would be easy are still expecting miracles. Will it cure the ills of the world? Probably not, the cure is individual not collective. Collectivism is the ill. The belief that one is somehow responsible for curing the ills of the world is the disease. He who rises, takes up his own bed and walks is no longer a part of the problem but a part of the solution. ☸

—FOOTNOTES—

¹A. M. McBriar, *Fabian Socialism and English Politics* (Cambridge: Cambridge University Press, 1962), pp. 95-96.

²*Fabian Tract* #41.

³Quoted in Rose L. Martin, *Fabian Freeway* (Chicago: Heritage Foundation, 1966), p.136.

⁴*Ibid.*

⁵Charles Forcey, *The Crossroads of Liberalism* (New York: Oxford University Press, 1961), pp. 95-96.

⁶Martin, *op. cit.*, p. 176.

⁷R. C. K. Ensor, *England: 1870-1914* (Oxford: Oxford University Press, 1936), p. 31.

⁸George Dangerfield, *The Strange Death of Liberal England* (New York: Capricorn Books, 1961), p. 40.

⁹*Fabian Tract* #108.

¹⁰Herbert Croly, *The Promise of American Life* (New York: Capricorn Books, 1964, originally published, 1909), p. 350.

¹¹*Ibid.*, p. 351.

¹²Walter E. Weyl, *The New Democracy* (New York: Macmillan, 1912), p. 317.

P. Dean Russell

Idealism and Students



COLLEGE STUDENTS tend to be highly idealistic. Most of them truly want to help their fellow men and women. They want to do something worthwhile with their lives. That's good, of course; for if we aren't idealistic in our late 'teens and early 20s, there's not much hope for us.

A part of my job as a teacher is to discuss "careers" with these young men and women. Every year, perhaps a half-dozen will ask me to suggest a career that will permit them to earn a good living while also "making a contribution" to our nation and people in general. In most cases, I suspect they're thinking in terms of a career in government where they'll work hard to pass good laws to help the people.

While I never specifically advise them against a career in government, I do try to get them to also consider another possibility. My suggestion goes something like this: If you truly want to help your fellowman, perhaps you should consider going into business. Then you can personally produce something that people want and are willing to pay for. Beyond any doubt, that would be a real and needed service.

For example, there are literally millions of young people—especially young couples—who would like to buy a house but can't. Prices and

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interest rates are beyond their means. There's no law that forbids you and me from helping them, however, by building homes at prices and financial terms they can afford. That would be of tremendous help to them.

You could also decide to build better refrigerators and sell them at prices we consumers can pay. That's how businessmen (and women) earn their profits in a private-ownership economy, i.e., not by compulsory laws but by peacefully satisfying the wants of willing buyers.

That's what the market economy and freedom of choice are all about. For example, our enormous production of food—much of which is used to feed Russians and Chinese—is produced by businessmen-farmers who *voluntarily* decide to do it. Businessmen also produce our clothes and movies, build our churches and tractors, and develop better vaccines to keep us healthier.

True enough, they want to improve their own lot when they sell their products, i.e., they want to earn profits. If they don't, obviously they'll soon go broke and disappear. There's a most unfortunate side effect when that happens: Millions of us Americans are likely to disappear right along with them. For without independent businessmen and women to manage our production and distribution facilities in an economy of choice, we would start

the descent back toward the brute-like societies of compulsion and conquest we can observe all around us.

For clear evidence of this inevitable result, look next door at the maximum-security prison called Cuba where exceedingly harsh measures are imposed on people to prevent them from escaping to a land of choice. Look also at the Russian invaders in Czechoslovakia and Afghanistan, and their all-out efforts to destroy human dignity along with human beings. That's no service to anyone, including even the Russian conquerors and Cuban prison-wardens. For the leaders of those nations themselves are also thereby imprisoned and dehumanized. They just live in better cells.

So if you'd like more people to have more food, medical care, and other products and services *they* want, do consider a career in business where everyone is free to produce or not produce, and to buy or not buy. Then you can personally help produce and distribute whatever it is that people most want as shown by their willingness to buy it. That includes smaller cars, bigger TV sets, and more vacations abroad.

And if you do a good job of producing them, you are likely to earn profits—hopefully, high profits. You can then use those profits as *you* think best—including giving them to anyone you choose, and for any reason that appeals to you. ☉

The Sphere of Government



Nineteenth Century Theories: 2. Herbert Spencer

HERBERT SPENCER (1820-1903) was the nineteenth century's philosopher of evolution. He aspired to universal knowledge. What he called his Synthetic Philosophy ran to ten volumes. They included *First Principles* (1862), followed by volumes on *The Principles of Biology*, *The Principles of Psychology*, *The Principles of Sociology*, and *The Principles of Ethics*. Spencer also wrote at least eight other books.

But his earliest published work was a pamphlet, *The Proper Sphere of Government*, which he wrote at the age of 22, and his first important book was *Social Statics*, published in 1851. These publications advocated

what would today be called, and was in fact called at the time, "an extreme form of laissez faire."

The limitation of state power remained one of Spencer's dominant interests till the end of his life. In a later edition of *Social Statics* he omitted a chapter entitled: "The Right to Ignore the State," but essentially his ideas on the subject of state power changed very little as he grew older. In 1884 he published a small volume entitled *The Man Versus the State*. In 1891 appeared Part IV of *The Principles of Ethics*: "The Ethics of Social Life: Justice," and he declared this to represent his definitive views on the subject. Let us summarize and analyze them.

After some prior discussion, Spencer arrives at what he calls "a formula of justice: . . . Every man is free to do that which he wills, pro-

Henry Hazlitt, noted economist, author, editor, reviewer and columnist, here continues a series of nineteenth century theories on the sphere of government. The views of John Stuart Mill were discussed in the January 1980 issue of *The Freeman*.

vided he infringes not the equal freedom of any other man." This is almost exactly the maxim that he had laid down in his *Social Statics* forty years earlier, but I regret that it seems to me vague and unsatisfactory.

In *The Principles of Ethics* Spencer was aware of criticisms that must in the meantime have been made of it by others, for he immediately proceeds to deal with one of them:

"A possible misapprehension must be guarded against. There are acts of aggression which the formula is presumably intended to exclude, which apparently it does not exclude. It may be said that if A strikes B, then, so long as B is not debarred from striking A in return, no greater freedom is claimed by the one than by the other; or it may be said that if A has trespassed on B's property, the requirement of the formula has not been broken so long as B can trespass on A's property. Such interpretations, however, mistake the essential meaning of the formula. . . . It does not countenance a superfluous interference with another's life, committed on the ground that an equal interference may balance it. . . ."¹

Now this will hardly do. If a formula does not in fact countenance actions that it does countenance on its face, then it has not been satisfactorily formulated. It is not a satis-

factory rule or guide to policy, and it must be revised or rejected. It must clearly exclude aggression against or harm to others.

But it must also carefully delimit the nature of the "aggression" or "harm." If A and B are applying for the same job or courting the same girl, and A is the successful competitor, the prospects of B may be correspondingly damaged. But as long as A "played fair," and did not resort to violence or fraud, no one would consider that B had any just cause for complaint. There are many similar cases, but there are also borderline cases. If A and B have neighboring properties and A puts up an ugly house that B considers an eyesore threatening his property value, has B just cause for suit? If A puts up a fire hazard or a chemical factory that pollutes B's air or water, nearly everyone would consider B's case much stronger. It is problems like these that legislators and courts have to try to solve by passing scores of laws and making thousands of decisions in individual cases.

More a Formula for Liberty than for Justice

Spencer's formula strikes me more as an attempted definition of liberty than as a maxim of justice. And if it is so, then I much prefer the formula of John Locke in 1690: "Freedom of men under government is to have a standing rule to live by,

common to every one of that society, and made by the legislative power erected in it; a liberty to follow my own will in all things, where the rule prescribes not: and not to be subject to the inconstant, uncertain, unknown, arbitrary will of another man."²

Montesquieu stated essentially the same formula more briefly in 1748: "Liberty is the right to do what the laws allow. If a citizen had a right to do what they forbid it would no longer be liberty, for everyone else would have the same right."³

So all practicable liberty is liberty under law. But the shortcoming of both Locke's and Montesquieu's formulas is that they fail to state explicitly that the restraints that the laws impose must be just, definite, and minimal. But even a formula that embodied these specifications would again fall short unless it spelled out what these just and minimal restraints would be. This is the dilemma that confronts all efforts to frame a concise definition of either justice or liberty.

The nearest to a good, short specification that I can at present remember is Thomas Jefferson's call for "a wise and frugal government, which shall restrain men from injuring one another, which shall leave them otherwise free to regulate their own pursuits of industry and improvement, and shall not take

from the mouth of labor the bread it has earned."⁴

But I have perhaps allowed myself to be carried too far astray on this point. Spencer's case for the minimal state does not rest solely or even mainly on his own "formula for justice." Though he does not embrace the doctrine of Natural Law, he does believe that man has certain inherent rights which we recognize by "a priori intuition" or "a priori cognition." He proceeds to write a series of ten chapters on The Right to Physical Integrity, The Rights to Free Motion and Locomotion, to the Uses of Natural Media, The Right of Property, of Incorporeal Property, of Gift and Bequest, of Free Exchange and Free Contract, to Free Industry, of Free Belief and Worship, and of Free Speech and Publication. No government, he argues, has any legitimate power to violate or abridge these rights.

A Modern Ring

At the end of Part IV Spencer comes to seven chapters (23 to 29) on the nature, constitution, and duties of the state, and on the limits of state duties. When he discusses the constitution of the state, he might have been writing about one of the chief problems that disturb us today:

"If it is true that a generation ago landowners and capitalists so adjusted public arrangements as to ease themselves and to press unduly

upon others, it is no less true that now artisans and laborers, through representatives who are obliged to do their bidding, are fast remolding our social system in ways which achieve their own gain through others' loss. Year after year more public agencies are established to give what seem gratis benefits, at the expense of those who pay taxes, local and general, and the mass of the people, receiving the benefits and relieved from the cost of maintaining the public agencies, advocate the multiplication of them.

"It is not true, then, that the possession of political power by all ensures justice to all. Contrariwise, experience makes obvious that which should have been obvious without experience, that with a universal distribution of votes the larger class will inevitably profit at the expense of the smaller class. Those higher earnings which more efficient actions bring to the superior, will not be all allowed to remain with them, but part will be drafted off in some indirect way to eke out the lower earnings of the less diligent or the less capable; and in so far as this is done, the law of equal freedom must be broken."⁵

He sums up:

"One conclusion, however, is clear. State burdens, however proportioned among citizens, should be borne by all. Every one who receives the benefits which government

gives should pay some share of the costs of government and should directly and not indirectly pay it. . . .

"Had each citizen to pay in a visible and tangible form his proportion of taxes, the sum would be so large that all would insist on economy in the performance of necessary functions and would resist the assumption of unnecessary functions, whereas at present, offered as each citizen is certain benefits for which he is unconscious of paying, he is tempted to approve of extravagance; and is prompted to take the course, unknowingly if not knowingly dishonest, of obtaining benefits at other men's expense.

"During the days when extensions of the franchise were in agitation, a maxim perpetually repeated was—'Taxation without representation is robbery.' Experience has since made it clear that, on the other hand, representation without taxation entails robbery." (pp. 219-20)

A Duty to Protect

In his chapter on "The Duties of the State," Spencer concludes that there is in effect just one: to protect the citizenry against external and internal aggression—against foreign enemies and against its law-breakers. And in the following chapter on "The Limits of State Duties," he asserts:

"The question of limits becomes the question whether, beyond main-

taining justice, the state can do anything else without transgressing justice. On consideration we shall find that it cannot. . . .

"If justice asserts the liberty of each limited only by the like liberties of all, then the imposing of any further limit is unjust; no matter whether the power imposing it be one man or a million of men. . . . We do not commonly see in a tax a diminution of freedom; and yet it clearly is one. The money taken represents so much labor gone through, and the product of that labor being taken away. . . . 'Thus much of your work shall be devoted, not to your own purposes, but to our purposes,' say the authorities to the citizens; and to whatever extent this is carried, to that extent the citizens become slaves of the government." (pp. 241-43)

Examples Galore

Though Spencer insisted constantly on the priority and necessity of deductive reasoning, few political writers have been so industrious and specific in citing and piling up concrete examples of the bungling, contradictions, and abuses of power in carrying out the multitudinous functions that governments have taken on. Long before he got to *The Principles of Ethics*, he had detailed scores of these not only in *Social Statics*, but in such essays as "Over-Legislation," "State Tamper-

ings with Money and Banks," "The Collective Wisdom," and many others.

So in the *Principles* he continued to cite case after specific case. Of drafting laws, for example:

"The judges themselves exclaim against the bungling legislation they have to interpret: one judge saying of a clause that he 'did not believe its meaning was comprehended either by the draftsman who drew it' or 'the parliament that adopted it,' and another declaring that 'it was impossible for human skill to find words more calculated to puzzle everybody.' As a natural consequence we have every day appeals and again appeals—decisions being reversed and re-reversed." (pp. 252-253) One would think Spencer was writing of conditions in America today, rather than those of England in 1890.

Of the coinage: "In this we have frequent changes where changes are undesirable. We have mixed systems: decimal, duodecimal, and nondescript. Until recently we had two scarcely distinguishable pieces for threepence and fourpence" etc. (p. 253)

Socialistic Legislation

In a discussion on "socialistic legislation," Spencer excoriates the then Prime Minister, Lord Salisbury, for sneering at basic principles and saying: "We ought first to dis-

cuss every subject on its own merits." This is the method, comments Spencer, "which has been followed by those legislators who, throughout past thousands of years, have increased human miseries in multitudinous ways and immeasurable degrees by mischievous laws. Regard for 'the merits of the case' guided Diocletian when he fixed the prices of articles and wages of workers, and similarly guided rulers of all European nations who, century after century, in innumerable cases, have decided how much commodity shall be given for so much money, and in our own country guided those who, after the Black Death, framed the Statute of Labourers [to hold down wages], and presently caused the peasant revolt. The countless acts which, here and abroad, prescribed qualities and modes of manufacture, and appointed searchers to see that things were made as directed, were similarly prompted by considerations of 'the merits of the case': evils existed which it was obviously needful to prevent. . . .

"Each one of those multitudinous regulations enforced by swarms of officials, which in France nearly strangled industry, and was a part cause of the French revolution, seemed to those who established it, a regulation which 'the merits of the case' called for; and no less did there seem to be called for the numberless sumptuary laws which, genera-

tion after generation, kings and their ministers tried to enforce." (pp. 260-61)

The Remarkable Contrast

After citing many more such examples, Spencer sums up the contrast between the amazing accomplishments of free and spontaneous social cooperation and the immense harm wrought by multitudinous government interventions:

"The average legislator, equally with the average citizen, has no faith whatever in the beneficent working of social forces, notwithstanding the almost infinite illustrations of this beneficent working. He persists in thinking of a society as a manufacture and not as a growth: blind to the fact that the vast and complex organization by which its life is carried on, has resulted from the spontaneous cooperations of men pursuing their private ends. Though, when he asks how the surface of the earth has been cleared and made fertile, how towns have grown up, how manufactures of all kinds have arisen, how the arts have been developed, how knowledge has been accumulated, how literature has been produced, he is forced to recognize the fact that none of these are of governmental origin, but have many of them suffered from governmental obstruction; yet, ignoring all this, he assumes that if a good is

to be achieved or an evil prevented, Parliament must be invoked. He has unlimited faith in the agency which has achieved multitudinous failures, and has no faith in the agency which has achieved multitudinous successes." (pp. 266-67)

In expounding these views, Spencer, so far as the bulk of public opinion was concerned, was an isolated figure. Similar ideas were being voiced by a handful of others, notably Auberon Herbert (1838-1906), but the vigorous opposition of Thomas H. Huxley (1825-1895) probably came much nearer to ex-

pressing the political philosophy of the great mass of the British public in the 1880s and 1890s, to the extent that they bothered to formulate any philosophy. Huxley's views will be considered in a future issue of *The Freeman*. 

—FOOTNOTES—

¹*Principles of Ethics*, Vol. II (Indianapolis: Liberty Classics), Ch. 6, p. 62.

²*Two Treatises of Civil Government* (Everyman's: E. P. Dutton), Second Treatise, sec. 21, p. 127.

³*The Spirit of the Laws*, XI.

⁴First Inaugural Address (March 4, 1801).

⁵*Principles of Ethics*, II, pp. 212-13.

A Sobering Thought

... the cautious thinker may reason:—"If in these personal affairs, where all the conditions of the case were known to me, I have so often miscalculated, how much oftener shall I miscalculate in political affairs, where the conditions are too numerous, too widespread, too complex, too obscure to be understood. Here, doubtless, is a social evil and there a desideratum; and were I sure of doing no mischief I would forthwith try to cure the one and achieve the other. But when I remember how many of my private schemes have miscarried; how speculations have failed, agents proved dishonest, marriage been a disappointment; how I did but pauperize the relative I sought to help; how my carefully-governed son has turned out worse than most children; how the thing I desperately strove against as a misfortune did me immense good; how while the objects I ardently pursued brought me little happiness when gained, most of my pleasures have come from unexpected sources; when I recall these and hosts of like facts, I am struck with the incompetence of my intellect to prescribe for society. And as the evil is one under which society has not only lived but grown, while the desideratum is one it may spontaneously obtain, as it has most others, in some unforeseen way, I question the propriety of meddling."

IDEAS ON



LIBERTY

HERBERT SPENCER, *The Man versus the State*

Facing the Moral Attack on Capitalism

Is it not paradoxical that after emerging like the phoenix from the ashes of the Gulag Archipelago Alexander Solzhenitsyn should speak out against the land of milk and honey? Is it not ironic that after having known starvation and torture he should attack the enviable—and surely envied—comforts of the West? And yet, on the occasion of the Harvard University commencement on June 8, 1978, the man who could well be called the most significant moral leader of our century, whose challenge to the conscience of mankind may prove to have been the ultimate test for our sclerotic spiritual fiber, accused us of moral myopia, of pretending not

to live in "A World Split Apart"—the apt title of his prophetic message.

The world is split indeed, by divergent ideologies no less than by economic disparities. Those disparities, of course, are no secret. Indeed, were economics alone at stake in the dialogue it would seem that the Marxist—assuming he is truly a materialist—would opt for capitalism: the experience of nearly two centuries indicates that prosperity is attained best when trade is not hampered by regulatory legislation.

Though few men are less utilitarian in outlook than Solzhenitsyn, he is no exception in recognizing the material success of the capitalist system. He thus readily concedes that "it is almost universally recognized that the West shows all the world a way to successful economic development," inflation notwithstanding. He notes immediately,

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however, that in spite (or maybe because) of this, "many people living in the West are dissatisfied with their own society. They despise it or accuse it of not being up to the level of maturity attained by mankind. A number of such critics turn to socialism, which is a false and dangerous current."¹

The problem, evidently, goes beyond economics. It would seem that we have here not so much an absence of information concerning the success of *laissez faire* in producing wealth—indeed, wealth for the greatest number—as a deep misunderstanding concerning the ethical foundations of capitalism. The socialist challenge, I submit, is ultimately a matter of morality.

Capitalism Under Attack: The Socialist Challenge

Solzhenitsyn himself lists many of the reasons why Westerners are dissatisfied with their own society: a weak social structure with a correspondingly alarming level of crime, ubiquitous mediocrity, worries and tensions that naturally accompany competition, especially material competition, a highly conformist media, the cheap stupor that is television, and in general a pervading sense of "hastiness and superficiality" polluting our aesthetic space. Not many a contemporary liberal would disagree. It is nevertheless mysterious why the preferred alter-

native is almost invariably found in socialism. Whence its charm? Which of its attributes seduces the liberal critic? How do its cosmetics manage to hide the leprous wart?

In his speech, Solzhenitsyn makes no attempt to account for this disturbing state of affairs. He cites a book by Igor Shafarevich entitled *Socialism* (published recently in France and due to appear shortly in this country) as "a profound analysis showing that socialism of any type and shade leads to total destruction of the human spirit and to a leveling of mankind to death."² But how could—how *does*—such a system win the hearts and minds of intelligent people throughout the capitalist world? Solzhenitsyn tells us that in the East communism—which of course is but a shade of socialism—has suffered a *complete* ideological defeat (meaning, evidently, a *de facto* defeat, though tragically not *de jure*). Why, then, do we flirt with it in the West?

Undoubtedly Shafarevich's book has some of the best answers ever offered to that question. In an essay which summarizes the argument of his book, published in a 1974 anthology entitled *From Under the Rubble*, Shafarevich traces the ideology of socialism to the beginning of civilization, to Mesopotamia in the twenty-second and twenty-first centuries B.C., which Shafarevich takes to be the first known

society to embody the basic premises of socialism. These are: the abolition of private property, the destruction of religion, the destruction of the family. Explicitly, therefore, socialism is not only an economic concept but "an incomparably wider system of views, embracing almost every aspect of human existence."³ This observation provides a key to understanding the Western malaise. For it is clear that the same is true of "capitalism"—it too has come to refer to more, much more than the description of an economic system.

At least one authority on popular usage, the *American College Dictionary*, lists as a second meaning of capitalism "2. the concentration of capital in the hands of a few, or the resulting power or influence," to be read in conjunction with "3. a system favoring such concentration of wealth" (emphasis added). Capitalism is thus wedded to inequality. And if there be one supreme secular evil that truly irks the anti-capitalist temperament it is "inequality," sometimes also called "social injustice" to further load the term with self-righteous indignation.

"Social Justice":

A Meaningless Concept

For those who abhor inequality, the question is simply what means will most effectively eliminate it. There will be some, of course, who

point out that in fact capitalism has done more than any other system to further that end. Thus William F. Buckley cites Professor Amnon Rubinstein, himself a socialist, as having made "a grudging, though elegant, admission in a television colloquy a year or two ago [1971-2] in Israel: 'On the whole,' said Rubinstein, 'those systems that have put liberty ahead of equality have done better by equality than those that have put equality above liberty,'" an idea Buckley very much shares,⁴ as does Senator Daniel Patrick Moynihan.

But others, who wish for greater equality than the grossly unaided eye is able to fathom in a capitalist system, would interfere with private economic arrangements by using the state's coercive power. And here the obvious differences are a matter of degree: some would have the state interfere only as a result of majority vote and only by taking away some, not all, of a person's private property, thus ensuring that each person receives from the public coffers only as much as it is deemed he "needs."

Given the contemporary climate, it is safe to say that Irving Kristol is right when he writes that in our day the idea that the income tax should have redistributive effects is no longer shocking. All about us we find evidence of such a passion which has now gained respectabil-

ity. What especially concerns Kristol, however, is what he takes to be a reluctance inherent in the capitalist ideology to come forth with its own necessary moral justification. Thus, for example, he deplores Friedrich von Hayek's alleged resistance to the very idea of judging whether capitalism is just. Kristol writes with some alarm that in his otherwise brilliant book, *The Constitution of Liberty*, Hayek offers an "argument against viewing capitalism as a system that incarnates any idea of justice."⁵

Unfortunately, Kristol misses Hayek's major point—even more clearly spelled out in his recent book, *Law, Legislation and Liberty*, where he answers Kristol's argument directly—which is to deny that social justice could possibly mean anything. Or, rather, the concept is "capable of meaning almost anything one likes"⁶; usually based on the analogy with human distribution of rewards, where it is appropriate to have some guiding principles, the concept misleads.

After all, the function of the market is simply "to indicate to people what they ought to do if the order is to be maintained on which they all rely."⁷ Indeed this is precisely why the market works: you are successful if your product is wanted (e.g., paid for) in the market place; if not, your claim that somehow it "deserves" success is empty. Only by

forcing people to buy what they do not wish to have—whether this be an outmoded railroad or horse-and-buggy, an inefficient way of producing steel or television receivers, a boring (or even obscene and revolting) form of art—could you be rewarded once you have failed in the market place. Is that "justice"? Does it not look like its very opposite?

But to say that Hayek dismisses the quest for "social" justice as illusory does not mean that he is either oblivious or indifferent to justice as such. Competition justly carried out prohibits fraud and violence. And this is the same idea that plays so central a role in Adam Smith's system of natural liberty. To take away from another, by force or fraud, is "injury" and thus "the violation of justice."

Without Force or Fraud

Capitalism is supposed to allow for free transactions in a world *not* previously redistributed (according to whatever scheme) through force or fraud. To continue on a just path, there must be no positive interference (or "takings," as the lawyer would have it). Only then will it work to produce the maximum possible prosperity for all—not regardless but, on the contrary, *because* of its justice.

"Social" justice, on the other hand, would have boggled the mind of an Adam Smith as it does Hayek's and

mine. A strong advocate of "beneficence," Smith not only applauded charity but demanded that a truly magnanimous man be compassionate and understand the limits of power and riches, those "enormous and operose machines contrived to produce a few trifling conveniences to the body."⁸ Yet "beneficence" is strictly distinguished from "justice." One may or may not engage in the former, depending on inclination and sympathy; the latter, on the other hand, must be observed on pain of worldly punishment.

Smith may have thought of beneficence as a means to attain "God's justice" on earth; but he would certainly have been puzzled if not quite horrified by attempts to impose it through the state in the guise of social justice. Hayek's refusal to discuss such a concept any further seems to me to be the only philosophically respectable approach.

Inequality Guaranteed

Government-enforced "social justice" leads to the sharpest inequalities. Indeed, when the state steps in allegedly to restore "social justice," invariably the result is the very opposite of what was originally intended. The literature describing the great gulf that is government-sponsored inequality is too large, but one of the very best documents on the subject is Hedrick Smith's

The Russians, particularly Chapter I, "The Privileged Class: Dachas and Zils."

My own experience in communist Romania where I spent the first fourteen years of my life is in full accord with Smith's observations. I remember well the segregated housing: the leaders lived in villas that were off-limits to the rest of us while we waited to be assigned our eight square meters of real estate per person in a prescribed city or village chosen at the discretion of bureaucrats who cared little about the distance from our relatives and friends. (Since then, matters have worsened: all uninvited citizens are now actually prevented by the police from strolling along the official streets of the Jianu district.)

There were also the segregated shops: we, the unprivileged, could only gaze through the windows of fancy stores with foreign products full of such delicacies as off-season vegetables and shoes that fit, unavailable to us no matter whether or not we might have had the money to buy such products.

Then came the segregated vacation spots: we knew exactly which villas on the Black Sea were reserved for Western tourists, for Eastern Bloc visitors, for the Romanian elite, and for the rest of the fortunate members of the proletariat who managed by hook or (mostly) by crook to be put on "the

list." A vacationer who happened to wander into the "wrong" hotel would be immediately arrested—an apartheid the likes of which money can never quite buy.

And of course there was always the early lesson in school, where we learned no later than kindergarten, before we had been able to spell out the red-lettered slogans decorating our walls, that some among us had been picked by a kind of irrevocable because ideological fate and were immune to the rules of ordinary—which is to say sandbox—justice.

I remember one well-dressed little fellow protesting my outrage at an unexplained confiscation of what I took to be my personal building blocks by right of first possession and useful (if admittedly unproductive) employment: "I'll tell my daddy," he said, "and he is gonna make you go away." I snatched my blocks right back, without understanding till much later the reason for my mother's livid complexion at the time I proudly recounted my adventure with all the braggadocio of a potential Gulag inmate.

To return, then, to the title of

Solzhenitsyn's address before his (largely apathetic) Harvard audience: "A World Split Apart." So it is indeed split, in the communist systems themselves, into classes of power: the planners versus the planned, the decision-makers as against the large mass of the people. All of this in the name, naturally, of "social justice." But the price, inevitably, is freedom. And to call such a state of affairs "justice" is an abuse not only of language but of common sense. ☸

—FOOTNOTES—

¹Alexander Solzhenitsyn, "A World Split Apart," *National Review*, July 7, 1978, p. 839.

²*Ibid.*

³Alexander Solzhenitsyn et al., eds. *From Under the Rubble* (Boston-Toronto: Little, Brown and Company, 1974), p. 31.

⁴William F. Buckley, Jr., *Four Reforms—A Guide for the Seventies* (New York: G. P. Putnam's Sons, 1973), p. 23.

⁵Irving Kristol, *Two Cheers for Capitalism* (New York: Basic Books, 1978), p. 259.

⁶F. A. Hayek, *Law, Legislation and Liberty*, volume 2 (Chicago: University of Chicago Press, 1976), p. 79.

⁷*Ibid.*, p. 80.

⁸Adam Smith, *A Theory of Moral Sentiments* (London, 1861), p. 262.

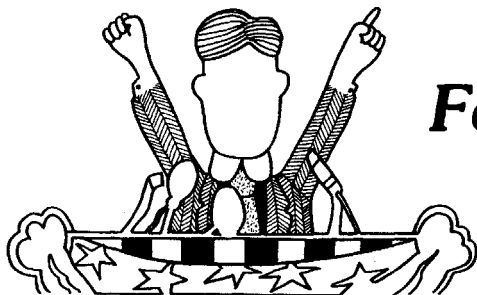
Francis E. Mahaffy

IDEAS ON



LIBERTY

ONLY when the state is restricted to the administration of justice, and economic creativity thus freed from arbitrary restraints, will conditions exist for making possible a lasting improvement in the welfare of the more miserable peoples of the world.



Follow the Leader?

BAFFLING to many reporters was the alleged change of character in Jim Jones. The tragic events in Guyana were said to "defy rational analysis."

Unfortunately, however, the mechanics of mania are built into our fondest political and religious beliefs. They need only mass weariness with responsibility, and a character with charisma, to set the wheels grinding down the final road to Jonestown.

Are we not taught righteous loyalty to leadership in public school? Don't we learn surrender to another human being as saint or saviour in church? Aren't we trained to hope all our lives that "the right man" will come along, that the "right system" will prevail?

A would-be leader's sense of compassion and humanity may be genuine, or he may be nothing but a petty opportunist who sees a ready

market in religion or politics—but the outcome is the same.

When this "right man" tries to meet all the longings we dump upon him, when he sees that his own ecstatic and extravagant promises cannot be humanly met, what does he do?

Can we expect him to publicly announce that it was all a mistake, folks, go on home? Or can we expect him to resort to expediency and deception, in order to keep alive the fond illusion called leadership.

And when we become uneasily aware that relinquishing our interests to another is not working, what do we do? Do we admit it looks like we were all wrong? That we should figure out things for ourselves? Or do we permit, even encourage our chosen leader to manufacture miracles and present us with programs.

Jim Jones' change in character is no mystery. By investing him with the responsibility for their interests, his followers corrupted him as surely as he later ruined them.

Mrs. Robertson has a background in journalism, education, and advertising, and lives in Los Angeles with her husband and daughter.

Several decades ago in a nation torn by war and ravaged by inflation, a man came along with a system that offered strong medicine for hope, prosperity, and renewed pride. This man's passion and eloquence, his sincerity and dedication to his nation's rise, and his energetic radio presentations to reach the minds and hearts of the people—all combined to assure the simple and the intellectual alike that a *true leader* had risen. Women swooned, men cried, and God was thanked that at last these beleaguered human beings could be led to their high and holy destiny—as Master Race.

Never mind that his System was imperfect, requiring hatred for individuality and usurpation of property. All the suffering was for "the common good." Never mind that their beloved leader fell into pathetic fits and tantrums. Surely he was beleaguered by the burdens of greatness. Never mind the talk of murders and persecutions and personal aberrations. Great men are always misunderstood. His followers remained loyal—to the end.

Hitler and his movement is history now, but human nature has not changed. We still pin our hopes on anyone who even *talks* about competence and vision—which are qualities we need to develop in ourselves, not look for in others. But we are disarmed, for usually an influential creature comes cloaked in the garb

of respectability, beguiling even himself in his dapper uniform, his politicians' pinstripes, or the venerated robes of religion.

How many of us are aware of Executive Order 11921? (*Federal Register*, Vol. 41, No. 116, June 15, 1976.) Should any President find (or desire to create) a cause to declare National Emergency, this Executive Order allows the following: complete government censorship, usurpation of all production and distribution facilities (food, water, power, health services), management of all highways, streets, aviation equipment and facilities, plus more. It means complete control of the ways and means of our lives, if our leader even *calls* a situation a national emergency.

I'm less concerned over that likely event than I am over our blind reaction to it. Weary of our national malaise, concerned about world events, eager to have a renewed sense of direction, will we fall into the People's Temple trap? Will we, in fear and in gratitude, further empower a President with the surrender of our rightful responsibilities? In an emotional orgy of martial music and slick slogans, will we confuse our individual ethics with "our leader's" personal ambitions?

Will generations hence wonder that we were impressed with a man's religious and dedicated attitude, that we were delighted with

his righteous and charismatic anger? Will they comprehend how we slavishly rendered up our daily freedom, in misplaced hope and fear, to a President who could not *resist* "great leadership" and the "will of the people."

I'm all for defending my country. I'll fight if I have to, with a pen or a gun, for my family, my life, my liberty, my property. And I will join with those of a like mind, against all coercion, whether foreign or domestic. But "my leader," in war *and* in peace, will have to fend for himself. I will not *play* Follow the Leader. The bloody footprints from that age-old con-game are smeared all over world history. I will not go down as another sad statistic, as one of millions who relied on their government and trusted in their leader.

History's most recent reminder of our human gullibility, of the degrading symbiosis between avid leader and devoted follower, was Guyana. Jim Jones skillfully combined religion *and* politics to establish leadership over 1,000 conscientious and idealistic American people. How many more of us hold the same false beliefs—that our well-being is better off under the influence of a leader and his organization?

Rather than a mystery, the loss of integrity, property, liberty, and life is the *logical* outcome of our attachment to leaders and institutions. Degradation, despair, and death are

the historically proven prices we pay for looking outside ourselves for salvation.

Our solutions lie within. Inspiration is within. What we know as God is within *each* individual, no more so and no less so than in any other individual.

We need only to cultivate our personal self-esteem, but in gratitude, not in arrogance. We need only to cultivate our self-reliance, but in awareness, not contempt, for the concerns of those around us. We can travel the middle path of Dignity, as neither Manipulator nor the Manipulated. We can exercise what we believe in an involved and responsible existence, but we need never sacrifice our life to the personal values of another.

Shall we in the United States blunder into a debacle, surrendering in hopeful worship and obedience to a leader who touts "the common good" and "self-sacrifice"? Millions fell for that propaganda in Germany. One thousand *Americans* fell for it in Guyana.

Or shall we choose to be aware and responsible individualists, whose love for our families, our country, and our God is expressed in a calculated disdain of leaders, causes, and mass movements.

Know that we have a choice, in every action and attitude. Let freedom be.



Knowledge and Decisions



Thomas Sowell

THOMAS SOWELL, professor of economics at U.C.L.A. and the author of such important books as *Classical Economics Reconsidered* (1974) and *Race and Economics* (1975) is one of the most articulate advocates of the free market in the United States at the present time. Interestingly, the fact that he is black has caused many who might not otherwise carefully consider his work to pay it the attention it deserves.

In this book, he illustrates in depth the superiority of the market to various forms of collective decision making, and shows the manner in which the collective idea has gained in the U.S., tracing trends in economics, law and politics which are moving us away from freedom.

Mr. Brownfeld, of Alexandria, Virginia, is a free-lance author, editor and lecturer especially interested in political science.

In modern society, he notes, the number of separate individual decisions required to do something so apparently simple as bringing a slice of bread and pat of butter to the table—let alone something so complex as exploring space—is staggering to the mind. Yet processes involving a multitude of such decisions are undertaken every minute of the day by untold millions of people.

Dr. Sowell portrays society as a collection of interconnected and overlapping decision-making units ranging from "a married couple to a police department to a national government." They all operate under the inherent constraint of scarcity, and thus face the necessity of engaging in "trade-offs." Parents deciding how much time and energy to devote to the care of each of their children

or a police department determining which laws it will enforce most vigorously both must forgo some desirable options in order to pursue others. The weighing of costs and benefits that characterizes the economic sphere can be seen at work throughout the whole range of human choice: "Social values in general are incrementally variable: neither safety, diversity, rational articulation, nor morality is categorically a 'good thing' to have more of, without limits. All are subject to diminishing returns, and ultimately negative returns."

Knowledge and Decisions by Thomas Sowell. Published by Basic Books, 10 E. 53rd St., New York, N.Y. 10022, 1980. 422 pages, \$18.50 cloth.

There is a radical difference between the kind of knowledge possessed by producers of goods and intellectuals or bureaucrats. "To say that a farm boy knows how to milk a cow," the author writes, "is to say that we can send him out to the barn with an empty pail and expect him to return with milk. To say that a criminologist understands crime is not to say that we can send him out with a grant or a law and expect him to return with a lower crime rate. He is more likely to return with a report on why he has not succeeded yet, and including the inevitable

need for more money, a larger staff, more sweeping powers, etc. In short, the degree of authentication of knowledge may be *lower* in the 'higher' intellectual levels and much higher in those areas which intellectuals choose to regard as 'lower.' "

Incentives Differ

When any area of concern becomes the province of government officials, a different structure of incentives exists than when free market incentives were working. Government decision makers, for example, may act rationally within the context of their own personal and bureaucratic incentives and constraints—such as the desire for re-election or promotion, or for increasing the power of their agency—but this may produce a socially harmful result.

Thus, Dr. Sowell argues, "Much criticism of 'incompetent bureaucrats' implicitly assumes that those in the bureaucracy are pursuing the assigned goal but failing to achieve it due to lack of ability. In fact, they may be responding very rationally and ably to the set of incentives facing them. For example, government regulatory agencies are often very ineffective in controlling the industry or sector which they have a legal mandate to regulate. But it is a common pattern in such agencies for those in decision-making positions to (1) earn far less money than com-

parable individuals earn in the regulated sector, and (2) after a few years' experience to move on to jobs in the regulated sector. In short, they are regulating their future employers. Under such a set of incentives, it is hardly surprising that decision makers . . . approach those whom they are assigned to regulate with an attitude that is sympathetic, cooperative, and even protective."

The examples of such an incentive structure at work, Dr. Sowell shows, are numerous, among them, the Interstate Commerce Commission and the trucking industry, and the Civil Aeronautics Board and the airline industry. He declares that, "Much discussion of the pros and cons of various 'issues' overlooks the crucial fact that the most basic decision is *who* makes the decision, under what constraints, and subject to what feedback mechanisms."

Numerous Options

When government decides something—it decides it for everyone, often wrongly. "The advantages of market institutions," Dr. Sowell states, "over government institutions are . . . that people can usually make a better choice out of numerous options than by following a single prescribed process. The diversity of personal tastes insures that no given institution will become *the* answer to a human prob-

lem in the market. The need for food, housing, or other desiderata can be met in a sweeping range of ways. Some of the methods most preferred by some will be the most abhorred by others. Responsiveness to individual diversity means that market processes necessarily produce 'chaotic' results from the point of view of any single given scale of values. No matter which particular way you think people should be housed or fed (or their other needs met) the market will *not* do it just that way, because the market is not a particular set of institutions. People who are convinced that their values are best—not only for themselves but for others—must necessarily be offended by many things that happen in a market economy. . . . The diversity of tastes satisfied by a market may be its greatest economic achievement, but it is also its greatest political vulnerability."

Since an economy functions with scarce resources which have alternative uses, there must be some method of coordinating the rationing process and getting the most output from the available input. Discussing the manner in which the market proves itself the best source of such coordination, Dr. Sowell writes: "Price movements economize on the knowledge needed for given decisions. Where such prices are artificially maintained by force, rather than through voluntary transac-

tions, they convey misinformation as to relative scarcities, and therefore lead the economy away from the optimal use of resources. Accurate prices resulting from voluntary exchange permit the economy to achieve optimal performance in terms of satisfying each individual as much as he can be satisfied, by his own standards, without sacrificing others by their own respective standards. The results must, however, appear 'chaotic' to any observer judging by any given set of standards applied to all. . . . The most basic question is not what is best but *who shall decide* what is best. . . . Figures of speech about 'society' as decision maker ignore the diversity of individual preferences which are responsible for many of the very phenomena in question—whether economic, social, or political."

Timed for Short Run

Political decision making also has a time horizon which is confined to the very short run. "The time horizon of the constituent," the author points out, "may be his lifetime, and perhaps that of his children, or even the longer range interest of the whole society as an on-going enterprise. The inherent incentive structure facing a political surrogate emphasizes the time remaining between a given decision and the next election. The opportunity for policies

with immediate benefits and longer run negative consequences are obvious, not only in theory but in practice."

Government agencies also have no interest in solving the "problems" they were created to deal with. If they succeeded, their jobs would end. The result: ". . . the agency must then apply *more* activity per residual unit of evil, just in order to maintain its current employment and appropriations level. If the agency is supposed to fight discrimination against minorities, it must successively expand its concept of what constitutes 'discrimination' and what constitutes a 'minority.' Urgent tasks such as securing basic civil rights for blacks ultimately give way to activities designed to get equal numbers of cheerleaders for girls' high school athletic teams. A nongovernmental organization, such as the March of Dimes, could—as it did, after conquering polio—turn its attention to other serious diseases, but if it had a government mandate strictly limited to polio, it would have little choice but to continue into such activities as writing the history of polio, collecting old polio posters, etc., while children were still dying of birth defects and other maladies . . . a nongovernmental organization subject to feedback from donors or customers has incentives and constraints that lead to institutional

decisions more attuned to rational social trade-offs."

The question, therefore, is not the nature of the men and women in charge of government programs, but the nature of bureaucracy itself: "Bureaucracies, by definition, are controlled by administrative or political decisions, not by incentives and constraints communicated through market price fluctuations. . . . The rank and pay of a bureaucrat is determined by his degree of 'responsibility'—in categories documentable to third parties judging a process rather than a result. He is paid by how many people he manages and how much money he administers. Overstaffing, 'needless' paperwork, and 'unnecessary' delays may be such only relative to social purposes—not relative to the incentives established. Every 'needless' employee is a reason for his superior to get a higher salary . . ."

Government Is Not Society

One key myth which Thomas Sowell wants to dispel is that, somehow, government is the equivalent of "society." It is not. Instead, he writes, "it is often not a consolidated decisionmaking unit but an overlapping montage of autonomous branches, agencies, and power cliques—each of these responsive to different outside coalitions of interest groups or ideologists. . . . A bureaucracy which can envelop its

processes in intricate and unintelligible regulations and bury its performance under mountains of tangential statistics has achieved the security of insulation from feedback. Knowledge costs—whether inherent or contrived—are institutional insulations."

Trends today, both in the U.S. and elsewhere in the Western world, are clearly away from freedom. Democracy, Dr. Sowell reminds us, is a process, not a value. People can give their freedom away through the democratic process, as many have done. Hitler, after all, came to power in Germany through that very democratic process.

Dr. Sowell discusses the role of intellectuals in eroding freedom, a role played by intellectuals in other societies as well, for freedom denies them the power to inflict their ideas upon others. He chronicles the increasingly legislative role played by the courts and the non-elected bureaucracy and laments that, "Over the years, but especially in the twentieth century, the constitutional division of powers has been eroded or destroyed . . . the sheer growth in size of the federal government has given it new powers derived neither from the Constitution nor from any statutes, but inherent in the disposition of vast sums of money, many important jobs, and great discretionary powers of enforcing a massive and ever

growing amount of laws and regulations. . . . The size of government affects the ability of the citizens to monitor what it does—or even the ability of their elected political surrogates to monitor the activities of a far-flung administrative empire. . . . None of this is historically unique. In the late stages of the Roman Empire its civil servants 'felt able to exhibit a serene defiance of the Emperor.' . . . The same was later true of Czarist Russia, for John Stuart Mill declared, 'The Czar himself is powerless against the bureaucratic body; he can send any one of them to Siberia, but he cannot govern without them, or against their will.' The experience of Imperial China was very much the same."

The free enterprise system is, Dr. Sowell believes, worthy of support not only because it is the most efficient but, far more important, because it is the only economic system consistent with other freedoms. Those who oppose the free market, whatever their rhetoric, are really opposed to freedom, for which they would like to substitute their own ideological notions.

Although he understands the negative trends, Thomas Sowell is not a pessimist. If he were, he would not have produced this thoughtful and incisive defense of freedom. He concludes: "Historically, freedom is a rare and fragile thing. It has emerged out of the stalemates of would-be oppressors. Freedom has cost the blood of millions in obscure places and in historic sites ranging from Gettysburg to the Gulag Archipelago. A frontal assault on freedom is still impossible in America and in most of Western civilization. Perhaps nowhere in the world is anyone frankly against it, though everywhere there are those prepared to scrap it for other things that shine more brightly for the moment. That something that costs so much in human lives should be surrendered piecemeal in exchange for visions or rhetoric seems grotesque. Freedom is not simply the right of intellectuals to circulate their merchandise. It is, above all, the right of ordinary people to find elbow room for themselves and a refuge from the rampaging presumptions of their 'betters.'" (M)

F. A. Harper

IDEAS ON



LIBERTY

IF man is to continue his self-improvement, he must be free to exercise the powers of choice with which he has been endowed. When discrimination is not allowed according to one's wisdom and conscience, both discrimination and conscience will atrophy in the same manner as an unused muscle.

The World in the Grip of an Idea

CLARENCE B. CARSON is well known to readers of *The Freeman*. He has a way of reducing complex things to essentials, presenting his arguments in simple common-sense language that cuts through the verbiage foisted on the world by ideologists of all stripes.

His *The World in the Grip of an Idea* argues that majority governments throughout the world are pretty much all of a piece. Some of them call themselves communist, others profess to be socialist of one type or another (there is Arab socialism, European democratic socialism, African socialism and so on). The Scandinavians speak of their middle way. The British have been "gradualist" collectivists since the 1880s, and their Fabianism has rubbed off not only on India but on practically all of their former colonies. The United States, with its

"progressivism," may have lagged a bit behind England, but it has been going in the same direction.

The Cold War, then, has represented a quarrel over means, tempo and personal leadership rather than a struggle over conflicting philosophies. The "idea" that grips the world is that everybody should agree that all efforts should be concerted to achieve human felicity on this planet, and that the State is the proper instrument to carry out the grand crusade.

The only trouble with the "idea" is that no two human beings have the same conception of felicity. One man wants to climb Everest, another is intent on being a gourmet. When the communists run up against this fact they fall back on the Rousseauistic theory that once "society" is remade, the "new man" will emerge, willing to forswear individ-

ualism in favor of supporting the General Will. The Fascists word it their own way—their goals are nationalist as well as socialist. Fabians and progressives are willing to approach the grand goal in piecemeal fashion. But they all agree that the force of the State is essential to reach the Utopian end.

The Consequences of Force

When force is used to make people over, it brutalizes its wielders and makes displaced persons of millions. Some states are worse than others, but, as Harold Laski once said in a moment of confession, "All governments are bloody." It's a matter of degree. What Mr. Carson has done is to set up a degree chart, which will give consolation to people who are lucky enough to have fallen among Fabians rather than revolutionary Marxists or Fascists. But the degree chart isn't going to help in the long run unless there is a revival of voluntarism and a reinstatement of the idea of society as something quite separate from the State.

The quarrel between revolutionary and evolutionary socialism is similar to the quarrel within Christendom in the seventeenth century. Mr. Carson devotes separate sections to the various anti-religious religions that have taken over in different parts of the world as the socialist gospel has made its converts. Lenin gave Marxism a ter-

rorist twist in Russia, and Hitler, in the Germany of the late Twenties and Thirties, proved himself an apt pupil of the Bolsheviks, whose murderous zealotry in dispatching the Czar's family included killing the royal spaniel.

The World in the Grip of an Idea by Clarence B. Carson. Published by Arlington House, Westport, Connecticut 06880. 562 pages, \$14.95 cloth. The book also is available from The Foundation for Economic Education, Inc., Irvington-on-Hudson, New York 10533.

It would be too much to blame the emergence of revolutionary socialism on the German mind, for Marx owed much to French revolutionary theorists as well as to Hegel. And, after all, the most influential preacher of the evolutionary socialist idea was a now-forgotten German named Eduard Bernstein. He saved western Europe for the Fabian ideal. But idealism itself has survived neither in Russia nor in Fabian England or Sweden. Dispensing with respect for individuals, evolutionary socialism becomes a series of negotiated compromises between groups. This entails a tyranny of sorts as individuals are made pawns within a group.

Political and Spiritual

Mr. Carson's history is brilliantly written. It brings us down to the present moment and his theory of the "two braces." All socialism is braced to communism, for the idea that has the world in its grip culminates in a state power monopoly. But braces, as Mr. Carson explains, work both ways. The dependence of evolutionary socialism on communism is largely spiritual—it is, says Mr. Carson, "the vision of a forward-marching, triumphant world socialism riding the wave of History." But communism itself is a counterproductive economic system. It depends on the non-communist world for inventions, for technological innovation, and even for periodic grain shipments, for survival.

Mr. Carson says the mutual dependence is bound to be only temporary: the lust of the communists is for domination. Mr. Carson offers his readers a "fearful prospect," with various centers of communism contending with each other, with terrorism and violence being stepped up on a world scale.

A Ray of Hope

Mr. Carson is not without hope, however. He ends with an odd attack on all sorts of organization, including the modern corporation. In this he echoes Bertrand Russell who wrote *Freedom Versus Organiza-*

tion and the Hilaire Belloc of *The Servile State*. I think he overreaches himself here: the big corporation is no monster as long as people are free to patronize rivals and to quit their jobs or sell their stock. But he is quite right when he says there is a hint of spring in the air. People are weary of socialism, of depending on institutions. "Men," he says, "are beginning to relearn an old truth: 'If you want something done right, do it yourself.' Specialization is breaking down . . . they are considering individual devices of providing electricity for their homes. In a thousand uncharted ways they are seeking to disentangle themselves from organizations and collectives."

Mr. Carson objects to being a number in a computer. But omnipotent government says you must have a social security number. As the computer memory banks become more and more cluttered, however, the police power can't keep up with the information that is stored. More and more people are becoming adept in avoiding getting the details of their lives into the computer in the first place. As Alice Widener has noted, we have a thriving underground economy. I wish Mr. Carson would devote his next book to exploring the extent of that economy—it might give real substance to his feeling that spring is indeed in the air. ☉

**FREE TO CHOOSE:
A PERSONAL STATEMENT**

by Milton and Rose Friedman
(Harcourt Brace Jovanovich, Inc., 757
Third Ave., New York, N.Y. 10017) 1979
338 pages ■ \$9.95 cloth

Reviewed by William L. Baker

STEAMROLLER GOVERNMENT is the bane of twentieth century life. It is the trademark of our time. Expanding budgets, unfettered taxation, galloping inflation, burgeoning bureaucracy, tireless assaults upon individualism and productivity are the tragic earmarks of our painfully collectivized world. *Free to Choose* tackles this Leviathan and dispels much of the ignorance, the many clichés, and the persistent myths which envelop the welfare state. Author of a growing shelf of free market books and monetary treatises, Milton Friedman brings to his latest task the rarefied prestige of the Nobel Prize, a formidable array of mental tools and academic skills. Mrs. Friedman is a scholar in her own right.

Essentially, the Friedmans tell us that the market economy is indispensable to a free society. It is the free market which generates maximum production and provides the means for every other liberty. As an aid in convincing recalcitrant readers, the authors invoke the "in-

visible hand" of the redoubtable Adam Smith, whose *Wealth of Nations* appeared the same year as the Declaration of Independence ("a curious coincidence").

The "miracle" of American productivity, the authors point out, stems from the market—free men engaged in voluntary exchanges. Private initiative unrestrained by the bureaucratic tyranny of economic controls produced the wealthiest country ever. Critical to this paradigm is the role of prices as transmitters of information—a peculiarly "Austrian" notion. It was Adam Smith's great "flash of genius," however, that prices (emerging as they do from voluntary transactions) coordinate the myriad activities of millions of unsuspecting actors blissfully unaware that they are part of any general system or plan.

It is this apparent "planlessness," this "anarchy of production" of free market capitalism that interventionists and collectivists decry so vacuously, ignorant that the underlying harmony is bolstered and guided by the phenomenon of price, which in turn is the reliable reflection of consumer spending. This issue is not, and never has been, "planning" versus "not planning" but, rather, who shall do the planning? Shall production be dictated by the socialist board of central planning; or shall producers be

guided by the millions of customers casting their "ballots," expressing their wants in the daily plebiscite of the market? Only the latter is compatible with a society of free people.

There is an excellent chapter favoring free trade, establishing the point that "controls on foreign trade extend to domestic trade." Social Security and other "welfare" measures are shown to be hollow promises. Government schooling is severely critiqued, as are labor unions, and the various regulatory agencies allegedly designed to protect the consumer.

Only when they come to the chapters on inflation and the depression do the Friedmans abandon their free market scenario. Here the authors are all for the Federal Reserve System (a notorious instrument of governmental hegemony over the market), government sponsorship of the money supply, and a yearly rate of officially prescribed doses of inflation. It is true that the Friedmans correctly diagnose the economic culpability of government. Moreover, they easily pierce the standard fallacies that it is the greedy businessman, the unions, or rapacious Arab sheiks that generate inflation. But the "cure" which is served up is dubious indeed. It is to control inflation by carefully calibrated doses of inflation! Government would legally expand the money supply at a fixed annual rate—as if the political pro-

cess could be trusted to achieve an economic end!

Furthermore, the authors are convinced that the Great Depression resulted from a deflation, a too-sharp reduction in the amount of money in circulation. Certainly they err. An elementary application of Say's Law would enable us to understand that a contraction in the money supply followed by a corresponding drop in wages and prices need present no insurmountable difficulties. Except for the initial period of readjustment inescapable during any period of deflation, no serious curtailment of goods and services need result. However, if the government attempts to artificially enforce yesterday's prices with today's monetary quantity, tragic dislocations and bottlenecks are inevitable. That was the legacy of the Great Depression: a futile attempt to prop up inflated prices with a deflated currency.

The Friedmans believe that we need a governmentally sponsored central bank of issue. Misesians would argue that the existence of such a bank has been the problem all along. What is really needed is a free market money divorced from the arbitrary acts of power brokers and political collaborators. At any rate, to couple the "free market" with a governmental monetary bureaucracy amounts to a regrettable contradiction in terms. ●

the Freeman

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the Freeman

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AGAINST ALL ENEMIES

Part I

THE elected and appointed officials of our federal government take an oath of office before undertaking their constitutional duties. Let's take a look at that oath, expressed as a question and answered by "I do."

Do you solemnly swear that you will support and defend the Constitution of the United States against all enemies, foreign and domestic; that you will bear true faith and allegiance to the same; that you take this obligation freely, without any mental reservation or purpose of evasion; and that you will well and faithfully discharge the duties of the office on which you are about to enter: So help you God?

In this three-part series, Robert Bearce of Houston, Texas identifies the basic principles of limited government as set forth in the Constitution of the United States. He shows how we have forsaken many of the basics, and points the way toward a restoration of freedom.

In response to their oath of office, our Congressmen and Senators answer "I do," but do they really mean it?

Unfortunately for the cause of freedom, the oath of office has often become only a hollow formality. Too many members of the administrative, legislative, and judicial branches of the federal government have failed to "support and defend the Constitution of the United States" and "bear true faith and allegiance to the same."

The Constitution has been misinterpreted, abused, and subverted. As it continues to be violated, we should see how freedom is gradually being destroyed.

The word "destroyed" might appear to be somewhat harsh, but it is appropriate. We ought to heed a warning made by Patrick Henry in

1775, not long before the opening shots of the War for Independence were fired at Lexington and Concord. Henry clearly understood how freedom was being threatened by oppressive government rule. He warned against indifference, complacency, and apathy.

"It is natural to man to indulge in the illusions of hope. We are apt to shut our eyes against a painful truth, and listen to the song of that siren, till she transforms us into beasts. Is this the part of wise men, engaged in a great and arduous struggle for liberty? Are we disposed to be of the number of those who, having eyes, see not, and having ears, hear not, the things which so nearly concern their temporal salvation? For my part, whatever anguish of spirit it may cost, I am willing to know the whole truth; to know the worst and provide for it."

By "temporal salvation," Patrick Henry meant the preservation of freedom—the freedom to work and provide for our personal lives as we best see fit. Henry and other patriots believed that freedom meant individuals had the ability and responsibility to plan their own lives without unnecessary government intervention. That freedom was being threatened, and Henry was telling the colonists to wake up and confront the danger before them. His admonition applies to us today.

If we truly want to strengthen

freedom and regain what we have already lost, we will pledge ourselves to defending the Constitution. We cannot support our Constitution, however, unless we face the fact that it is being continually ignored and betrayed. It is time that we give some serious thought to the Constitution.

Protection from Enemies— Foreign and Domestic

The Founding Fathers who framed our Constitution in 1787 knew that individuals have certain unalienable rights—"life, liberty, and the pursuit of happiness," as earlier expressed in the Declaration of Independence. These rights were God-given rights. No government or constitution gave them to the individual. Rather, the purpose of governments and constitutions was to protect these basic, God-given rights.

The Founding Fathers comprehended how and why people behave the way they do. Men like James Madison and Alexander Hamilton understood human nature. They saw that some human beings would always resort to force, deceit, war, stealing, and killing to get what they wanted. Thus, there was an obvious need for government—legitimate, just government to carry out two main functions:

(1) protecting free people from foreign enemies and invaders;

(2) protecting honest, self-responsible, hard-working citizens within the nation from domestic lawbreakers who would use coercion, fraud, or force to deprive others of "life, liberty, and the pursuit of happiness."

Good government would do the above, and the Founding Fathers outlined that kind of government in our Constitution. Just as they gave the government certain authority, they also placed limitations on government power. The framers of the Constitution realized that while government was needed to protect individual freedom, government itself had to be placed within limited, strictly defined boundaries. If government was not restrained, it would destroy individual liberty and lead to tyranny. Government had to be controlled. James Madison explained the matter:

"It may be a reflection on human nature that such devices should be necessary to control the abuses of government. But what is government itself but the greatest of all reflections on human nature? If men were angels, no government would be necessary. If angels were to govern men, neither external nor internal controls on government would be necessary. In framing a government which is to be administered by men over men, the great difficulty lies in this: you must first enable the government to control the governed,

and in the next place oblige it to control itself."

When Madison wrote that government should "control the governed," he was thinking about necessary government laws required to maintain impartial law and order—law and order that protected individual liberty. This issue of defending individual rights and limiting the power of government is the central theme of the Constitution.

Preserving Personal Liberty

Four aspects of the Constitution show the Founding Fathers' concern for preserving personal liberty within the boundaries of limited government.

First, we have a *written* constitution. Having the powers of government and the rights of the citizenry spelled out in print is no assurance that freedom will be observed, but a written constitution does act as a safeguard to liberty. When the Constitution is snubbed or disregarded, we can at least hold up a warning hand and say something to the effect: "Stop, government bureaucrats! The law you have just passed is unconstitutional. The Fifth Amendment says . . ."

Second, our Constitution provides for a republic. That is, we have a republican form of government based upon the citizenry electing representatives to carry out the

functions of government. The Founding Fathers did not frame a constitution that would set up a democracy—a kind of government where political power lay directly in the hands of the people. Under a pure democracy, the citizens of the state would exercise popular vote to decide what laws should be made. The majority view would be registered and then carried out by the administrative hand of the central government. There would be no representation (legislative branch of government) between the citizenry and the administrative branch of government.

A democracy might appear to be more “democratic” than a republic, but the authors of the Constitution knew that a democracy would lead to a loss of individual freedom . . . followed by anarchy or tyranny. While the Constitution was being considered for ratification by the Massachusetts Convention, Moses Ames observed:

“It has been said that a pure democracy is the best government for a small people who assemble in person. . . . It may be of some use in this argument . . . to consider, that it would be very burdensome, subject to faction and violence; decisions would often be made by surprise, in the precipitancy of passion, by men who either understand nothing or care nothing about the subject; or by interested men, or those who vote

for their own indemnity. It would be a government not by laws, but by men.”

The Dangers of Democracy

Seeing the dangers of a democracy, the Founding Fathers adopted a republican form of government. It is true that the history of our nation shows that a republic can suffer the very weaknesses of a democracy that Ames described, but the fact remains that a republic comes nearer to preserving individual rights than does a democracy.

Madison and others rejected popular vote as the method of making laws. Instead, Article I of the Constitution provides for representation through the election of Senators and Congressmen to the Senate and House of Representatives. These legislators would represent us and make laws—laws that should protect and promote individual freedom. The government was to be guided by clearly defined laws, not by direct majority rule, which would lead to oppression.

Although Thomas Jefferson did not participate in the work on the Constitution, he understood why a republic was superior to a democracy. He also knew what the basic purpose of a republic was: “The true foundation of republican government is the equal right of every citizen, in his person and property, and in their management.”

A republic meant a government that allowed the people of the United States to work freely, associate freely, and otherwise plan their own lives in the way they pleased—equal rights shared by all citizens. Speaking of the national or central government of the United States, Article IV, Section 4 of the Constitution says: "The United States shall guarantee to every State in this Union a *Republican Form of Government*, and shall protect each of them against Invasion . . ." (emphasis added).

A third principle of our Constitution that defends individual liberty is federalism. When we speak today about the "federal government," we refer to the executive, legislative, and judicial branches of the central government located in Washington, D.C. In the minds of the Founding Fathers, though, federal government was an all-encompassing term used to describe a nation made up of sovereign states—a nation composed of a central or national government (the folks in Washington, D.C.) and state governments (Delaware, South Carolina, Connecticut, etc.).

Notice that the Constitution recognizes that the United States *are*, not "is," a union of sovereign states. Article III, Section 3 reads: "Treason against the United States, shall consist only in levying War against *them*, or in adhering to *their*

Enemies . . ." (emphasis added). Although the Founding Fathers considered themselves as Americans and citizens of a unified nation, they also considered themselves citizens of separate, self-governing states. The United States were considered in the plural, not the singular. Thus, treason against the United States was against *them*, not *it*. This fact stresses the federalist nature of the government established by the Constitution.

The Separation of Powers to Protect the Citizenry

The Constitution provides for federalism that grants some powers to the national government and other powers to the states. This federal separation of powers acts as a safeguard to personal freedom. Federalism places the burden of law-making and political decisions upon power units close to the supervision of the citizenry. The Founding Fathers did not want the national government in Washington, D.C., telling the people of Virginia or North Carolina what to do.

Thus, political power was distributed among the different state, county, and local governments, enabling the people to govern themselves. This widespread distribution of authority makes it more difficult for one power unit to infringe upon the constitutional rights of the citizens.

The Founding Fathers provided for another form of separation of powers. This is the fourth aspect of the Constitution's defense of individual liberty. The national government, or, as we say, the federal government, was split up into three separate branches with each branch having distinct, limited powers.

Basically, the executive branch of government headed by the President and his Cabinet carries out constitutional laws and duties. The legislative branch made up of the Senate and House of Representatives makes the laws, while the judicial branch (the Supreme Court and federal courts) decides whether or not laws have been violated in light of the Constitution.

Three Branches of Government

The authority and powers of the three branches of the federal government are balanced and checked by one another. For example, the President can veto laws passed by Congress. Congress, on the other hand, can withhold funds from executive agencies. Although Congress can pass legislation, the Supreme Court has the power to declare certain laws unconstitutional, making them null and void. The President appoints federal judges and various civil servants, but the Senate can refuse to ratify major appointments. The federal judiciary can find individuals guilty of crimes,

but the President has power to grant pardons and reprieves.

This separation of powers, like federalism, should act as a checks and balances system to keep government from going beyond the boundaries of its constitutional authority. No single branch of government should have the combined power to make, interpret, and enforce laws.

The United States Constitution is really a remarkable document. It is a monument to personal freedom. The Founding Fathers distrusted government, and they attempted to shackle political power when they adopted the Constitution. It restricts government to the primary responsibilities of providing for the common defense, maintaining domestic security and peace, and protecting individual rights.

The Bill of Rights

When we think of individual rights, we usually have in mind the first ten amendments to the Constitution, the Bill of Rights. Much has been written about the first eight amendments which include assurances of freedom of religion, speech, and press . . . the right to bear arms . . . the right to trial by jury, etc. Not enough is said, though, about the Ninth and Tenth Amendments.

The Ninth Amendment states that "The enumeration in the Con-

stitution of certain rights, shall not be construed to deny or disparage others retained by the people."

This amendment assures the individual that he has other rights besides those listed in the Constitution and previous eight amendments. These unnamed rights cannot be taken away just because they are not mentioned in the Constitution. We have such rights as "the pursuit of happiness," not included in the Constitution but stated earlier in the Declaration of Independence.

Now look at the Tenth Amendment: "The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people."

This important amendment says that all powers not granted by the Constitution to the national government are retained either by the states or individual citizens. Likewise, all powers not prohibited by the Constitution to the states are left in the hands of the states or people themselves.

Unfortunately, many of our government officials today act as if the Ninth and Tenth Amendments do not exist. They have twisted the meaning of the Constitution and the role of government. They look upon the Bill of Rights as rights granted to us by a supposedly benevolent government. In reality, the first ten

amendments are a list of prohibitions against government *interfering* with those rights. Our legislators should listen to Daniel Webster.

Webster was only a youngster when the Constitution was ratified in 1788, but in later years he earned the reputation of being "The Defender of the Constitution." During a Senate speech in 1830, he declared:

"The people, then, Sir, erected this government. They gave it a Constitution, and in that Constitution they have enumerated the powers which they bestow on it. They have made it a limited government. They have defined its authority. They have restrained it to the exercise of such powers as are granted; and all others, they declare, are reserved to the states or the people."

A Framework for Freedom

The Founding Fathers knew that the basic responsibility of government was to serve as a "watchdog" to maintain a free society of free individuals working together freely. Improved working conditions . . . better education . . . good health care . . . material progress—all of these are goals that people work toward. The purpose of government is to ensure the necessary freedom that will permit individuals to work for those goals through self-responsibility, individual initiative, the free market, and voluntary ex-

change. Government has the responsibility of providing a framework that will allow individuals to achieve prosperity and dignity on their own.

The Founding Fathers were not men who felt that the purpose of government was to plan, formulate, and then implement specific ways to achieve the goals of a nation. Government was not to be in the business of providing public housing or job training through its political, economic, or social legislation. Government was not to mold society but, instead, allow society to mold itself freely.

Let's consider some advice from Jefferson: "... Still one thing more, fellow citizens—a wise and frugal Government, which shall restrain men from injuring one another, shall leave them otherwise free to regulate their own pursuits of industry and improvement, and shall not take from the mouth of labor the bread it has earned. This is the sum of good government. . . ."

We need to see how far we have strayed away from the Constitution. Not only is government poking its bureaucratic nose into where it should not be, it is not fulfilling one of its primary constitutional responsibilities—deterring crime. Government is supposed to prevent, prosecute, and punish crime, but now government itself has become the lawbreaker of the Constitution.

The Enemy Within

Many of our public officials have broken their oath of office. They affirm or swear that they will support the Constitution and defend it "against all enemies, foreign and domestic." There is the foreign threat of Marxist subversion and aggression. More dangerous, however, are the domestic enemies—individuals whose actions and attitudes are corrupting the Constitution. Those individuals include some of the very government officials sworn to uphold the Constitution.

Actions by the executive, legislative, and judicial branches of the federal government have proven that many officeholders apparently do not understand the Constitution. If they do know what the Constitution stands for, then we should hold them responsible for willfully repudiating their oath of office.

Two tasks are before us. First, we must have a firm appreciation for the Constitution. Second, we must have a clear understanding how and why the Constitution is being defied. Until we face the truth, we will slide steadily towards the eventual destruction of freedom in the United States. 

(Editor's note: Part II of "Against All Enemies" will appear in the next issue of The Freeman.)

HOW TO RETURN TO GOLD



THE economic letter of the Texas Commerce Bank, dated April 18, discussed the problems of returning to the gold standard, and decided that such a return should not be attempted. The bank's discussion reveals a number of misconceptions of how a gold standard functions. As these misconceptions are probably widespread, they are worth analysis.

The bank takes for granted, without explicitly saying so, that the only form of gold standard now being recommended is a full, 100 percent gold backing for outstanding money and credit. This is

not the system that prevailed in the nineteenth century, or at any time since. What the world then had—and now calls the "classical" gold standard—was a *fractional* gold reserve system—that is, one in which each nation's gold stock represented only a fraction of its outstanding money and credit.

My own preference happens to be for a full gold standard. But as most advocates of a return to the gold standard have in mind the previous fractional reserve system, that should be discussed first. The basic objection to it is that until the reserve falls to the legal minimum fraction permitted, there is continuous pressure from banks to continue expanding their loans. But when the minimum reserve is reached, political pressure is likely to develop to reduce the required gold reserve

Henry Hazlitt, noted economist, author, editor, reviewer and columnist, is well known to readers of the *New York Times*, *Newsweek*, *The Freeman*, *Barron's*, *Human Events* and many others. For more on inflation, see his recent book, *The Inflation Crisis, and How to Resolve It*.

still further to permit the volume of credit to be further increased. The historic tendency, therefore, is for the required gold reserve to be constantly attenuated.

Dwindling Reserves

When the United States officially ceased gold payments in 1971, for example, its outstanding quantity of money and credit (M-2, including both demand and time bank deposits) had expanded to \$454.5 billion. Against this, the U.S. gold stock was only about \$12.3 billion (291.60 million fine troy ounces at \$42.22 an ounce), or only 2.7 percent. In other words, there was only one dollar in gold to redeem every thirty-seven dollars of paper credit.

The situation was even worse than this, because under the then existing "gold-exchange" standard, the currencies of all other countries—more than 100 of them—in the International Monetary Fund were convertible merely into dollars, while only the dollars were directly convertible into gold. This made our American gold reserve equal to only some small fraction of 1 percent of the total outstanding money and credit which was supposed to be directly or indirectly convertible into it.

When the Texas Commerce Bank's letter contends that a return to the gold standard would "tie changes in the money supply to

changes in the quantity of gold in Ft. Knox," and on a dollar-for-dollar basis, it is assuming, as I have already pointed out, that the return would be to a 100 percent gold reserve system.

It falls into a number of other misconceptions. It assumes, for example, that to return to a gold standard the government would once more have to establish a fixed relationship between the dollar and an ounce of gold—a new official "price" for gold—and it mentions \$450 as a possibility.

But under today's conditions, when every nation on earth has abandoned the gold standard, and nearly all of them have followed recklessly inflationary policies for the last ten or twenty years, it would be practically impossible for the monetary managers of any one country to establish a fixed relationship between its present currency unit and gold that they could count on not to prove either dangerously inflationary or dangerously deflationary.

When the United States, after its greenback adventure in the Civil War, decided in 1875 to return the dollar to the previous gold parity, beginning in 1879, and when Britain decided in early 1925 to work its way back to the old parity of \$4.86 for the pound, both countries experienced several years of severe deflation and unemployment.

Today it would not only be difficult and dangerous, but unnecessary, for any country to try to tie the purchasing power of its existing paper money to any fixed ratio with a new gold-standard currency. All that would be necessary would be the minting of a new gold coin (and perhaps the issuance of gold certificates), stamped not in dollars, pounds, marks, or any other national unit, but simply with its weight—an ounce, a gram, ten grams, or whatever. (If coined in a metric unit of weight, such as a ten-gram piece, it would circulate as an international medium of exchange no matter by what leading country issued.)

Countries issuing such coins should make neither them nor their previous irredeemable paper currencies compulsory legal tender. The market rate between their paper currencies and gold would be left free to fluctuate daily. Private citizens would be free to make contracts with each other for repayment of new long-term debts in either paper or gold, and such contracts should be enforceable. Private citizens, corporations or banks should also be free to mint gold coins and issue gold-certificates against them, subject to suit for fraud, short weight or non-performance. Within such a legal framework, an alternative and dependable currency system would always be available for increased

use whenever a paper currency began depreciating so fast that nobody wanted to continue doing business in it.

Two Possibilities

Let me sum up. There are two possible kinds of gold standard, one requiring only a fractional gold reserve against outstanding currency and credit, the other requiring a 100 percent gold reserve against it. The first was the kind the Western world actually operated on from about the middle of the nineteenth century to 1914 (and to some extent in later periods until 1971). The problem with it is that either the required fraction of gold reserve keeps being reduced as the legal minimum reserve is approached, thus permitting a great deal of inflation even under the gold standard; or credit that has been expanding must be suddenly tightened to prevent the gold reserve from falling below the set legal limit. In the second case, which frequently occurred, individual countries, seeking to safeguard their gold reserves, suffered the familiar cycles of credit expansion and contraction, boom and depression.

A 100 percent gold reserve system prevents this consequence. But under it, prices do depend upon the existing gold supply; the volume of money and credit cannot be expanded at will. There can be no inflation. And that is precisely why

so many people oppose the system. That is why the author of the Texas Commerce Bank letter opposes it. In his words, it "cannot support the increased needs for liquidity arising from greater world trade. . . . The gold standard does not provide sufficient flexibility to deal with today's complex domestic and international conditions."

By "flexibility" the bank means credit expansion. And credit expansion, when left to the whim of government authorities, means inflation. The great merit of the gold standard is precisely that it takes the decision regarding the quantity of money out of the hands of the politicians. The quantity of gold can only be determined by the physical amount that is discovered, extracted and refined, whereas the quantity of paper money can be determined by political caprice.

Misplaced Fears

Opponents of the gold standard sometimes express the fear that new annual supplies of gold will finally prove insufficient to "carry on the growing volume of world trade." Such fears are misplaced. The existing amount of money is always sufficient to carry on the existing vol-

ume of trade; it is merely the overall price average that is affected.

There is, of course, a theoretic possibility that the annual increase in gold supplies might finally prove insufficient to keep commodity prices from falling dangerously and disruptively. Such a shrinkage in new gold production has never actually occurred. The opposite has. There have been "gold inflations," like that following the gold rush to California in 1849 and later discoveries. But the worst that could happen, if new gold supplies started to dry up, would be a return to a fractional instead of a 100 percent gold standard.

"The myriad problems of adopting the gold standard," reads the last sentence of the bank's letter, "suggest that its adoption is not the optimal way to control inflation." It is significant that the bank letter does not tell us what this optimal way would be. The experience over the last decades of 140 members of the International Monetary Fund proves that it could not be continuance of irredeemable currencies under government regulation. Return to the gold standard is not only the "optimal" way to control inflation; it is the only way. ☉

Remonetizing Gold, Again



The Gold Room, New York City, 1869

SINCE 1933 when President F. D. Roosevelt prohibited private ownership of gold, United States money has been completely in government hands. Monetary instability has, consequently, been institutionalized. Inflation has followed wave of inflation. Just consider some figures: From 1967 to 1978, the consumer price index doubled. In 1979, the index rose by 14 per cent—a pace that would double the CPI again in only 5 years. Yet the first months of 1980 have shown the CPI increasing at an annual rate of around 20 per cent. These figures speak for themselves. Government has lost control of inflation. Anticipating two centuries ago that the

federal government would not have the restraint to avoid the temptation to inflate, the Constitutional Convention carefully circumscribed the government's monetary authority.

"The congress shall have power to coin money, regulate the value thereof, and of foreign coin, and fix the standard of weights and measures." (Article I, Section 8.)

The framers of the Constitution gave Congress authority to "coin money," but specifically withheld authority to create money. By carefully choosing the verb "coin," they wisely designed to limit the government to stamping metal into money. The Articles of Confederation, from which was derived the idea to give the government power to "coin" metal, granted as well only

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the specific power to "strike coin." At the time of the Constitution's ratification, it was clearly understood that the Congress should only have authority to strike coin and regulate its alloy and value:

The *Federalist Papers*, Number 44, clarify:

The right of coining money, which is here taken from the States, was left in their hands by the Confederation, as a concurrent right with that of Congress, under an exception in favor of the exclusive right of Congress to regulate the alloy and value. In this instance, also, the new provision is an improvement on the old. Whilst the alloy and value depended on the general authority, a right of coinage in the particular States could have no other effect than to multiply expensive mints, and diversify the forms and weights of the circulating pieces.¹

Fixing the Weight

The framers of the Constitution knew the dangers of irredeemable paper currency. They had experienced the uncertainty and disappointment of an unbacked currency during their struggle for independence. Therefore, they placed the coining authority in the same sentence with the authority to set weights and measures. They were only giving the central government the power to decide what weight of metal each coin would contain. This allowed Congress to mandate uniform denominations nationwide. Thus, as explained in *Federalist*

Paper 44, Congress would provide for harmony and smooth commerce amongst the states. But Congress could no more debase its coinage than it could reduce its fixed standard of twelve inches to the foot down to seven inches. Just as it could "fix" a permanent standard of measurement, Congress could "coin" a permanent standard of money.

The Constitutional "coining" clause needs only one further explanation. The "power to regulate the value thereof" did not imply anything more than the right to add, if necessary, new standard coins. In the words of the Supreme Court, "This power of regulation is a power to determine the weight, purity, form, impression and denomination of the several coins, and their relation to each other, and the relations of foreign coins to the monetary unit of the United States."²

The framers in an earlier clause allowing Congress to "borrow money" expressly avoided stating the Congress could "regulate the value" of the money it borrowed. The framers were wary that borrowing would be the means of debasing the nation's money. Moreover, if they had meant to give Congress the right to debase the nation's coinage with the "regulate" language, they would have extended that regulating power to borrowed money as well. Perhaps the Constitution's view of money is best expressed in

summary by this Supreme Court pronouncement:

The power of coining money and regulating its value was delegated to the Congress by the Constitution for the very purpose, as assigned by the Framers of that instrument, of creating and preserving the uniformity and purity of such a standard of value.³

Thus, under the Constitution, the Congress launched the gold standard. The dollar was simply a name for a specified weight of gold, one-twentieth of a gold ounce. Because the rest of the world also used gold as money, the world enjoyed the economic blessing of a universal currency. One money worldwide facilitated freedom of commerce, travel, and investment across national borders. Without force or external governmental constraint, workers specialized and cooperated internationally. No wonder the nineteenth century saw unprecedented economic growth. Indeed, much of our current progress must be attributed to the accumulation of capital that occurred during the "golden" economic decades.

The result of leaving the gold standard in 1933 has been clear. The Consumer Price Index in 1933 was 38.8 (1967 dollar equals 100) on all items. In 1979, that index has soared to 217.4—nearly a six-fold increase. The index only failed to rise in three of the 46 years since the gold standard was abandoned.⁴ The

government has demonstrated its inability to maintain price stability. Once before, the United States left the gold standard only to learn that it must return. A review of that history reveals some instructive parallels with our current plight.

The Civil War Era

The Civil War demanded that the federal government immediately produce wealth it did not have. This led to a sad experience with fiat currency.

As the clouds of war began to gather (South Carolina seceded in December, 1860), the Treasury—already weakened by three years of deficits—began to experience great difficulty in borrowing money. Into this tenuous atmosphere stepped the new Secretary of Treasury, Salmon P. Chase. Already the national debt stood at \$75 million, of which \$18 million had been incurred in the few months since the secession.⁵

Supposing that the impending war would be won in a few weeks (a common miscalculation), Secretary Chase decided to finance the conflict by issuing more debt. Chase did not anticipate how much he would have to borrow. Throughout 1861, the Treasury was incurring obligations at an alarming rate, faster than it could finance them. In a vain attempt to meet these obligations, the Treasury issued bonds, i.e., borrowed, so swiftly that gold was pour-

ing out of the banks. Confidence that the banks could redeem in specie began to waver. The banks feared a run on their remaining specie reserves.

At this juncture, Chase made a grievous mistake which turned the state banks against him. Chase had been using the banks as temporary depositories for the proceeds of the loans. Many of the loans came from the banks themselves. The banks expected to hold the specie until the government needed it. But Chase required the specie to be transferred, without delay, to the Treasury. The banks thus saw the depletion of their gold reserves accelerate.

In July of 1861, the North lost the First Battle of Bull Run. The financial community realized that the war would not soon be over. In mid-December, Chase's financial report to the nation increased an earlier 1862 budget by \$200 million. The federal government's borrowing would grow even more. Already banks saw their gold stocks disappearing daily. In New York City alone, the banks were losing \$7 million of specie a week. Finally, on December 16th, the British demanded return of two Southern emissaries forcibly removed from the British steamer *Trent*. Great Britain seemed to be siding with the South. Panic spread in the financial community. On December 30th, the

private banks suspended specie payments. The government suspended specie payments the next day.

Greenbacks

Chase still had to meet obligations that were approaching \$2 million a day. The people were not prepared to absorb such enormous loans, and the banks could not invest all their funds in government loans. Accordingly, voluntary domestic loans were not coming in fast enough to fund the war effort. Nor could loans be obtained overseas due to an unfavorable balance of trade and uncertainty about the outcome of the war. The pressure on the government to meet its financial promises mounted.

Chase continued to issue notes, but now they were not redeemable. No one would accept them as payment. Seven weeks after suspension of specie payment, at Chase's request, Congress passed a law making the notes legal tender. The greenbacks were born. The first "temporary" issue was set at \$150 million. In July 1862, another \$150 million was allowed. Later, yet another \$150 million was authorized. These were the infamous Legal Tender Acts. In essence, Congress decided to impose involuntary debt upon the nation.

In retrospect, Chase was later to admit that this was a great error. He

said to Congress in 1863 that it was not too much, and perhaps hardly enough, to say that every dollar raised by taxation for extraordinary purposes or reduction of debt is worth two in the increased value of national securities. He learned too late that a nation, like any individual, must live within its means, that current taxes must at least cover current expenses.

Overt Taxation Preferred to Hidden Tax of Inflation

Taxes are always undesirable because they deprive individuals of the capital and incentive to continue to produce, especially when they reach confiscatory rates. Nonetheless, overt taxation is preferable to the covert tax of inflation because it is more easily monitored. The representatives of the people in Congress must vote unambiguously to deprive their constituents of wealth when approving an overt tax. The covert tax of inflation also deprives the constituents of wealth, but the representatives escape the consequences. The constituents do not file an "inflation tax" return every year to acquaint them with the extent of their losses. Thus the representatives are tempted to perpetually inflate the currency to raise revenue which they can spend.

An economist Chase never encountered, John Maynard Keynes, offered a concise, though somewhat

ironic, appraisal of inflation. He cautioned that inflation "engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one man in a million is able to diagnose."⁶ Chase apparently sensed, too late, the ultimate evil of inflation: it circumvents the citizen's ability to hold his government accountable.

Many representatives arose in Congress to criticize the Legal Tender Acts. Nonetheless they were approved by wide margins because of the temporary emergency. (Isn't every fatal poison administered as a serum to alleviate some "temporary emergency"?) Everyone, including President Lincoln, swore that the nation would soon mend its erroneous ways. In December 1862, Lincoln thus addressed the Congress:

The suspension of specie payments by the banks, soon after the commencement of your last session, made large issues of United States notes unavoidable. In no other way could the payment of the troops, and the satisfaction of other just demands, be so economically or so well provided for. . . . A return to specie payments, however, at the earliest period compatible with due regard to all interests concerned, should ever be kept in view. Fluctuations in the value of currency are always injurious. Convertibility, prompt and certain convertibility into coin, is generally acknowledged to be the best and surest safeguard against them.⁷

The greenbacks began to depre-

ciate in terms of specie almost as soon as they were issued. On the New York gold market (conversion to specie was allowed in this single location to facilitate international trade), gold could be purchased at a premium with greenbacks. In 1864, greenbacks depreciated to their all-time low: \$1 of gold equal to \$2.85 of paper or \$1 of paper worth only 35¢ of gold.⁸

The Post-War Era

After the war, Federal expenditures dropped sharply. While the government was spending \$37 per capita in 1865 to finance the war, spending was only \$14 per capita the following year.⁹ Due to tax revenues, the government already had a surplus in 1866.

In 1865, Congress voted (with only a single dissenter) to begin retiring the greenback debt. McCulloch, the new Secretary of Treasury, implemented that policy with revenue surpluses.

At that point, however, sentiment began to grow in favor of retaining the greenbacks as non-interest-bearing debt. The masses (primarily in the agrarian states) mistakenly believed that retiring greenbacks was depriving them of money. Some debtors, however, knowingly advocated inflation to escape the full consequences of their borrowing. They urged the government to use "cheap tender" to pay off its war

debts. Greenbackism began to take hold.

The Democratic party took up the cause of greenbackism. Many of the leaders who had stood on the floor of the House and declared paper "money" unconstitutional now argued that gold-convertible bonds be paid in greenbacks. Only two years after all the fervor to retire the debt, a Republican congress enacted a bill halting contraction of the debt. This measure was intended to allow the people to escape debt and cope with high prices. Instead, prices remained high; debt multiplied; depression spread. The greenbacks were in fact causing the problems they were supposed to cure. Throughout the next few years, Congress would occasionally consider a measure to replace the non-interest-bearing debt (greenbacks) with interest-bearing debt (bonds). These were defeated.

Supreme Court Rulings

The Supreme Court entered the debate over the integrity of our money in 1870. Chief Justice Chase issued in 1870 a finding that the Legal Tender Acts were unconstitutional as applied to pre-existing contracts. Speaking for the Court, he stated:

For no one will question that the United States notes, which the act makes a legal tender in payment, are essentially unlike in nature, and, being

irredeemable in coin, are necessarily unlike in value, to the lawful money intending by the parties to contracts for the payment of money made before its passage.¹⁰

This is the same Chase who as Secretary of the Treasury issued the paper nine years earlier. He pronounced this judgment upon his own action:

And there is abundant evidence, that whatever benefit is possible from that compulsion to some individuals or to the government, is far more than outweighed by the losses of property, the derangement of business, the fluctuations of currency and the values, and the increase of prices to the people and the government, and the long train of evils which flow from the use of irredeemable paper money.¹¹

This statement now echoes as a grim prophecy about the current age of inflation. He did not base his decision merely on the effects of inflation, however, but went on to substantiate his decision with reasoning based on the "coining" clause of the Constitution and the Fifth Amendment which prohibits the government from impairing private contracts or depriving citizens of property without due process of law. He concluded that his own action as Secretary of Treasury violated both the letter and the spirit of the nation's most sacred document.

No effort was made to conform to the 1870 decision. On the contrary, every effort was directed at chang-

ing the make-up of the Court to reverse the ruling. President Grant appointed two railroad lawyers to the bench who were sympathetic to the railroad's deep debt and desire to repay loans with inflated currency. The monumental *Hepburn v. Griswold* decision, which could have prevented the United States from ever suffering from wholesale inflation, was retried and fell, 5-4, the following year. The heart of the Court's reversing decision was an expediency argument:

If it be held by this court that Congress has no constitutional power, under any circumstances, or in any emergency, to make treasury notes a legal tender for the payment of all debts, . . . the government is without those means of self-preservation which, all must admit, may, in certain contingencies, become indispensable even if they were not when the acts of Congress now called in question were enacted.¹²

Chief Justice Chase, now writing a bitter dissent to the majority decision, could only reiterate:

We perceive no connection between the express power to coin money and the inference that the government may, in a contingency make its securities perform the functions of coined money, as a legal tender in the payment of debts.¹³

If one Supreme Court decision could be expunged to have the greatest altering effect on our current economic conditions, this would be the one. Inflation could have been

pronounced dead and sealed in a tomb of law, instead it was reincarnated by this last Legal Tender Case.

The Legal Tender Cases did not quiet the constitutional debate, however. The Court had implied that the greenbacks were constitutional only because the war emergency warranted drastic action. The emergency was over and greenbackism persisted. Despite the doubts, Boutwell (another Treasury Secretary) began to issue more greenbacks.

Resumption

Specie coins continued to circulate throughout this period. The greenbacks were, of course, always worth less than the coins. In fact, the coin value of greenbacks varied with the amount of paper in circulation, the degree of uncertainty that the paper would ever be redeemed, and the strength of general consent to accept payment in paper. Early in 1873, the coin value of paper currency dipped significantly. Due to Gresham's law, "bad money drives out good," coins were held out of circulation. Moreover, lenders hesitated to extend credit, fearing payment in depreciating currency. Traders were reluctant to accept greenbacks. At harvest time, these inflationary pressures caused a scarcity of money. This developed into panic in 1874.

The treasury, of course, was asked to print more greenbacks. The nation's attention was focused on a bill to authorize more unbacked paper currency. It passed Congress and the debate shifted to the White House. The eastern establishment (primarily creditors) protested against this inflation bill and urged a veto. The agrarian debtors west of Ohio were arrayed in favor of the measure. The whole issue of greenbackism had reached a climax.

As long as the matter of the currency's integrity was only debated in the intellectual circles of Washington, D.C., no wave of popular fervor developed on either side of the question. This bill made the issue public. In the perspective of the bulk of the people, the nation's honor was at stake. Grant, sensing the public mood, vetoed the bill on April 22, 1874, reminding the nation that Congress had repeatedly passed resolutions promising to discharge the war debt and return to sound money:

Among the evils growing out of the rebellion, and not yet referred to, is that of an irredeemable currency. It is an evil which I hope will receive your most earnest attention. It is a duty, and one of the highest duties, of Government to secure to the citizen a medium of exchange of fixed, unvarying value. This implies a return to a specie basis, and no substitute for it can be devised. It should be commenced now and reached at the earliest practicable moment consistent with

Debtors and Creditors

A poor man never gets to be a big debtor. Only a rich man, or a man with a reputation of being rich, can get into that situation. It is economic nonsense today to talk of a "debtor class" and a "creditor class" as if these represented separate groups necessarily at different economic levels. Each of us is to some extent debtor, to some extent creditor. Even if it were possible to work out a statistical average, based on the net position of each of us, it is more than doubtful that the "creditors" would prove on the average to be richer than the "debtors"; it is much more probable that the relationship would prove to be the other way around. Nothing but injustice, discouragement of work and thrift, encouragement of speculation and gambling, and economic disruption can follow from an effort to swindle creditors at the expense of debtors by a constant lowering of the purchasing power of the monetary unit.

HENRY HAZLITT, from his introduction to the 1959 edition of Andrew Dickson White's *Fiat Money Inflation in France*.

a fair regard for the interests of the debtor class . . . Fluctuation, however, in the paper value of the measure of all values (gold) is detrimental to the interests of trade. It makes the man of business an involuntary gambler, for in all sales where the future payment is to be made both parties speculate as to what will be the value of the currency to be paid and received.¹⁴

The issue, which had bubbled along beneath the nation's consciousness for years, was now in the open and decided. There was no turning back. Congress felt honor-

bound to uphold its promises. A bill quickly passed to limit greenback distribution. Congressional elections in 1874 restored the Republicans to power in Congress and they immediately adopted the Resumption Act which effected specie payment by 1879. The conversion happened smoothly.

Results of 1879 Resumption

In 1861, when the U.S. abandoned the gold standard, the consumer price index rested at 27 (1967 dollar

equals 100). By 1864, the index had soared to 47—almost a doubling. Prices remained high, between 36 and 46 on the index scale, until the Resumption Act was adopted in 1875. The value of the currency fluctuated wildly during this period. Indeed it lost one-tenth of its value in a single day. This decade provides some instructive lessons about the causes of our own age of inflation. The politicians of this period, in order to stay in power, were willing to sell the notion that more paper currency meant more wealth. Advocates of greenbackism thought they wanted more paper currency; they really needed more capital, a greater capacity to produce. Nonetheless, it took the nation a decade to learn that lesson.

The year 1879 brought the resumption of the redeemable currency. The consumer price index stabilized at 28 in that year. For more than three decades thereafter (World War I interrupted the price tranquility), the index never rose above 29 or dipped below 25. The index remained at 27 for a decade.¹⁵ Never did it rise or fall more than a single point in a year. The gold standard worked throughout that entire period to keep prices remarkably stable.

The United States has been locked for years in a devastating cycle of inflation. Each flare up of inflation is followed by recession. But the

bottom figure for inflation each time through the cycle is higher than the last bottom. The launching platform for the inflation take-off is always higher. If the cycle continues, our inflation may go over 50 per cent in the eighties. The current 20 per cent rate is already intolerable. America returned to the gold standard in 1879. A century later, it needs to return again. ☉

—FOOTNOTES—

¹*The Federalist Papers*, Alexander Hamilton, James Madison, John Jay; The New American Library of World Literature, 1961. Republication of original essays explaining and defending the Constitution.

²*Hepburn v. Griswold*, 8 Wallace 604, 616 (1869).

³*U.S. v. Marigold*, 9 Howard 567 (1850).

⁴*Handbook of Labor Statistics 1978*, U.S. Department of Labor, Bureau of Labor Statistics Bulletin 2000, 1979; Table 116, Page 369.

⁵*Financial History of the United States*, Paul Studenski and Herman E. Kroos, McGraw-Hill Book Company, Inc., 1952.

⁶Address delivered by John Maynard Keynes at 1919 Paris Peace Conference.

⁷*Messages of Presidents*, Volume VI, December 1862.

⁸*Financial History of the United States*, *supra*.

⁹*Financial History of the United States*, *supra*.

¹⁰*Hepburn v. Griswold*, *supra* at 607.

¹¹*Hepburn v. Griswold*, *supra* at 621.

¹²*Legal Tender Cases*, *Knox v. Lee and Parker v. Davis*, 12 Wallace 457, 529 (1870).

¹³*Legal Tender Cases*, *supra* at 574.

¹⁴*Congressional Record*, 43rd Congress, First Session, 3270-3271 (April 22, 1874).

¹⁵*Handbook of Labor Statistics 1978*, *supra*.



The Corruption of Language



JOHN LOCKE said "Language is the great bond that holds society together." Language is the common conduit whereby knowledge is conveyed from one man and one generation to another. It accomplishes this crucial task by enabling us to record our own thoughts and to communicate with others.

Today we are witnessing a corruption of our language, effectively destroying the bond that holds society together. There are several reasons for this, but all of them have a common goal—"to darken truth and unsettle people's rights," as Locke put it.

To appreciate the crucial and indispensable task that language performs, one needs only to understand

what language is and how it functions; that is, language is primarily a tool of cognition. It provides us with a system of classifying and organizing knowledge. It enables us to acquire knowledge on an unlimited scale and to keep order in our minds, which means, enables us to think. The principal consequence of language is communication.

Thus it is by the retention of concepts, i.e., language, that man retains knowledge. And to the extent he files his knowledge efficiently, the easier it is to recall it, add to it, change it, discard it, and communicate it to others. Locke, who thoroughly appreciated this, encouraged mankind to think clearly and concisely, so that all should know what their rights are, that progress could take place, and mankind live in peace.

Why do some people choose to cor-

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rupt words? Perhaps to persuade others of a certain point of view or to win an argument at any cost, regardless of where the truth lies. Some do it simply to sell a product or to make a profit. But we are concerned here with those of evil intentions who wish to "unsettle people's rights." They will employ any means to gain their end, such as obscurantism, obfuscation, deception, and falsification.

Other techniques of corrupting language, according to Locke, are to abuse words by either applying old words to new and unusual significations, introducing new and ambiguous terms without defining either, or else putting words together to confound their ordinary meaning.

The Dollar Devalued

To illustrate the technique of applying new and unusual meanings to old words, here is how the standard of value—the Dollar—was corrupted. Prior to 1933, the Dollar was a "standard unit of value," of twenty-five and four-fifth grains of ninety percent fine gold. Since then the United States government has phased out the gold standard and substituted its own absolute control over the value of the currency (with the resulting depreciation of the dollar, i.e., inflation).

As a result of the corruption of this crucial standard, other values have been likewise corrupted:

productiveness, self-reliance, honesty, independence, and integrity. For the promise of security, many Americans have sold their birthright of freedom.

This is clearly deceptive for while government promises to pay for security—free education, health insurance, social security, and the like—it is corrupting the very medium it uses as payment, namely the currency. Eventually there will be no education, no health insurance, no employment, no real currency, no security, and no freedom.

Another method of undermining a free country, to "darken truth and unsettle people's rights," is to corrupt the citizens' sense of justice. Frederic Bastiat's *The Law* explains how governments use laws and justice interchangeably, because most people view law and justice as one and the same thing. Thus it is only necessary for a law to decree something and it appears just and proper. Examples of using laws to sanction injustices are compulsory education, progressive taxation, conscription, welfare programs, and legal tender. Once the distinction between justice and injustice has been obscured the citizen has been placed in the tenuous position of choosing between justice and disrespect for such laws and those who passed them.

Justice, however, is a state where men live honestly, hurt no one, and

give to every one his due; it is not an excuse to rob Peter to pay Paul. An unjust society not only darkens truth, it leads to an unhappy and discontent society. The corruption of words is an insidious process which spreads like a cancer, corrupting and destroying everything around it.

At Whose Expense?

The word "freedom" has also been perverted. It once meant to be free from political oppression. Now it means freedom from wants and needs—from hunger, unemployment, sickness, illiteracy, old-age worries, and the like. The question to ask here is, at whose expense? Then it becomes obvious that these new freedoms are at someone's expense, and are not really freedoms, but irresponsible promises by government.

Related to these newly promulgated freedoms is the ambiguous phrase "economic rights." Thus the new freedoms have become political "rights." But while government promotes nefarious "economic rights," it is actively destroying our true political rights: life, liberty, and pursuit of happiness. Because someone must pay for these "economic rights" we are actually enslaving some part of the populace in the name of and benefit for some other part of the populace. But there can be no right to enslave

another. Either the nation is free or it is not. As Albert Jay Nock said in response to Franklin Roosevelt's Four Freedoms: "There is no such thing, four or forty. Freedom has no plural. Freedom either is, or isn't."

A second technique of corrupting the meaning of rights is quite subtle, but highly effective, because it seems to call attention to them. Locke called this "pretending to inform." Nowadays it takes the form of advocating "human rights." We hear this phrase constantly, and yet, what does it mean? Do we hear anything about the right to life, liberty, and pursuit of happiness in connection with it? We get the feeling that somehow it is an empty phrase, devoid of any worthy meaning.

As there can be no other rights than to sustain, protect, and enjoy one's life, any slogans advocating other rights are in fact "anti-rights." They necessarily abrogate the very essence of a right and substitute instead privileges or favors, which are bestowed on one group at the expense of another by a higher authority, in this case the government.

Confounding the meaning of words can successfully corrupt them. As for example, the meaning of the word "control" has been distorted by connecting it with an object such as price, wage, gun, or credit. But to control an inanimate object is nonsense. The real issue is "people" control. Under the guise of

"regulating" certain vital segments of the economy, the government has acquired control over individual lives.

Control of People

All knowledgeable people will admit that wage, price, and credit controls can never end currency depreciation. They merely suppress symptoms. They distract the uninformed person from the cause of inflation, which is government's monetary policy, to focus on the effects, which are the continually rising cost of labor, products, and money. The government gives the false impression of taking positive action. But, in fact, it is only interfering with free markets, which are trying to cope with a depreciating currency. In reality, the government has acquired control over people.

One should always be on guard against any political phrase which contains the word "control" in it. For whenever a government decides to control some *thing*, it invariably means to control some *one*.

Regulations are used in the same manner. To regulate a business, to license a practitioner, is to regulate and control a person. The horror becomes obvious when regulations and licenses are applied to the arts, where individuals deal directly with abstractions. The alarm is quickly sounded when authors, composers, news media, artists, and the like are

threatened by any loss of freedom. Although the principle holds true for every businessman, professional, laborer, and trader, the issue has been successfully obfuscated by government calling for some kind of "regulation." But individuals should never be regulated.

When a government promises to insure quality products, honest businessmen, competitiveness, and integrity by utilizing controls and regulations, it only insures higher costs, lower standards, and the waste of resources.

All forms of human rights, economic rights, the Four Freedoms, wage-price-credit-gun-controls, free education, legal tender, welfare programs, regulations, and so on are in reality, different ways of corrupting the things they are supposedly designed to protect. By employing various forms of obfuscation, obscurantism, deception, falsification, and by pretending to inform, the American Republic has been successfully corrupted from within—morally, politically, and financially.

This state of affairs is properly termed socialism, where individual rights have been replaced by government bureaus and bureaucrats who enforce the decreed regulations and controls. This is the definition and essence of tyranny. It makes little difference whether our rulers are domestic or foreign, American or Russian, whether they are called

secretaries, leaders, commissions, presidents, or departments; individual freedom has been confined and limited; government power has been unchained and is unlimited. We are an oppressed people.

Improve the Understanding

Where lies the solution? Or should we ask, with whom does the solution lie? How can we sift through the morass of deceptive meanings and corrupt language to reach the truth?

To begin, individuals must assume their own responsibility for acting as thinking, judging citizens. They must question unclear and ambiguous pronouncements coming from politicians, educators, and news media. Fuzzy thinking must not be allowed into the reasoning process. If the general public is satisfied with half-truths, lies, and distortions, this is what it will receive. So we must raise our standards of acquiring knowledge; then these deceptive practices cannot be used against us.

Furthermore, since plain and direct words cannot be "employed to darken truth and unsettle people's rights," as Locke aptly put it, we ought to simplify our lives and the words we use. Long, hard-to-define, ambiguous words, like those coined by bureaucrats and pseudo-intellectuals, are no longer impressive or appropriate. By ambiguous we mean terms like "national

wealth," "national state of the economy," and "general welfare," when there are no such things, only individual wealth and individual welfare. We should not want the wool pulled over our eyes nor our emotions comforted with familiar catch-phrases. We must demand the truth in all matters, for the truth always gives a favorable impression to the mind and spirit of man.

In *The Federalist* No. 37, James Madison said, "The use of words is to express ideas. Perspicuity, therefore, requires not only that the ideas should be distinctly formed, but that they should be expressed by words distinctly and exclusively appropriate to them." When we return to using specific concepts to declare our meanings, then our writing, speaking, and language will once more acquire the force of truth and usefulness it should possess.

The Individual Is Responsible for the Freedom Sought

Actually, to end the corruption of the language, individual rights, and our wonderful life-style of freedom and productivity, needs merely the desire and willpower of the people who are the victims being hurt by this insidious process. As in all acts of irresponsibility, it requires the assumption of the responsibility by the individual, who is sanctioning his own destruction, to continually judge issues presented to him, to

seek the truth, and to settle for nothing less. Dishonest individuals and groups will always try to gain their ends by any means available. So evil can only flourish where the good is ignored and left unattended.

What all of this boils down to is ethics and morality. The corruption of the language is merely a reflection of the corruption of the morals and ethics of the general public. Therefore, just as morality is a personal responsibility, so is the use (or abuse) of language. Keeping lan-

guage pure, meaningful, and accurate is thus the responsibility of every thinker, speaker, writer, listener, and reader, in addition, every reporter, journalist, publisher, newscaster, and editor.

A free people require individual integrity of purpose and justice in all things. That is what it took to win our liberty. That is what is required of us today to reclaim our liberty, and to make sure that language is indeed the bond that holds society together. 

Liberty is Limited Government

LIBERTY is limited government. I know that is not the philosophical definition but it is the practical definition. I go along with the theological experts who will say—and I agree—that liberty is merely my right to do what I *ought* to do. I am not at liberty to kill the man next to me. I may have the power but not the liberty to destroy his right. But practically, liberty means limited government. What is the opponent of liberty throughout history? Is it the big corporation, the big union? No. The only institution that has destroyed human liberty irrevocably is big government. The Founding Fathers looked over 6,000 years of human history, and saw the God-given rights of man burned to a crisp at least once in every generation by the fire of government.

... We couldn't get along without government, because we are a benighted race. But at the same time, unless you keep government as you keep fire, under control, checked and balanced, separated, divided, tied down, government will destroy you. That is the rationale of our Constitution. It doesn't make sense otherwise.

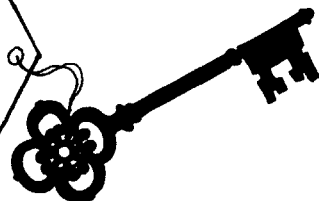
CLARENCE MANION, "Right and Wrong—
Not Right and Left"

IDEAS ON



LIBERTY

The Property Basis of Rights



THERE has been an attempt to separate property rights from other rights in this century. It has usually been done by labeling some rights as "human rights" and referring to others as "rights" of property. This distinction has been accompanied by the claim that "human rights" are superior to "property rights." For example, in the late 1950s when the McClellan Committee held Senate hearings on labor union activities, a labor leader put the matter this way: "Well, Senator, my primary concern was the safety and welfare of the people in that area. It simply was against my religion and against my principles and religion at this time to have placed property rights above human rights. . . . I think the

obligation was more to protect the human rights than the property rights at that particular time."¹

The distinction did not go unchallenged. In the 1960s there was even a sort of slogan coined which called it into question. It went something like this: "Property rights *are* human rights." The idea had some appeal. After all, rights are not something ordinarily thought of as belonging to plants or the lower animals. If there is a right to property, it must be first and foremost a *human* right. That was not, of course, quite the distinction the critics of property rights were attempting to make. They referred to property rights as if they were rights belonging to property. Those who challenged this concept maintained, to the contrary, that property rights were really rights of human beings

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to property. Thus, "Property rights are human rights."

At the time, I not only agreed with this line of reasoning—I still do—and thought it stated the case adequately. However, further study and reflection have led me to a somewhat different conclusion. Property rights are not just another human right; such a statement understates the case. They are much more fundamental than that. Property rights are basic to all rights.

This relationship first occurred to me while studying the loss of rights in totalitarian countries. My general conclusion was that the loss of property rights either preceded or accompanied the loss of other rights. This was so in Hitler's Germany. It was so in Lenin's and Stalin's Russia. It has also been the case in other totalitarian countries. It is possible that some property rights could be retained while other rights, such as freedom of speech, freedom of press, freedom of religion, freedom of association and so on, would be severely curtailed or taken away. But it is now inconceivable to me that other rights could be maintained when property rights were gone.

This suggests to me that there is a causal connection between property and other rights. The historical connection can be seen not only in countries where rights have been lost but also in countries where they were being established. For example, in

England in the seventeenth and eighteenth centuries, real property was being made private and personal. At the same time, there was a movement for substantial freedom of religion. In the wake of the establishment of these came the protection of other rights.

Freedom Is Indivisible

To my knowledge, no general theory has been propounded on the connection between property and other rights. True, the position has been often stated, sometimes accompanied by proofs or arguments, that freedom is indivisible. The meaning of the phrase is that you cannot pick and choose among basic liberties; you must buy the whole package or end up with none. There have also been assertions made that rights such as freedom of press are dependent upon private property. If there is no access to a printing press, the freedom to publish is empty.

Here and there, too, statements can be found which imply the central role of property. For example, here is one from John Stuart Mill:

... If the roads, the railways, the banks, the insurance offices, the great joint stock companies, the universities, and the public charities, were all of them branches of the government; if, in addition, the municipal corporations and local boards, with all that now devolves on them, became departments of the cen-

tral administration; if the employees of all these different enterprises were appointed and paid by the government, and looked to the government for every rise in life; not all the freedom of the press and popular constitution of the legislature would make this country free otherwise than in name.²

While Mill here entangled the matter with distribution of power among governments, it is reasonably clear that private property is a key factor in his position.

Natural Rights

In general, though, little attention has been paid to the relationship among rights. The Founders of the United States tended to equate them, trace them to the same source, and worked to establish those they recognized as important rights. They were particularly concerned with those that government has been given to invading and violating. For example, Thomas Jefferson said: "There are rights which it is useless to surrender to the government and which governments have yet always been found to invade. These are the rights of thinking and publishing our thoughts by speaking or writing; the right of free commerce; the right to personal freedom."³ They relied upon a received theory rather than propounding new ones.

They commonly referred to those rights which they accepted as natural rights. They were understood to

be a gift of God, implanted in the nature of things. As Alexander Hamilton put it, "the Deity, from the relations we stand in to Himself and to each other, has constituted an eternal and immutable law. . . . Upon this law depend the natural rights of mankind. . . ." ⁴ There were those who held that these rights were altered when man entered into society. The Founders did not concur in this view. Jefferson said that "the idea is unfounded that on entering into society we give up any natural right."⁵ Hamilton declared that "Civil liberty is only natural liberty modified and secured by the sanctions of civil society."⁶

What are these natural rights? John Adams stated it this way in the Massachusetts Declaration of Rights:

All men are born free and *independent*, and have certain natural, essential, and unalienable rights, among which may be reckoned the right of enjoying and defending their lives and liberties; that of acquiring, possessing, and protecting property; in fine, that of seeking and obtaining their safety and happiness.⁷

Jefferson said: "I believe . . . that a right to property is founded in our natural wants, in the means with which we are endowed to satisfy these wants, and the right to what we acquire by those means without violating the similar rights of other sensible beings; that no one has a right to obstruct another exercising

his faculties innocently for the relief of sensibilities made a part of his nature. . . ."⁸ The United States Constitution along with the first ten amendments, and state constitutions of the time, provide a more complete list of what were reckoned to be the most essential rights, or the ones most likely to be interfered with. Certainly, the right to property was reckoned to be essential, as the above statements show, but the dependence of other rights on it was not made clear or elaborated.

The Socialist Concept of Rights

It was not many decades, however, before the natural rights doctrine was challenged and began to be supplanted. The utilitarians turned away from the natural law basis of rights to justifying them by the social benefits to be derived from them. Democratic theory tacitly derived rights from the desires of the people. Socialists generally denied that there was any individual right to property, at least to productive property. Democratic socialism, which became the dominant intellectual creed of the twentieth century, not only downgraded, when it did not dismiss, private property rights but also devised a host of new rights. Many of these were in conflict with the right to private property.

Perhaps, the United Nations Declaration of Human Rights is the

most authoritative compendium of rights to come from the democratic socialist outlook. If it is not the most authoritative, it is surely the most complete. The Declaration runs to 29 articles, and many of these have several subheads, which may be thought of as distinct rights. If so, we may be entitled to something like 49 rights according to this document. The right to own property is mentioned in Article 17, but no reference is made either to the right to use it or to have the fruits from it. That is understandable within the context, for many of the other rights enumerated are adverse to property rights. However, many of the rights are not only in conflict with property rights but also internally inconsistent. For example, Article 26, which deals with education declares that "Elementary education shall be compulsory." It goes on to say, however, that "Parents have a prior right to choose the kind of education that shall be given to their children."⁹ They have the right to choose, we are left to conclude, so long as they choose to have them receive an "elementary education."

This brief summary of the development of ideas about rights does not begin to suggest the significance of the changes entailed. The origin of rights had shifted from natural law to society, to people, and, inevitably, to government. This development not only focused attention on

the origin of rights but also introduced ideas about what are rights. In the course of it, thinking shifted farther and farther away from any conception of the property basis of rights. It will be my contention here that this almost totally obscured the means for establishing any rights.

It is necessary, then, to explore the property basis of rights. A good place to begin is with a definition of right. A right is something to which one is entitled by virtue of being a man (generically). Whether it be called a natural right or a human right, it must be in accord with the nature of man and the human condition. Consistency requires, too, that one man's right not diminish the rights of others. In the final analysis, a right is what is right and derives its standing from the standard of justice. It is doubtful that a complete list of rights could be contrived, for right comes down ultimately to equity, to a law deeper and broader than the acts of legislatures and the precedents made by the courts. Right is a matter of principle, and like all principles, it is capable of numerous applications.

With that in mind, then, the relationship between property and rights can now be explored. The property basis of individual rights has at least two dimensions. One is conceptual. The other is in the effective ability to exercise rights.

Conceptually, all rights are either

elaborations or *extensions* of property rights. For example, in the United States a person has the right to order the disposition of his bodily remains after death, by will. The right to one's body is an elaboration of property rights; indeed, it may be the most basic property right. A will is written to dispose of one's property. Hence, the right to order by will what disposition shall be made of the body is an extension of the process.

Property Undergirds Rights

Many rights are so closely tied to property rights that they are virtually indistinguishable from them. For example, the right to buy and sell or, more broadly, to trade freely, is a property right. It is an aspect of the ownership of property. Free speech and a free press are fundamentally property rights. We probably do not ordinarily think of them that way, because we think of them as something asserted when there is an attempt to interfere with them. Such a view treats of the exception rather than the rule, and tends to mislead us as to their character.

Speaking and other forms of publication are valuable and valued means of conveying information. They are, if you will, items of commerce. That is, many people are paid and even make a living from speaking, writing, and other forms of publication. That is, others want, and

will pay for, the information they have to convey. Teachers, preachers, public speakers, journalists, commentators, advertising men, and so on, come readily to mind. Speech is a property right in the market; others may not reproduce it without permission and can benefit from it ordinarily only by paying the price for it. Literature is a property, vouchsafed by copyright law.

The value of communication is in direct proportion to its accuracy, validity, and truthfulness. To put it negatively, an utterance obtained by compulsion, by twisting the arm, for example, has value only for a masochist. On the other hand, if one is prevented from speaking the truth as he understands it by fear of compulsion, the value of his communication is diminished thereby. Free speech and a free press are the necessary conditions for securing the property values in these, both for speakers and for hearers.

Individual Rights Are Extensions of Property Rights

There is probably no way of conceiving of individual rights other than as either property rights or extensions of property rights. Our right to life stems from the fact that it is our *own* (and only) life. Our right to the disposal of our time stems from the fact that it is our *own* time. Our right to the use of our faculties stems from the fact that

they are our *own*. Remove from them the concept of private property and the claim to them goes as well.

The concept of property is not, of course, peculiar to our age. It has probably been around approximately as long as man, and even the lower animals appear to have an instinct for it, if they cannot actually conceive it. Actually, there have been many conceptions of property. Some societies have conceived of property rights in other persons, and have established slavery. Others have conceived of property rights in the services of others, and have established serfdom. Some have so dispersed property rights that hardly anyone could be said to own anything. We appear to be bent on a course in that direction today. Property rights in some societies have been assigned to various classes. It is interesting to note in all these cases that all other rights, to the extent that they were recognized, tended to be parceled out in much the same way as property rights.

This suggests to me that our conception of rights in general is tied to our conception of property. More specifically, as I have said, it suggests that our conception of individual rights is dependent upon a conception of private property. The reason for this, I believe, is that all rights are either property rights or extensions of them. It might be possible to establish what we think of

as rights to private property without establishing what we have thought of as other rights. But it is greatly to be doubted that the "other rights" could be established in the absence of rights in private property. That, as I understand it, is much like saying it would be possible to lay a foundation without building a house upon it, but one could hardly expect a roof to stand without walls to hold it up.

How Rights Are Exercised

There is another reason for this connection. Private property is essential to the *exercise* of individual rights. To turn it around, in the absence of private property, the exercise of whatever may be proclaimed as rights will be dependent upon who controls the property.

This latter principle has been well illustrated in the Soviet Union in the matter of religion. The Soviet Constitution proclaims the right to the free exercise of religion. It is very nearly an empty right, however, because churches do not have the private property to facilitate its free exercise. All schools are governmentally owned and run, and religion may not be taught in them. Most seminaries were closed and much of church property confiscated in the wake of the Revolution. (The Kremlin, once the seat of Russian Orthodoxy, now houses the government.) There is a shortage both of

clergymen and of church buildings. Missionary efforts are severely circumscribed. Since productive equipment cannot be privately owned, the churches are entirely dependent upon a hostile government for Bibles, musical instruments, prayer books, song books, and other religious paraphernalia. The exercise of religion is clearly a privilege, when it can be done, not a right, in the absence of private property.

The same principle has been illustrated in American schools in recent years on a much smaller scale. The First Amendment to the United States Constitution declares, in part, that "Congress shall make no law respecting an establishment of religion, or *prohibiting the free exercise* thereof. . . ." (Italics added.) The Supreme Court has prohibited various religious exercises in the public schools. These prohibitions rely upon the fact (or premise) that the public schools are governmentally owned and operated. The courts have said, in effect, that we may freely exercise our religion on private property, but not on that which is governmentally owned. Its exercise in the public schools was a privilege which has now been withdrawn.

But the exercise of any right requires the use of property. Without real property, there is no place to stand, sit, lie, walk, ride, or do anything. The making of a speech re-

quires a platform from which to speak, as it were. The publication of a book requires a printing press, of course, but much more besides. There must be a desk at which to sit or stand, pen with which to write, paper on which to write, boxes in which to place the manuscript, printing ink and paper, a store in which to display the book, and money with which to buy it. Freedom of assembly requires for its exercise a place within which to assemble. The right to the use of one's faculties depends upon property on which to use them.

It is true that property often serves an humble and unobtrusive role in the affairs of men. Frequently, it has only a subordinate part to play. Most of us would agree, I think, that the soup is more important than the pot in which it is cooked, the speech more important than the platform from which it is delivered, the sermon more important than the pulpit, the painting more important than the canvas, the words more important than the paper on which they are printed, and the man more important than the ground on which he treads. From such evaluations, we may conclude that property should be downgraded, that if there is a right to it, it should be a right made subordinate to all others.

We are apt to do much more than ignore the obvious when we think in

this way. The obvious is that without the container we can make no soup, without a place to stand there can be no speech, without a canvas (or other receptacle) there can be no painting, without the paper the words cannot be assembled, and without the ground the man has no place to walk.

Use Subordinates Property

We ignore something more subtle and possibly more profound than this. We ignore the fact that it is the cook who subordinates the pot with his soup, that it is the preacher who subordinates the pulpit with his sermon, that it is the artist who subordinates the canvas with his painting, that it is the writer who subordinates the paper with his composition, and that it is the man who subordinates the ground by walking upon it. Every use by man of property is a subordination of it. When a house is built upon land the land is subordinated to that purpose. The farmer who clears, plants and tills the soil subordinates it to his purpose.

From these and other considerations, including a mass of historical evidence, I conclude that government as a mechanism cannot act to subordinate or downgrade the importance of property. Government as lawmaker is a mechanism. All direct efforts by government to place property in a subordinate place will

tend to have the opposite effects. Let us take the extreme case for illustrative purposes. Suppose that government confiscates all property, or as much of it as is possible. This will magnify the importance of property rather than reduce it.

Property Insecure when Government Intervenes

The reason for this should be apparent. Man's necessity for property is absolute; his survival and all activities depend upon it. When government has control of it all, man's concern with it becomes preponderant, for his access to it is no longer secure. Not only does it magnify the importance of property but also of government. Total control over all property becomes the means for total control over men. The law which disposes property in this situation also disposes men. Indeed, the wedding of property to government turns the control over things into control over men. What may start out as an effort to subordinate property ends up as the subordination of man.

There are those who suppose that a government which has taken away the right to any significant private ownership of property could, nonetheless, confer a variety of individual rights upon the people. Indeed, there are many Westerners who believe that the Soviet Union, for example, could confer freedom of

speech, freedom of the press, and freedom of religion, say, on the people within its bounds. It could not do so and retain its control over all property. Above all, it could not establish these freedoms as rights.

The most that a government could do would be to lay down rules for access to property. To call such access a right, however, is a misnomer; it can at most be only a privilege, revocable at will, and available at the behest of those who have the power. In any case, in the absence of property, there are no means for contending with government. It is of little avail to have money in the bank, if the government owns the bank and can confiscate the funds of those who may choose to oppose it.

The Rules of the System

Government cannot create rights. It can recognize them. It can provide a legal system within which rights can be defended. It can come to the aid of those whose rights are threatened. The property basis of rights indicates yet another role government can play, and it is a crucial role. Government can establish what property system will prevail among a people. It can determine who may own it, the extent to which it may be owned, whether and how it may be bequeathed, and so on. By the system it establishes for property, it will largely determine also what, if any, rights there can be,

who may enjoy them, and the distribution of them. For example, if it establishes a class system of property control, as there was in Medieval Europe, it can only establish rights as belonging to classes. If it establishes bureaucratic control over property, then such rights as there may be will belong mainly to the bureaucrats.

There may be a natural right to the private ownership of property. I believe there is. It arises in this way. A person who uses his own materials, his energy and ingenuity, and his tools, to construct something is the rightful owner of it. It follows, too, that a person who contributes any of these elements to make some article of use owns that portion of it appropriate to his contribution. (That he may have agreed to the disposal of his interest for a consideration is but an elaboration of the principle.) Nor do I doubt that the private ownership of land is the most effective means of securing their other property to owners, though the right to land does not arise naturally.

My main point here, however, is somewhat different from this. It is that there is something like a natural law of relationships between property and other rights. This law has nothing to do with the relative value we may assign to various rights. Nor can it be altered by any determination of ours as to what

rights should have preeminence. The law is not causal in nature; rather, it is consequential. That is, the law does not cause us to adopt any particular course of action, but it does determine the effects once the direction has been taken. Indeed, that is my understanding of all natural law as it applies to man.

All Rights Depend on Property

The law may be stated in this way. All rights are dependent upon property. They are dependent upon property for their conception, their delineation, and their exercise. It follows from this that the system of property ownership will determine what rights can be effectively established within a society. Since a right cannot be firmly established unless it is tied to a property base, changes in the property system will tend to be reflected in the rights that can be exercised. And, the right of the individual to the ownership of private property is essential to the establishment of individual rights.

Even those asserted rights which are in reality government privileges masquerading as rights depend on property. For example, the United Nations Declaration of Human Rights asserts that "Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing, and medical care and necessary so-

cial services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age, or other lack of livelihood in circumstances beyond his control."¹⁰

Food, clothing, shelter, medical care, and so on are certainly property. Thus, the "rights" named depend on property for their exercise. In these cases, however, it is the property of others that is involved rather than that of the claimants. If governments establish these "rights" they must fulfill the claims by confiscating the property of those who possess it and conferring it upon the claimants. That such action is an assault upon private property there should be no doubt. That governments which simultaneously assert the right to private property and then confiscate it to fulfill other rights have adopted contrary principles there should be no doubt. Their assertions of "rights" are in conflict with each other. But my main point is that anything which is established as a right depends on property.

The Vital Link

All attempts to exorcise property from rights and privileges, then, are in vain. Any claim to a right or privilege is, in some sense, a claim to property. It is possible, of course,

to downgrade private property. But in the process, individual rights are unavoidably undercut. By analysis, we can distinguish various sorts of property, i.e., real property, chattels, tangible and intangible, productive and personal. In like manner, we can distinguish a great variety of rights by analysis. Analysis is a great aid to precise thought, but that which can be arrived at by analysis should not be confused with the reality from which it is drawn. Property and rights are inseparable in reality because of the property basis of rights. ☉

—FOOTNOTES—

¹Quoted in Sylvester Petro, *Power Unlimited* (New York: Ronald Press, 1959), p. 100.

²John Stuart Mill, *On Liberty*, Alburey Castell, ed. (Northbrook, Illinois: AHM Publishing Corp., 1947), pp. 112-13.

³Edward Dumbauld, ed., *The Political Writings of Thomas Jefferson* (New York: Liberal Arts Press, 1955), p. 57.

⁴Richard B. Morris, ed., *Alexander Hamilton and the Founding of the Nation* (New York: Dial Press, 1957), p. 9.

⁵Dumbauld, *op. cit.*, p. 55.

⁶Morris, *op. cit.*, p. 13.

⁷George A. Peek, Jr., ed., *The Political Writings of John Adams* (New York: Liberal Arts Press, 1954), p. 96.

⁸Dumbauld, *op. cit.*, p. 49.

⁹Henry S. Commager, ed., *Documents of American History*, II (New York: Appleton-Century-Crofts, 1962), 553.

¹⁰*Ibid.*

COMPETITION

COMPETITION occurs when one strives to do better, qualitatively or quantitatively, something which others are doing. It also happens when one provides a unique good, or service, or one which provides an acceptable substitute for a going thing. Since many risks are inherent in any endeavor, and no one can predict, with certainty, what resources will be required to bring it to a successful conclusion, the individual (personal or corporate) is justified in charging for his efforts all the market will bear. His customers will tell him soon enough if he is charging too much either by trading elsewhere, or doing without his product. There is no competition where everyone wins.

To the consumer, there are no indispensable goods excepting air,

water, and minimal living space. The former two are free goods, excepting the cost of storage and delivery of the water. Basic living space has never been an issue in civilized societies outside the rarity of banishment. As for all the rest, including food and shelter, the options are too manifold to permit anything being called indispensable. This marks the ultimate power of the consumer and assures us that the producer, or entrepreneur, can never take advantage of him.

When competition for the favor of the consumer has created the immense variety of goods and services now available in our society, the simplicity of this process becomes obscure. Pundits, intellectuals, politicians, and those who are low in the competitive scale are spurred by envy of this cornucopia of material wealth. They find rationalization for their envy in such ideologies as

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Marxism, or "Christian Socialism." Ignoring the evident reality that there is less disparity between our richest and our poorest citizens than in any other past or present society, they make ever-increasing demands for redistribution of national income by political force. War is being waged on the miracle of competition. They are trying to "kill the goose that laid the golden egg."

Conspiracy?

The chief gambit in this war on competition is the charge of conspiracy. Big business, so the claim goes, is conspiring to gobble up the small firm and bilk the consumer. Conspiracy is one of the most difficult indictments either to prove or disprove, but especially difficult to disprove when envy is the majority witness. After all, corporate executives do talk to one another and do direct their policies, including prices, with some regard to what they learn from one another, as well as from consumers. There are also interlocking directorates and a good deal of mobility of executives between corporations. (There appears to be no oversupply of executive talent and experience.) So, charges of the existence of an "inner circle" in any industry are easy to believe in the light of envy.

However, a fair and general observation informs us that such appearance of collusion exists in

human affairs at all levels. The non-pejorative word for it is cooperation. And, the peculiar thing about it is that those who are most adamantly opposed to "corporate conspiracy" are the most enthusiastic adherents of cooperation. Indeed, the centerpiece of Franklin D. Roosevelt's New Deal was industry-wide collusion and blatant price fixing. While the Supreme Court declared the NRA vehicle of that policy unconstitutional (one conservative decision in this era which has stood), its spirit still lives among the "liberal" Democrats. It is quite clear that they have no real objection to conspiracy—as long as they direct it. Their tacit excuse, even sometimes explicit, is that their motives are pure, while those of corporate tycoons are rather uniformly suspect, if not downright venal. For most of this century, their intellectual apologists, from Lincoln Steffens to John Galbraith, have been able to peddle this conception of affairs to the constituency of envy.

Blaming the Advertiser

A companion scapegoat to corporate conspiracy has been advertising. The liberal claim that advertising is corrupting the public taste, endangering the public health, and impoverishing the common people also calls for inspection. As for health and longevity, they have improved throughout our history, most

especially recently. It is only fair to suppose that advertising is more an answer to public taste than its cause.

It is also fair to ask what liberal intellectuals have contributed to the improvement of public taste. It seems reasonably obvious that General Motors, General Electric, American Tobacco, and others have had little impact on the taste for bad art and literature and trivial education which are the foundations of consumer choice. On the other hand, liberals seem to be at the forefront of every movement toward the elimination of discriminative taste, just as they have led in the trivialization, even vulgarization, of the school curricula.

On the broader view, the case against advertising in general would seem to be as dubious as that against corporate conspiracy. Unbiased observation suggests that advertising is much more the caterer to public taste than its creator. In any event, corporate advertising power is more than matched by that of its detractors, who have gained support of the Food and Drug Administration, E.P.A., and the Surgeon General, among many others too numerous to mention.

Indeed, governmental meddling with competition, including discriminative antitrust suits, render corporate intrigue much more likely to occur, if not downright necessary.

If the great firms do not combine "in restraint of government," it is not at all impossible that they will eventually lose the opportunity to compete. Such an eventuality certainly lurks in the plans of Ralph Nader, as well as in the Galbraithian critique, which would make them kennel dogs of the state.

When the efforts of Common Cause to deny corporate use of funds in political self-defense through lobbying and political contributions, the politicized clout of Big Labor, and support of their enemies by the American Civil Liberties Union are taken into consideration, survival of competitive Big Business does seem in question. Long-term corporate obeisance to, if not connivance in, creeping inflation further mars the fighting chance for competition's survival, for it has conceded the ultimate (money) power to the politicians.

Government Involvement

Finally, if we wish to be honest about it, we must recognize that there is now only one viable source of genuine conspiracy in restraint of trade: that to be found in our governments, federal, state, and local. For, aided by the blight of "revenue sharing," teeming bureaucracy has now nosed into the smallest hamlet in the land.

Regional agencies of every kind abound in frustration of competi-

tion. Combined with inflation, they have all but brought construction to a standstill, effectively throttling competition in the housing industry. Auto builders seem headed toward a similar slump, with other industries expected to follow. The signs of "recession" are generally faced with acceptance that the economy needs "cooling down" and consumers will restrict spending. High interest rates, credit controls, a slight fiat money squeeze, and a token balancing of the budget are expected to halt inflation. An "excess profits tax" on the oil companies has been added to this assault on competition. With this on top of at least 42 per cent of the nation's product falling into the control of government, it is difficult to imagine how competition can be strengthened.

Healthy competition, combined with honest private cooperation will only be revived when government is forced to relinquish its monopoly of conspiracy in restraint of trade and is made to concentrate upon its basic duty marked by common and statutory law, as prescribed by the Constitution, and the maintenance of

domestic peace, security, and the furtherance of peaceful commerce among nations.

As in England and elsewhere, the state has run the course in attempting to manage private competition and has proved its utter incompetence to assume that task. Neglecting its constitutional duties, our federal government has saddled its people with perennial national debt, misappropriated private property (both by inflation and by exorbitant taxation) in the unconstitutional transfer of wealth, overregulated all private activities, and made a shambles of our relations with the rest of the world.

The list of grievances against George III, in the Declaration of Independence, reads like a catalogue of the vices which our own government now perpetrates upon us. No revolution is now called for because the proper documents are all still in place. All we need to do is put into office men who understand, and will abide by, the "highest law in the land." The proper business of all genuine intellectuals is to educate the populace to that end. ⊕

IDEAS ON **Trade**



LIBERTY

THERE is nothing so useful to man in general, nor so beneficial to particular societies and individuals, as trade. This is the alma mater, at whose plentiful breast all mankind are nourished.

HENRY FIELDING

LAW LEGISLATION AND LIBERTY: Hayek's Completed Trilogy

IN 1973 Professor Hayek published the first volume, under the heading *Rules and Order*, of a trilogy entitled *Law, Legislation and Liberty*. Its place in the long development of his thought in the field of legal and political theory was examined in "The New Thought of F. A. Hayek" (*Modern Age*, Winter 1976), which offered the observation: "If we may judge from the standard established by the first volume, the scholarly world can await a feast of analysis

and argument of masterly vigor and profundity. The whole three-part work will surely be a landmark in the development of fundamental political and legal philosophy."

The trilogy has now been completed. The second volume, *The Mirage of Social Justice*, was published not long after the first, but the world had to wait until May 1979 for the appearance of the third, *The Political Order of a Free People*. It is now possible to see whether the high expectations aroused by the first volume have been fulfilled.

The Mirage of Social Justice opens with an examination of the rules governing the spontaneous order or cosmos, which was presented as the order of the free society in the first volume of the trilogy. The rules, we are told, are a device for coping with our inevitable ignorance of more

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than a small part of our relationships with other persons in the Great Society.

If we were omniscient, there would be little need for general rules, for we could then deal with each other in the *ad hoc* way which we normally apply within our small families. Here Hayek rests his analysis on what has been for many years the rock bottom of his most profound work, namely the role of knowledge, or more importantly the absence thereof, in human relationships. It is because freedom's famous but too often misunderstood "invisible hand" enables us to produce a system despite the narrow limits of our knowledge, that the free society is so superior to all unfree societies, which need a degree of knowledge beyond the capacity of man to encompass. This is not a matter only of economic relationships. It extends to all the relationships which make up the spontaneous order of the Great Society.

The Spontaneous Order

The rules of a spontaneous order are abstract, normally negative in character, and long-term in application. Thus the commandment "thou shalt not steal" names no specific article or person of which or from whom there is to be no theft, lays down only a negative, not a positive, duty in relation to other people's property, and has a timeless hori-

zon. By contrast the rules of a made order are concrete, positive, and subject to frequent change. Hence there arises the fundamental difference between the functions of a judge or lawgiver and those of an administrator.

What is the relation between the rules of a spontaneous order and justice? In the first volume of his trilogy Hayek lingered for a considerable time on the nature of law, but here he takes it further in an onslaught on the doctrines of legal positivism, namely that all law is the expression of the will of a legislator, and that justice has no meaning other than the prescription of such law. From Hobbes, Bentham, and Austin to Kelsen these doctrines have had a powerful influence, all the more because they have been expounded by scholars of very high eminence.

Hayek is not the first to criticize these doctrines, but his insight into the difference between a spontaneous and a made order gives his criticism a thrust which is especially his own. Thus he says (page 46): "It is evident that so far as legal rules of just conduct, and particularly the private law, are concerned, the assertion of legal positivism that their content is always an expression of the will of the legislator is simply false. This has been shown again and again by the historians of private law and especially of the

common law. It is necessarily true only of those rules of organization which constitute the public law; and it is significant that nearly all the leading modern legal positivists have been public lawyers and in addition usually socialists—organization men, that is, who can think of order only as organization, and on whom the whole demonstration of the eighteenth century thinkers that rules of just conduct can lead to the formation of a spontaneous order seems to have been lost."

And (page 53): "Legal positivism is in this respect simply the ideology of socialism and of the omnipotence of the legislative power"; and further (page 55): "It was the prevalence of positivism which made the guardians of the law defenseless against the new advance of arbitrary government."

Hayek's lengthy and painstaking analysis of legal positivism ranks with the most profound work which he has ever produced, and by itself would make this volume of his trilogy an outstanding achievement. But it is only an introduction to the volume's central argument.

Social Justice a Mirage of Envy and Hatred

Who can be just or unjust?, asks Hayek. Only human beings acting purposively. Hence individuals can be just, groups acting as groups can be just, governments can be just.

But society cannot. For society is an abstract or spontaneous order, not a purposive group. Social or distributive justice is meaningless in a spontaneous order (a cosmos); it can have meaning only in an organization (a taxis). Hence the idea of social justice is a mirage. It is well known that in practice it turns out to be institutionalized envy and hatred. But it is worse than that, for it is built on ideological sand. As between men justice and injustice have meaning only when it is men who do right or wrong.

We all understand that it makes no sense to talk of human injustice if a volcano or lightning kills one man and not another, if it rains gently on one farmer but destructively or not at all on another, or if some are born clever and others stupid, for no man was responsible for fortune or misfortune in these cases. We also understand that if a virtuous woman whose price is beyond rubies chooses to marry one man and not another, the latter cannot claim to be the victim of injustice, even though here purposive human action is the cause of his discomfiture; for no man has a right to command the affections of any woman, and the woman in this case has done no injustice in exercising her choice. We may even understand that it is not injustice if some are born with the cultural heritage of an Eskimo and others with that of a European, though here again

chains of human action are behind the difference.

But when we see one man to be richer than another, with no discernible moral superiority or perhaps with a clear moral inferiority, many of us easily succumb to the seductive notion that injustice must be at work. Hence those who talk of social justice can persuasively declare in such a case that success (except their own) is due to injustice, and that therefore they must take by force from the more successful to give to the less successful (as long as the latter are their clients). In practice, as we shall see below, they only promise to give to the less successful. Once they have the power so to do, what they do turns out to be somewhat different.

Voluntary Exchange

In the spontaneous order of freedom, the best society known to us, income or wealth arises from payment freely agreed and given by those whose wants are satisfied to those who satisfy them. Hence differences in income or wealth have no relation to merit unconnected with the satisfaction of human wants. Saints and sinners may reap their just rewards in a future life, and they may perhaps get some spiritual rewards in this life, but their material rewards can only be determined by the value which others, free from compulsion, put

upon their services. In some fields this is or used to be well understood.

By all accounts the late Babe Ruth was a man of odious personal character, but the fans made him rich because they prized not his personal merits but his ability with a baseball bat. Henry Ford was a pitiable ignoramus outside engineering and industrial management, and not very pleasant a man; but the people, acting without compulsion, made him a multimillionaire not for his moral or intellectual qualities but for his ability to put them on wheels at an unprecedentedly low cost. Nowadays the Babe Ruth case continues to be understood; thus rich sportsmen and entertainers are generally exempt from assault by champions of social justice. But the Henry Ford case has changed. Now his wealth would be assailed as unjust even if he were a saint or an intellectual titan as well as a marvellous producer of wealth.

Payment for Service

We still understand that surgeons must pass examinations before they can be certified competent to operate upon us, and that it is just to pay surgeons for their competence in surgery, not for any other merit or any need which they may have. A surgeon of mediocre skill who is known to be a saint or to have numerous children to support would not receive payment from us on the

scale of one of high skill, and in this we do not think that we act unjustly. But too few of us understand that where men are free, they conduct similarly just examinations every moment of the day as they decide whom to reward for the service of their wants, and whom not to reward.

This principle is sometimes misunderstood even by supporters of free enterprise. In the Samuel Smiles and Horatio Alger type of exposition, there is a tendency to stress the moral qualities of materially successful men, giving the impression that it is these qualities which we reward. Of course the man who makes two blades of grass grow where there was formerly one, or the man who makes a better mousetrap, may be led to do so by his high moral qualities, but he receives his just payment for the abundance of the grass or the quality of the mousetrap and for nothing else. Sometimes his achievement is justified on the ground that it has social value or a value to society. However there is no such thing as a value to society, except the value of its rules. Goods and services can have value only to persons, or to groups of persons acting as a group. Society does not so act.

It is common at this point to argue that wealth differences may be justified by personal success in the satisfaction of wants, but that the

inheritance of wealth cannot be justified since the legatee satisfies no wants. Many supporters of the rights of private property have needlessly agonized about this. In a free society the state has no part in the transactions which put the property in the hands of the testator except that of guardian of the rules, and the state has no more *locus standi* to take it out of the hands of the legatee (except for its taxing power which has a quite different basis) than any other bystander. That it may tax the legatee does not mean that his inheritance belongs to it, any more than its power to tax incomes means that it owns the incomes. When the state claims the right to deprive the legatee of his inheritance, apart from the taxing power exercised for other purposes, it does so on the false pretense that it is itself the society or is in some manner clothed with the rights of society, which is the essential claim of the totalitarian state.

An Unattainable Goal

The mirage of social justice beckons men to the unattainable goal of substantive equality. Though the goal is unattainable, the pursuit of it is one of the most corrosive of all human influences. It not only produces envy and hatred. It also drives men into submission to tyranny, for only tyranny can plausibly offer to reach the unattainable goal; and

with tyranny there also comes poverty. Thus are lost the blessings which men came upon when almost inadvertently they constructed the Great Society.

Hayek expounds the nature and consequences of the pursuit of substantive equality with his customary insight, thoroughness, and felicity. For many it will be almost equally important that he also explodes the concept of the alternative which is commonly called equality of opportunity. If by this is meant *la carrière ouverte aux talents*, it is unexceptionable, but that is not equality of opportunity. If equality of opportunity is truly meant, it is as unattainable as substantive equality and its pursuit is almost as destructive as that of the latter.¹ The only form of equality consistent with the rules of the free society is equality before the law.

Roots of Protectionism

A most important aspect of the pursuit of substantive equality is that, since genuine equality of condition is highly repugnant to almost everyone and extremely difficult to define or even conceive, right from the beginning the self-styled champions of substantive equality pursue something else. In its more obviously odious form it is the desire to pull down certain selected groups who are declared to be immorally rich but who often are neither rich

nor immoral. In its less obviously odious form, which is indeed widely approved by men of goodwill, it is the protection of accustomed or established positions. This is so obviously different from equality that it is only the remarkable perversity which is so often found among ideologues and their political pupils that enables the one to be sought under the banner of the other.

Few persons command so ready a sympathy as those who, without apparent fault, lose their jobs because those who have bought their produce now decide to buy from some cheaper source, especially if that source is foreign. Since Hume, Smith, and Ricardo, economists have always understood the folly of allowing this sympathy to propel us into protectionism, and of course Hayek knows all about this. Here however he goes deeper than the exposition of mere economic folly. He demonstrates with a full and acute analysis that the protection of established positions strikes at the heart of the spontaneous order, and all the more once that order has expanded into the Great Society.

A False Appeal

Thus we come to Hayek's conclusion on social justice. It is a *cri de coeur* from a scholar who has spent a lifetime watching the corrosive effect of this slogan upon many minds which might have been expected to

perceive its true character (page 97): "What I hope to have made clear is that the phrase 'social justice' is not . . . an innocent expression of goodwill towards the less fortunate, but has become a dishonest insinuation that one ought to agree to a demand of some special interest which can give no real reason for it. If political discussion is to become honest it is necessary that people should recognize that the term is intellectually disreputable, the mark of demagoguery or cheap journalism which responsible thinkers ought to be ashamed to use because, once its vacuity is recognized, its use is dishonest. I may, as a result of long endeavors to trace the destructive effect which the invocation of 'social justice' has had on our moral sensitivity, and of again and again finding even eminent thinkers thoughtlessly using the phrase, have become unduly allergic to it, but I have come to feel strongly that the greatest service I can still render to my fellow men would be that I could make the speakers and writers among them thoroughly ashamed ever again to employ the term 'social justice.' "

If the cry of "social justice" does cease to be heard in the land, no man in all the history of political and legal philosophy will have done more to produce that devoutly desirable consummation than Hayek.

Let us now pass to the third volume of the trilogy, "The Political

Order of a Free People." In the first two volumes Hayek laid a foundation for a program for the renovation of the once-liberal, once-successful, but now sadly crumbling, Western political order. In the third volume the program is set out in much detail and with a full envelope of argument.

However, though this program is in an important sense the culmination of Hayek's thought on the problems of society, it did not arise in his mind as a late flowering of his analysis of law, order, and justice in society.

A New Political Order

There is no surprise in finding that all Hayek's ideas are the product of a long, slow development in his mind, so that they display the rich maturity to be expected from years of thought and experience, of examination and re-examination, of testing and re-testing. Thus those who have followed the development of Hayek's work will already be familiar with the essentials of his proposals for a new political order. He first presented them in a brief discourse to the Mont Pelerin Society at Vichy in 1967. He offered them in more developed form in 1973 in his "Economic Freedom and Representative Government."² In this volume he presents them in what is perhaps their finished form, though it will not be open to us to think of any of

Hayek's ideas as having reached their ultimate form until he lays down his pen once and for all.

Why is the Western political order crumbling about our ears? And why do we need to devise fundamentally new political machinery to preserve such freedom as we have, restore the freedom we have lost, and give all our freedoms the protection of a stable order? Because, Hayek argues, we have failed to distinguish between *nomos* and *thesis*, between the rules of just conduct and the orders required for the tasks of government, between legislation in the true sense and administration.³ We entrust the same body, Parliament, Congress, National Assembly, etc. with the task of deliberating upon and determining both *nomos* and *thesis*. From this, in Hayek's view, the degeneration of modern democracy has developed.

From Democracy to Dictatorship

The degeneration of democracy into plebiscitary dictatorship and perhaps ultimately into totalitarian tyranny proceeds visibly before our eyes, but we are powerless to arrest it, Hayek tells us, as long as, while still prizing the principle of democracy, we think that existing democratic forms are the only forms. For it is by these very forms that we are betrayed.

We are surely right to prize the principle of democracy. A system in

which government is responsible and accountable to the governed offers the best chance for liberty under law, for peaceful political change and peaceful rivalry for office or power that mankind has known. Yet if it be the case that existing democratic forms are a mechanism for the decay of democracy, the time will come, and perhaps soon even in the apparent citadels of democracy of the North Atlantic, when the people will abjure democracy. For as it decays, mounting disorder will arise in which even democrats will come to believe that only the agonizing choice between authoritarian and totalitarian government remains open to them. Fortunate will be those who then get an authoritarian Franco, Salazar or Pinochet rather than their alternatives.

Yet the authoritarian dictator fails to produce a durable system. His system tends to last no longer than he himself. Where has there been a better dictatorship in modern times, if dictatorship people must have, than the "*ditadura sem ditador*" (dictatorship without a dictator) of Salazar? How many rulers have given the Spanish people as long a period of peace and prosperity as did Franco? Yet Salazar and Franco were not long in their graves before their peoples dismantled the systems which they had so laboriously constructed. The lesson is clear. If democracy can be saved,

there can be no higher political duty than to save it.⁴

Special Interests Gain Power

The process of democratic degeneration displays itself as the general interest becomes subordinated to various sectional group interests, so that the legislature ceases to be a forum for the determination of the general interest (for which the rules of just conduct are the basis), but becomes an arena in which special interests jostle and bargain with each other for the favors of the state. The democratic process thus comes to betray not only the general interest but majority rule itself. It is not the wishes, still less the interests, of the majority which prevail, but the desires of fluctuating coalitions of minorities.

Each group in the coalition bargains with other groups so that each may feed at the public trough, and the rapacity of each is thus constrained not by any attention to, or concept of, the commonweal but by the need to accommodate itself to the rapacity of the others. However, such a system is unstable. It is not merely that its true nature cannot be concealed from the people, however adept at camouflage by way of democratic slogans and mob flattery the coalition leaders may be.

What must bring it down and in due course end even the pretense of majority rule is the fact that it must

produce mounting discontent, which by the irony of the gods turns out to be even more destructive among the coalition in-groups than among the outer groups which are the victims of their plunder. For in the first place the betrayal of the general interest itself undermines economic stability and produces general unease as well as reducing the scope for plunder; and in the second place the appetite for plunder grows with eating.

Hence the coalitions must constantly regroup themselves, enmity among them growing apace, until the strongest among them, probably with a charismatic leader at their head, assume full power. When this happens the majority of the people sigh with relief as chaos yields to apparent order, and the forms of democracy follow the long evaporated principles of democracy into oblivion.

Power Corrupts

We may readily accept this account of degeneration and yet ask why the failure to distinguish between *nomos* and *thesis*, and to separate their determination, is the spring and origin of this process. Because, Hayek argues, the powers of government offer seductive gains to those who can capture them. Hence if the same persons determine both the deployment of governmental powers and the rules of

just conduct, the seductions of the former will in time submerge the constraints of the latter. The most striking example of this process is shown by the very country, Britain, which first in modern times established responsible government and was long its great exemplar.

The Parliament which once forced the Crown to submit to the rule of law, has itself become an engine for lawless government, having assumed the uncontrolled sovereignty which it denied to the Crown, and having abandoned the self-imposed conventional restraints which made it conform to the rule of law for some two centuries after the defeat of the Crown in 1688. The irony for parliamentary democracy is that the sovereignty of Parliament is now only formal, the power to use it having reverted to the Crown's successor, the Cabinet and its party machine, which, behaving like a true plebiscitary dictator, is restrained only by the need to manipulate success in the next plebiscite, which in turn depends mainly on skill in manipulating the competition between various pressure groups.

The analysis indicates the remedy. The determination of *nomos* and thesis must be separated and entrusted to two different bodies, both of which must be democratically elected, so that neither can claim to be invested with greater

democratic sanctity than the other (thus avoiding the process which enabled the British House of Commons to emasculate the House of Lords and effectively destroy its revising powers). However, though the two bodies will have equal democratic authority, their constituencies, modes and periods of election, and qualifications for election, should be different.⁵

The Governmental Structure

Hayek examines the possible modes, periods, and especially qualifications, for election to the true law-making body (*i.e.* that dealing with *nomos*, which we may call the legislative assembly) in penetrating and illuminating detail. Its members (whom Hayek with his alert eye for classical Athenian parallels, calls the *nomothetae*) would lay down the general rules of just conduct which would govern the deliberations of the thesis-making body (which we may call the governmental assembly) and the exercise of the powers of government. In such a constitution there would be a need for a supreme court not merely for the conventional task of construing the decisions of the two assemblies, but also for adjudication in case of disputes between them.

It is impossible within the short compass of this article to do justice to the depth and amplitude of Hayek's analysis. For example his

exposition of the proper functions of government, and in particular of the correct approach of authority to problems of competition and monopoly, is a marvel of sure-footedness as he picks his way to a sound conclusion with immense skill through a minefield thickly strewn with lethal errors. The above statement of his argument is therefore a barely adequate attempt at a very compressed account of its most essential elements.

His diagnosis of the process of democratic degeneration surely merits ready acceptance, but with this qualification which has a bearing upon the effectiveness of his remedy. The entrustment of *nomos* and thesis to the same deliberative body would not have the baleful effect which he rightly describes without the grip on the minds of citizens and legislators of the intellectual errors which he exposes in the first two volumes of his trilogy. Hence his remedy is unlikely to be successful unless at the same time the influence of these errors is removed. But if this influence disappears, it is arguable that his remedy becomes unnecessary.

The Case of the United States

Consider the case of the United States. The same process of democratic degeneration is visible there as elsewhere, though it may not have gone so far as in some other

countries. Yet, though it does not appear to be the case at first sight, it is arguable that the United States already has Hayek's system in its essentials, and has had ever since the Supreme Court invested itself with the power of judicial review.

The essence of Hayek's system is twofold. First, a body concerned with the rules of just conduct which is separate from a second body which deliberates upon the administration of government, and which sets the framework of law for the decision of that second body. Secondly, at least equal popular legitimacy for the first body as for the second, so that when the former's rules restrain the latter's itch for action, the people will accept them and approve the restraint.

The two bodies in the American system are the Supreme Court and Congress, which look different from Hayek's system but, it may be argued, are not. In theory the function of the Supreme Court is to apply the provisions of the Constitution. In practice it has tended to apply its concept of what is right and just (*i.e.* has sought to distil out of the Constitution Hayek's rules of just conduct), especially during the past forty years or thereabouts.

The shift from theory to practice presents little difficulty if one proceeds from the assumption that the Constitution is itself essentially a comprehensive statement of what is

The Fundamental Distinction

The fundamental distinction between a constitution and ordinary laws is similar to that between laws in general and their application by the courts to a particular case: as in deciding concrete cases the judge is bound by general rules, so the legislature in making particular laws is bound by the more general principles of the constitution. The justification for these distinctions is also similar in both cases: as a judicial decision is regarded as just only if it is in conformity with a general law, so particular laws are regarded as just only if they conform to more general principles. And as we want to prevent the judge from infringing the law for some particular reason, so we also want to prevent the legislature from infringing certain general principles for the sake of temporary and immediate aims.

F. A. HAYEK, *The Constitution of Liberty*

right and just. It then calls for no great effort from the judges to find that the Constitution really means whatever they currently believe to be right and just. If they are good lawyers, accustomed to intricate argument, their skill in construction enables them to reach this conclusion. If they are not, they ride off on the principle that the Constitution is a flexible document which is intended to breathe the spirit of the age, and so they reach the same conclusion as their more competent brethren. It is true that there have been and are judges described as strict constructionists but a scrutiny of their judgments will show that they too follow what they believe to be just, though their concept of jus-

tice is of an older lineage than that of their less traditionalist brethren.

This process was especially obvious in the decisions of the Warren Court. It is well known that Chief Justice Warren, knowing little law himself and having little skill in legal analysis, would react irritably to counsel who submitted a web of legal argument, saying "Never mind these legal points. The question is, is it right, is it just?" Of course a judge of such a caliber is contemptible, and it is true that when a competent judge deduces what he considers to be right and just from the Constitution, he does it in such a manner that the thread of legal construction handed on by his predecessors is as far as possible unbroken. Neverthe-

less Warren differed from his predecessors, colleagues and successors only in his naiveté and ignorance. They too have generally sought to find and apply what they have believed to be the rules of just conduct, free from the trammels which bind the lower courts.

The Role of the Courts

In countries where there is no power of judicial review (*e.g.* the United Kingdom), it is common for the highest court in the land to say "We find that the law in the case before us is unjust, but we are bound to apply the law as we find it. It is for the legislature to rectify the injustice by amending the law." In the United States the parallel would be "We find that the provisions of the Constitution in the case before us are unjust, but we are bound to apply them as we find them. It is for Congress and three-quarters of the States to rectify the injustice by amending the Constitution." How often has the Supreme Court said this?

It follows that the Supreme Court at least in some measure attempts to perform the function of Hayek's legislative assembly; and that the fact that Congress attempts to deal with both *nomos* and *thesis* is not a fatal impediment since its acts are subject to judicial review. As for popular respect and allegiance, it is stronger for the Supreme Court than

for Congress even though it is not founded on democratic election. Thus when Franklin Roosevelt was at the height of his democratic popularity, having carried 46 out of 48 states in the 1936 election, he was unable to carry the people with him in his assault on the Supreme Court.

Democratic Degeneration by Way of the Supreme Court

The matter can be tested further. Suppose that Hayek's system had existed in the United States in the 1930's. Would the Legislative Assembly have resisted the popular clamor for the acts and policies of the President and Congress which have done so much damage to the American economy and polity? It is hardly likely. After all from 1937 the Supreme Court itself succumbed to the fashionable myths and errors, although it had a greater power to stand aloof from popular emotion than a Legislative Assembly would have had. Indeed those myths and errors have become so ingrained in the thinking of most judges, that the Supreme Court has now become in some ways an even more powerful engine for the degeneration of liberal democracy than the Congress. Could a Legislative Assembly have resisted the *Zeitgeist* better?

Hence I suggest that Hayek's remedy will not work unless his assault on the intellectual errors of our time first succeeds. But is it true

that if he wins the intellectual battle, his remedy becomes unnecessary? The answer, I believe, is No. First, there are important countries (e.g. notably Britain and those which have inherited her system) which will save their liberties only by fundamentally new constitutional arrangements; and Hayek's remedy is at least as good as the only other probable workable alternative, the original prescription of the American Republic (but including judicial review). Secondly, his remedy would consolidate the intellectual victory. Indeed, as intellectual battles are never complete and tend to stretch out over long periods, his new constitutional arrangements would be needed to forestall the effects of the local and occasional reverses which even victorious armies suffer. ☉

—FOOTNOTES—

¹See my article, "The Wiles of Satan," *Modern Age*, Spring, 1978, p. 168.

²The Wincott Lecture, 1973, published by the Institute of Economic Affairs, London. 2nd impression, 1976.

³In the interest of brevity I am doing some slight violence to Hayek's distinction between *nomos* and *thesis*. The underlying distinction is between found law and made law. Hence some element of *thesis* enters into the determination of rules of just conduct. But for the purpose of this article's discussion the distinction stated here will serve.

⁴As the degeneration of democracy may lead to disgust with its very name, Hayek suggests that we might have recourse to the other Greek word for rule and call his regenerated system "demarchy."

⁵Of course this should not be confused with the case of the American Senate and House of Representatives because, though they do indeed differ in their constituencies, periods and qualifications for election, and to some degree in their powers, they both deal with *nomos* and *thesis*.

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With Wings as Eagles

WHEN William Grimes was editor of the *Wall Street Journal*, nothing annoyed him more than references to his age. "If anyone calls me a senior citizen," he said on one occasion, "I'll hit him with my crutch."

Perry Gresham, a septuagenarian who is some years retired as a very active head of Bethany College in West Virginia, is not as vociferous as Bill Grimes about our national penchant for shuffling people into age categories. But, as he makes plain in *With Wings as Eagles*, he resents stereotyping that deprives people of the chance for active lives long before their vital energies have been used up.

The old, he suggests, have become an endangered species in America. "Old daddy gov'mint" has done its best to make "seniority" and "senility" interchangeable words. A third

of the nation is supposed, at age 65 or thereabouts, to get out of the work force and start living on that Social Security funny money that could have been real wealth if daddy gov'mint had only allowed people the alternative of making their own investments.

The Congress that passes the laws that discriminate against "senior citizens" is entirely hypocritical. It has no mandatory retirement age for itself. Yet it sets limits on what the 65-year-old can earn and still collect the full Social Security that he has been paying for all those years under the illusion that he was buying insurance.

Inflation, of course, is the bane of the elderly who are compelled by the national stereotype to accept the burden of living on fixed incomes. The villain in inflation is the same

government that has decreed an arbitrary cutoff for people in the working force.

In California, Old Man Jarvis, himself an exciting and energetic septuagenarian, actually succeeded in doing something about the two jaws of the "vise" (rising prices and increasing taxes) that work such a hardship on those on fixed incomes. The Jarvis crusade against the property tax is a heartening har-binger. Following the California example, the elderly can, as Perry Gresham says, "mobilize for less government instead of more, for fewer taxes instead of more benefits."

Meanwhile Perry Gresham is not waiting on the tax rebellion to do something for people. Like Leonard Read, he believes in exemplarity. He discovered, on a rainy night in St. Louis when he was making notes for a speech on "Life Begins at Seventy," that he had all too negligently accepted a scenario of the human life-cycle that put him on a plateau that must give way to slow

decline and death. It suddenly occurred to him that life was a matter of several peaks of achievement, not merely one. Perry Gresham speaks of experiencing something he calls "the surge of the sixties." It was equivalent to the athletes' second wind.

The concept of new surges sent Perry Gresham to the history books. He discovered that six of Plato's greatest dialogues were written in the two decades before his death at 79. Socrates was cut off at age 70 by a rigged court that had condemned him to death for being all too effective as a teacher. Goethe wrote some of his greatest poetry in his seventies. Benjamin Franklin was active in the Constitutional convention in his eighties. To come closer to home, Henry Hazlitt writes as clearly and cogently about economics in his eighties as he did in his fifties.

Life, says Perry Gresham, is duration. The concept was Henri Bergson's, who thought that aging persons, who had greater reservoirs of experience from which to draw,

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*Fierce no more is the spectre of old age
I now see life as a series of renewals
Senility is for those who abuse the body
Or fail to qualify for renewal
Despondency is for those who fail
to find new challenges
Loneliness is for those who fail to cultivate new friends
Despair is for those who have lost their nerve
I have faced all these spectres
and I have defeated them
With eagle wings I soar above them
Old age is truly better than youth or middle years
I have earned the right to be wise
And to enjoy the inner splendor which has replaced
The external concerns of the busiest years.*

PERRY E. GRESHAM

could contribute much to creative evolution. Pondering Bergson on duration and his own experience with the "surge of the sixties," Perry Gresham decided that men could be betrayed by defective images. Some of the images are mechanical. There is, for instance, the "old-car" theory. An old car can take just so many repairs. Brakes can be relined, even new engines may be substituted, but bodies nevertheless wear out in the allotted time.

Biological images can be just as discouraging. There is the "old-tree" theory. Eventually the sturdiest

tree trunk must become a rotting log returning to the earth.

Perry Gresham discovered that if he rejected mechanical and biological images in favor of his "surge" theory, life became a matter of successive renewals. The title of his book comes from the Prophet Isaiah: "But they that wait upon the Lord shall renew their strength; they shall mount up with wings as eagles." The fear of death is a "disease of Europe." It is what comes of faulty images, such as that of the "old car" or the "old tree." But if one is willing to "wait upon the Lord"

and accept the theory of renewals, one ceases to worry about death.

Much of Perry Gresham's book is a celebration of the scriptural exaltation of faith as the substance of things hoped-for, the evidence of things not seen. But, though he pays tribute to Oriental cultures which have little terror of the prospect of dying, Perry Gresham is like any other incurable Westerner when it comes to self-help in postponing the day when there will be no more earthly surges of energy.

He has good rules for sustaining old friendships and cultivating new ones. He believes in the therapeutic values of games and dieting, but warns against being fanatic and boring about either. He believes in listening as well as in speaking. The vice of self-centeredness must be combatted—it is what makes one morose and dissatisfied even among interesting people. "The cultivating of an other-regarding point of view," says Perry Gresham, "is a lifelong experience, but seventy is a good time to start if it hasn't been started earlier."

We have lived through the years of the baby boom and the tyranny of the young. Now that our population is growing older, Perry Gresham's surge philosophy may find a bigger audience than would have been possible in the Nineteen Sixties. The officially sanctioned retirement age has recently been jumped from 65 to

70. Congress feels more complacent about letting those on Social Security earn more without being penalized for being productive. Who knows, if Perry Gresham can get a good hearing for his eagle-wing point of view, maybe Congress will ditch all those laws that treat the elderly with contempt. ☸

CUTTING BACK CITY HALL

by Robert W. Poole, Jr.

(Universe Books, 381 Park Ave. So.,
New York, N.Y. 10016)

224 pages ■ \$12.50 cloth

Reviewed by Brian Summers

AMERICANS have grown used to thinking that the quality of local services rises and falls with tax rates. Thus, anyone proposing a tax cut is immediately accused of wanting to reduce already inadequate services.

This, Robert Poole shows, need not be the case. Local taxes can be cut while services are maintained—if not vastly improved!

Take the example of mass transit. Any talk of a tax cut is immediately met with threats of fare hikes and reduced schedules. But there is no reason why mass transit should be a city-run monopoly. As Poole shows with actual cases, private buses, jitneys, gypsy cabs, shared-ride cabs, car pools and van pools provide bet-

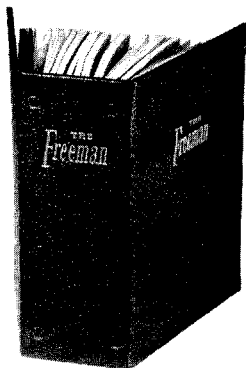
ter, cheaper, and more flexible service than tax-subsidized mass transit systems. All that is needed to turn them loose is a repeal of government regulations.

The same is true for garbage collection. Cut taxes, we are threatened, and garbage will pile up. But Poole cites numerous examples of private firms that put the government-run systems to shame. And at a profit! Private refuse collectors have pioneered in the profitable extraction of energy, usable metals and glass from garbage.

Poole also considers police and fire

protection, criminal justice, ambulance service, recreational services, health care, zoning, public works, city management, and schools. In every field he finds examples of private contracting, user fees, and modern management techniques that are improving local services while cutting costs.

Cutting Back City Hall is a valuable handbook for those who seek better local services with reduced taxes. Especially useful is a listing of companies (including consultants) that offer services to local governments on a contractual basis. 



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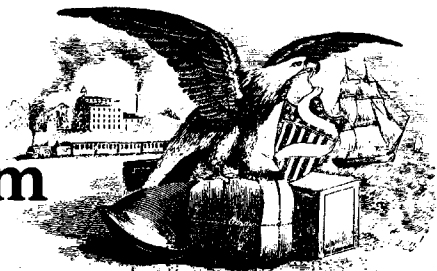
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The Case Against Protectionism



ONE THING we learn from history is that hardly anyone ever learns from history! Mistakes made in the past, some on a grand and glaring scale, have been repeated again and again. This is true particularly of the policies of central governments.

International trade presently reflects the consequences of a mass lapse of memory. During the dark days of the Great Depression the world learned the painful lesson that rampant economic nationalism leads to a breakdown in world trade. The "isolationist economics" of the 1930s did much to prolong and deepen the agony of depression.

Much of the post World War II era was marked by a gradual return to relatively free trade. Barriers to

commerce came down. Goods and services crossed national borders once again. Between 1938 and 1970 the value of world exports increased thirteenfold, from \$23.5 billion to \$311.5 billion.¹ With this expansion of peaceful, voluntary, and constructive activity came a wider division of labor and general prosperity.

The volume of world exports in the 1970s for the most part continued to grow. But a complicating factor emerged which has slowed the trend and threatens a return to the practices of the 1930s. The governments of the world are rapidly rejecting the logic and benefits of free trade. The specter of *protectionism* has reared its ugly head once again.

Protectionism is the policy of using coercion to restrict the importation of foreign goods, allegedly for the good of the domestic economy. Gov-

Mr. Reed is Assistant Professor of Economics at Northwood Institute in Midland, Michigan and Director of the college's summer Freedom Seminars.

ernments around the globe increasingly are employing it through higher tariffs, import quotas, exchange controls, and other artificial, political roadblocks. Market transactions in oil, soybeans, airline tickets, gold, bank loans and almost any other imaginable product or service routinely and hourly cross national boundaries on a vast scale, creating international markets and market prices. Both theory and history tell us that government policies which ignore this process or try to contravene it for national advantage must have deleterious effects.

The list of new and proposed restrictions, however, is growing almost daily. For example:

1. American steel manufacturers have filed suits charging "unfair competition" from Japanese and European steelmakers.

2. Florida tomato growers are demanding "protection" from Mexican tomatoes.

3. British manufacturers of greeting cards are calling for limits on Christmas cards imported from the Soviet Union.

4. The French government recently vetoed a French company's purchase of four Japanese container ships and offered instead a \$40 million subsidy to the company so it could buy ships built in France.

5. The governments of the Common Market countries caved in to

demands that they restrict the import of acrylic fibers by American producers.

6. British shoe producers are appealing for import restrictions against shoes made in Brazil, Czechoslovakia, and Poland, claiming that these countries are dumping shoes in Britain.

7. The Italian car maker Fiat enlisted government support to block a deal between Alfa-Romeo and Japan's Nissan Motors which would have given Nissan a foothold in the Italian market.

8. Auto makers and auto unions in the U. S. are lobbying for punitive measures against foreign imports.

9. Meanwhile, in Britain, the Transport Workers Union has launched a campaign to keep all foreign-built cars out of British salesrooms after 1980.

One expert on the world economy estimates that more than 46% of world trade is controlled by governments through various measures—up from 40% in 1974. Agricultural trade remains as fully controlled as ever, but more than 21% of trade in manufactured goods is now regulated, up sharply from 13% six years ago.²

The vocabulary of the protectionists indicates the seriousness with which they regard the "problem" of imports. The use of melodramatic, sometimes military, terms to de-

scribe what is essentially a network of peaceful, voluntary transactions is quite prevalent. The entry of goods from outside national boundaries is variously referred to as an "invasion," an "assault," or a "flood."

Two hundred years ago when Americans cried "The British are coming! The British are coming!" it was a call to arms against an enemy who intended to do violence to life and property. Today, with equal fervor in some quarters, Americans are crying "The cars are coming! The cars are coming!" as if a foreigner selling a car to a dentist in Peoria constitutes an act of aggression.

Why Trade?

In dealing with this problem, it is instructive to pose the question: Why trade? The answer should be obvious: people trade because they want to acquire something! To get it, they offer something in exchange. The fundamental, universal principle of free exchange is that both sides to the transaction benefit.

This principle becomes abundantly clear when one recognizes that "nations" do not trade. A "nation" is a collective term for something which exists only in the abstract; it is not a living, breathing, acting, decision-making entity. Only *individuals* live, breathe, make decisions, act, and trade. What thinking individual would freely and con-

sistently give up what he has in order to acquire things he values less?

So it is that trade is a natural development among men seeking to improve their individual welfare. It requires no central authority to decree it; it simply requires that the central authority stand aside and not hinder it! It takes the use of force (fines, taxes, prison sentences) for trade to disappear.

This use of force in international trade is gaining new respectability these days as an effective means to deal with what is known as "dumping." A somewhat nebulous concept, dumping has been defined as selling abroad below the cost of production or at a price lower than that prevailing in the exporter's home market.

No attempt has been made in American anti-dumping law to define "cost of production." What seems concrete to the legislator is slippery to the economist, who uses many different concepts of "cost," including "marginal," "average," and "total."

Steven E. Plaut, in an excellent article entitled "Why Dumping is Good for Us," explains the morass that this definitional problem has created:

The bureaucratic process through which foreign producers are judged to be dumping is cumbersome. Any American businessman who believes his company has been hurt by cheap imports can file

a complaint with the Commerce Department. After an investigation that can take up to eleven months, Commerce determines whether goods have been sold at "less than fair value." Simultaneously, the International Trade Commission decides whether such sales have been "injurious" to American industry. If both findings are positive, dumping in the legal sense is deemed to have occurred, and anti-dumping duties are levied. There is no penalty to the petitioner if he loses his case, which encourages a blizzard of filings.³

In a 1977 case concerning alleged dumping of Japanese steel plate, the U. S. Treasury decided that the Japanese firms were indeed dumping their steel. A crucial part of the finding involved adding an 8% profit to the Treasury's rather capricious computation of the Japanese firm's costs. As Lindley H. Clark of the *Wall Street Journal* stated, "If steel-makers have to get an 8% profit on everything they sell, many steel companies in the U. S. and elsewhere have been dumping quite a great deal of steel."⁴

The Fallacy Exploded

Anti-dumping levies are frequently proposed in the name of "fairness" in order to "equalize the conditions of production." The fallacy embedded in that notion was exploded by the French economist and statesman, Frederic Bastiat, a century and a half ago:

To equalize the conditions of production is not only to obstruct exchange to some extent but also to attack exchange at its very foundations; for exchange is based precisely on the diversity, or, if you prefer, on the inequalities of fertility, skill, climate, and temperature, that you are seeking to eliminate. If Guienne sends wines to Brittany, and if Brittany sends wheat to Guienne, it is because these two provinces offer different conditions of production. Is international trade conducted on a different basis? Moreover, to attack the inequalities in conditions that give rise to exchange and that account for it is in effect to attack exchange itself. If the protectionists had the power to give legal effect to their convictions, they would reduce all men to the snail's life of utter isolation.⁵

Bastiat's conclusion is inescapable: it is always beneficial for a nation to specialize in what it can produce best, and then trade with others to acquire goods at costs lower than it would take to produce them at home.

Certainly American auto makers, some of whom are urging their fellow citizens to "buy American" and the U. S. Congress to restrict imports of foreign cars, understand Bastiat's principle when they act as "buyers" in the market. Finding a truly all-American car these days is virtually impossible. Almost everything Detroit turns out contains components, from engines to brakes, which are made in other countries.

Purchasing these quality parts at

the lowest price helps keep the American auto industry competitive, regardless of where those parts originate.

A Mercantilist Notion

The charge that foreign manufacturers will "dump" their goods until domestic competitors are forced to close and then raise prices to exploit a market devoid of competition dates back at least to the mercantilist era. In those days, it was believed that a domestic manufacturer had a "right" to the local business. Those consumers who would have preferred foreign products were prevented from buying them by restrictive legislation. The result was a reduction in efficiency and competition, higher prices and fewer choices to the consumer, and ultimately less attractive employment opportunities.

Moreover, to quote Steven Plaut again,

...predatory dumping that reduces competition, like a domestic price war, involves a period of gain for consumers (or the consuming country) followed by a period of loss, as the emerging monopolist or oligopolists extract excess profits. Dumping will result in a net national loss for the importing country only if the eventual loss outweighs the earlier gain. There has never been a well-documented case of net consumer loss resulting from a domestic price war. Nor is there convincing evidence of a single case in which a country suffered a net loss from dumping.⁶

Whichever definition of the word one employs, "dumping" has some very rational explanations in its favor. What about the legitimate concept of variable pricing, for instance, which involves different prices in different markets because supply and demand conditions are not everywhere identical?

Sometimes dumping occurs with products which are no longer in great demand in home markets, left over when models change, or outlawed for domestic political reasons.

At other times, a foreigner will attempt to acquire a market share in another country by offering his wares at cut rate. Is that any different from the corner grocery store which advertises toothpaste at 50¢ off in order to get customers in the store?

Under other circumstances, a producer may maintain a certain output during an economic decline at home and sell his products abroad at "below cost" because the alternative of closing for the duration of the decline would be even more costly.

And because of price and exchange rate fluctuations which may take place over the life of a sales contract, the final sales price of imported products could easily end up below cost or below the domestic price.

No free trade advocate should ever argue that free trade makes life easy for every domestic producer. While

broadening the choices open to consumers, it can simultaneously deny a producer the security of a guaranteed home market. But any policy of protectionism designed to provide that security will do harm to consumers. Too often we see the good that restricting imports might do for a few and ignore the very real injury which would be inflicted on the many. There simply is no escaping the fact that protectionism as an idea does violence to the logic of liberty, peace, and economics.

For the true libertarian, the liberty argument against protectionism ought to be sufficient refutation by itself. Humans have a natural right to be free from arbitrary interference in their peaceful affairs. Trade restrictions disrupt and punish a peaceful, voluntary, and mutually-beneficial activity. The legitimate function of government is to prevent and punish violence, not to initiate it. Protectionism must be regarded as a manifest violation of liberty, and its advocates must tell us what earthly goal their policy serves that is greater than human liberty.

Peace Through Trade

The peace argument against trade controls was well summarized by Professor W. M. Curtiss in his book, *The Tariff Idea*: "If goods do not cross frontiers, armies will!"⁷ In other words, when people sever their eco-

nomic ties, war becomes a distinct possibility. The course of events is painfully repetitious to the historian: one side raises trade barriers, the other retaliates, and the war of words subsequently degenerates into armed conflict.

As long as people are free to reap the benefits of trade, they have a direct and immediate interest in tranquil relations. But raise the tariff and close the borders, as was done in the 1930s, and relations deteriorate. What a nation cannot get through trade, it may attempt to take at gunpoint.

For hundreds of years prior to 1815, Britain and France were at each other's throats. During this long period of antagonism, inhibiting trade was national policy in both countries. After 1815, under the influence of the free trade notions of Adam Smith, the two countries reduced their barriers and have since enjoyed peaceful political relations. This is no mere coincidence. So as each brick is mortared to the protectionist wall, those who argue in its favor must tell us why peace is not important.

Preventing free trade fails to make any economic sense as well. Though it may benefit (at least in the short run) domestic industries by reducing competition from abroad, the economic harm done by it is nonetheless real and identifiable.

Just who is harmed economically

by a tariff, for instance? First, all individuals who purchase a product upon which the tariff is levied. By the amount of the tariff, they now have less wealth than they would have had without it. They are that much poorer.

Next, all those domestic businesses which now sell less to Americans because Americans must spend more for the "tariffed" items.

Then, all those domestic businesses which now export fewer goods to foreigners because foreigners earn fewer dollars in America to pay for those American exports. That's not an insignificant point if one considers that one out of every eight manufacturing jobs in this country produces for export, one out of every three acres of American farmland produces for export, more than half of our wheat, soybeans, and rice is sold abroad, and almost one out of every three dollars of U. S. corporate profits comes from international activities of U. S. firms.

And finally, *everybody* loses as the advantages of international specialization and lower cost production evaporate. The situation is even worse if, instead of a tariff, restrictions are imposed which deny entry of the foreign good altogether.

Such detailed argumentation would not be necessary if men understood what the very concept of

protectionism represents. In a nutshell, protectionism pulls people apart. It does not enhance cooperation. It makes exchange not easier, but more difficult. It raises barriers, obstructions, roadblocks, and impediments. It *creates* problems; it does not solve them. The progress of mankind has not come from making life more difficult!

As the rising tide of protectionism hangs over the world like a Damocles' Sword, the centerpiece of American foreign policy ought to be a ringing defense of free trade. Other nations may persist in their primitive policies of coercion, but let that not be cause for America to blow out the candle and leave us all in darkness. Our motto must be, "Let's import their goods, not their folly." ☉

—FOOTNOTES—

¹United Nations, *Statistical Yearbook*, 1971, p. 383.

²Philip Revzin, "Rising Barriers," *Wall Street Journal*, March 12, 1980, p. 1.

³Steven E. Plaut, "Why Dumping is Good for Us," *Fortune*, May 5, 1980, p. 213.

⁴Lindley H. Clark, "Analyzing Imports," *Wall Street Journal*, Nov. 1, 1977, p. 20.

⁵Frederic Bastiat, *Economic Sophisms* (Irvington-on-Hudson, New York: The Foundation for Economic Education, 1964), pp. 29-30.

⁶Plaut, p. 214.

⁷Curtiss, W. M., *The Tariff Idea* (Irvington-on-Hudson, New York: The Foundation for Economic Education, 1953), p. 80.



Penalties on Employment

AMONG those who deplore the ravages of Big Government, there is a tendency to dwell upon aggregate figures, rather than on individual experiences. Emphasis is apt to be placed upon the billions that are being exacted from the taxpayers collectively and squandered by the bureaucrats upon seemingly useless activities.

Such concern, of course, is as it should be. More power to any writer or speaker who can find new ways to drive the message home convincingly! For the hour is late—very late. Slowly but surely our country is being reduced to bankruptcy in the name of alleged social and economic progress. And the people collectively are paying the bill and will ultimately

suffer the consequences in a further stifling of initiative and curtailment of freedom.

But of late I have been thinking about what all this supergovernmentalism is doing to Jim Smith, Henry Jones, Mary Brown and millions of their social and economic counterparts as individuals—how much time and work and money they are forced to expend in ridiculously complicated, Federally-generated bookkeeping, reporting and fee paying.

My interest was further quickened by a letter that came to me not long ago from a mid-western friend of long standing. Before his retirement he was for years the General Manager of a large national Trade Association. He is also a Certified Public Accountant and a Financial Analyst; and he is therefore better

Mr. Bradford, of Ocala, Florida, is well known as a writer, poet, speaker, and business organization consultant.

qualified than most taxpayers to keep records and fill out complicated forms. With his letter to me he enclosed a copy of one he had written to a high government official, in which he had set forth some of his experiences as an enforced paper shuffler.

And because his ordeal, with slight variations as to detail, has probably been duplicated by several million other Americans I am, with his permission, giving the gist of his experience in the following paragraphs.

* * * *

First, as to his status, he is a retired businessman, a widower, who employs a part-time housekeeper. For twelve years after his wife died he employed a live-in housekeeper; but he reports that after her retirement (and after interviewing twenty other women) he has been unable to secure another. In his search he found that many women who formerly did domestic work now dwell in government-subsidized apartments at low rentals, and subsist on Federal Social Security payments, bank interest, and other types of income. But he has also found, he adds, that such women seem pleased with their situations. While their incomes are low and their living standards are not high, they are generally happy, since "they do not have to work." Their desire

and will to work, he believes, have been destroyed.

His present part-time domestic employee, he reports, is paid the Federal minimum hourly wage, together with her meals and several other benefits; but in order to employ her legally he is *required to execute and file thirteen different forms*, and pay a total of \$442.35 a year in Federal Social Security taxes, and state and Federal unemployment insurance taxes. This he must do in order to be allowed to furnish employment to a person who seriously needs it!

The employee has both a heart and an eye condition that would make it very difficult for her to secure other employment. So his use of her services fills a real social need; and he says she is very happy with her work. *But . . .* he must do all that paper work, and dig up nearly \$450 over and above her wages, for the privilege of giving her employment that is beneficial to her and to society at large, as well as to him.

When she was first hired, he was required to prepare and file a paper called Form UC01—"a report to determine status of domestic employment." Then he had to file Form 327, to show that he is not a retailer, a wholesaler, or a manufacturer. Then every three months he is required to prepare and file Form 942 Federal Aid Security, pay 6.13 per cent of her wages in taxes and deduct that

amount from her wages—a total tax of 12.26 per cent of her wages. At year's end he must prepare and file with Internal Revenue Service Form W 2, showing her total wages and taxes—and a copy of this report must also be given to the employee.

Then every three months he must also prepare and file Form UC-D, namely, Employer's Contribution Report for Unemployment Insurance, together with Form UC 3-T; and must pay 3 per cent of her wages in such taxes. Incidentally, another form, which shows the employee's name, Social Security number and the amount of such taxes in her case, must be sent to a Michigan Avenue address in Chicago, whereas the other form (UC 3-T) must be sent to a different Chicago address.

Endless Filing and Duplicate Reporting

Maybe there is some matter of bureaucratic efficiency or convenience involved in such a requirement, but one wonders why these two reports couldn't be combined and sent to the same address, thus saving printing costs, extra envelopes, and extra postage cost to the taxpayers. A small matter of maybe only fifty cents or less to each individual? Yes—but not small when you multiply it by many thousands, and possibly by several million.

But my employer friend is not yet finished with his paper work. At the

end of each year he has to prepare and file Form 940, the Employer's Annual Federal Unemployment return, showing the total wages paid to his part-time housekeeper. At the same time, he must pay 7 per cent in taxes to the Internal Revenue Service.

He tells me that he could also face the possibility of completing and filing twelve more forms each year. This could happen if his four-days-a-week housekeeper, who pays a total of about \$150 a year in Federal and Illinois income taxes, should ask him to withhold such Illinois taxes from her pay, so she would not have to make the single payment on April 15th. This would involve his completing Form IL 501 (Illinois Employers Income Tax) on the first and second months of each calendar quarter, paying such withheld taxes, and then completing and filing another form (IL 941) showing total wages for the quarter, on the third month of each quarter. These three forms and three remittances would be mailed quarterly to the Illinois Department of Revenue at Springfield. So far my employer-friend has been spared this particular load of paper work; but it would be required of him if his employee should decide she wants him to withhold these taxes from her pay. If this should happen, he estimates that a minimum of two and a half days of time each year would be required to com-

plete, file, record, issue checks, and mail, in order to comply with the law.

Rules and Regulations

For many years defenders of the so-called liberal program of our government (high employment at good wages with attendant social benefits) have sung the praises of its alleged advantages. Seldom do they mention the wasteful, time-consuming, sometimes ridiculous rules and regulations that have become a part of that program.

To some extent this results from the long-established "liberal" notion of labor as an abused commodity—a mass of underprivileged, down-trodden wage slaves; and of employers as big-bellied cartoon types, or as huge and soulless aggregations of capital. Partly it inheres in any bureaucratic management of the minutiae of our lives.

Apologists for the system of so-called benefits for thousands of marginally-employed workers are either unaware of or indifferent to the problems faced by the employers of such labor, who are almost as numerous as the workers themselves. An example is the case of my friend, who, because he employs a part-time housekeeper, must prepare and mail 13 different forms, and possibly 12 more forms for a yearly total of 25; must enter in his personal financial records the figures upon which to

base the issuance of nine checks for a total yearly payment of \$442.35 in Federal Social Security taxes, plus both Federal and Illinois State unemployment insurance taxes on the cash wages of \$4500.

On top of all this, he says that domestic employment in 1980 will come under the Illinois Workmen's Compensation Act, and he will have to secure an appropriate insurance policy at an annual premium of about \$75. This coverage, he notes, would be included at very low cost to him (only \$4.75 per year) under the liability section of his regular Homeowner's Insurance policy! Thus an employer is again to be penalized for furnishing some much-needed employment and income.

What is the alternative to such nonsense? One sensible way would be to allow the free-market economy to take its beneficial course. The problem is simple. A man needs a part-time housekeeper. A woman with some health problems is nevertheless able and anxious to perform the household tasks involved. She is willing and eager to work. He is anxious to employ her services. So . . .

Why not simply let them strike their bargain without invoking and involving the ponderous, costly and time-consuming machinery of the U. S. Government and the State of Illinois? Such a program would, of course, be looked upon by the disci-

ples of Statism as wrong, reprehensible and reactionary, and to propose it seriously is to invite their scornful condemnation.

There is, of course, another alternative. To mention it here is not to propose it, and certainly not to endorse it. I refer to the so-called underground system. Under it, neither employer nor employee makes any reports to government at any level. The wages are paid from hand to hand in cash on an agreed basis; nobody makes any reports; nobody pays any fees or taxes. Naturally such arrangements are not publicized, and nobody knows how widespread the practice may be.

Law-Breaking Encouraged

The evil in the "underground system" is that it encourages people to break the law, and causes disrespect for government. And the evil is not removed, even though it is perhaps slightly modified, by the gloomy fact that people who practice it do so to evade the senseless exactions of their own government!

Significant bits of light are cast on this problem in two letters received by my troubled friend. One was from the Nobel prize-winning economist and social philosopher, Dr. Milton Friedman. In his usual forthright way, Dr. Friedman said: "You wrote

an excellent and clear letter to (the "high government official" above referred to) about the incredible paper work and taxes, just to employ a part-time housekeeper legally. *What a mess we are in.*"

By contrast, the other letter was from an assistant to the said high government official—written after some two month's delay in response to an urgent follow-up by my friend. It said:

"The amount of mail received . . . in recent months makes it impossible for us to respond . . . with as much detail as we would like. However, you may be sure that we have noted your remarks."

Some day an inspired composer may set that line to soul-stirring music and give us a new National Anthem: "*Brother, we have noted your remarks!*"

Well . . . there it is: One troubled and troubling echo from our statist society; one bit of honest protest; one small, exasperating incident which, multiplied by millions, ends in national frustration, and points to bankruptcy. And a nagging question keeps intruding:

Is it possible—just possible—that somewhere in the crowded corridors of Washington and other capital cities there is room for the exercise of a little ordinary horse sense?

THE ENEMIES OF PRODUCTION

WHAT Ralph Nader and his associates advertised as Big Business Day on April 17, 1980 was aimed at generating mass public support for legislation to curtail corporate power—to fight “Crime in the Suites.” Counter-demonstrations were organized to commemorate the past achievements of the enterprise economy and demonstrate a national consensus on the need for economic policies that promote jobs and prosperity.

This important debate involves the question of growth versus no-growth. It is a question of economic progress and material prosperity versus stagnation, unemployment and poverty. Is it time for sacrifice; time to pursue policies of zero economic growth; time to write an

obituary for the American Dream? Or can we continue to have an expanding economic pie, with a larger share for everyone?

More importantly, however, this debate boils down to the question of human liberty. Proponents of the no-growth mentality are siding with the collectivists in the historic struggle between individual freedom versus government control. It is imperative, therefore, that those who cherish liberty understand the issues involved in this latest attempt to expand the power of the state.

Ironically, Big Business Day 1980 occurred on the eve of the anniversary of Lexington and Concord—the shot heard round the world. Some of the most vocal advocates for increasing the role of government in business and consumer decisions

selected a week that celebrates the beginning of the American Revolution to voice their views.

A New Tyranny

One of the reasons for severing the ties with England was that King George III and Parliament were trying to tax and regulate commerce and industry—business. In the Declaration of Independence, Thomas Jefferson charged that George III had “erected a multitude of offices and sent hither swarms of officers to harass our people and eat out their substance.” This is exactly what we see happening today, only there is a new tyranny in the place of George III. This new tyranny is being imposed through the implementation of proposals espoused by “the new adversary class.” They “have erected a multitude of offices”—OSHA, the EPA, FTC, CPSC, DOE, CSA, FDA, ad infinitum—and “sent hither swarms of officers”—agents, inspectors, lawyers, and the like—“to harass our people and eat out their substance”—our productivity and our wealth.

The danger posed by this new class is that they are using the power of the state to bring about the changes they desire. They want to force compliance with what they determine are the right policies to pursue and the proper way to live one's life. They are statist. As a result, government is playing a much

greater role in our lives. Even aside from the massive increase in public sector consumption of private sector wealth, the extent of the regulatory activities of government is alarming. We have almost totally abandoned the original concept of a government of limited and enumerated powers.

Anyone not convinced of this ominous trend need only pick up the daily newspaper, particularly one that covers business news. Without making any value judgment as to whether a particular government activity is good or bad, just notice the extent to which government is involved in every economic transaction. For example, here are a few of the stories in a recent issue of the *Wall Street Journal*:

- FAA May Go to Court Over Limits Set on Use of California Airports
- Auto Warranty Services Are Studied by the FTC
- TWA Seeks Authority from CAB for New Route
- California Utility Fined for Safety Violations
- Oklahoma G&E Wins Temporary Rate Boost
- Revenue From Carter's Import Fee on Oil is \$10 Billion Prize Sought by Everyone
- More Banks Take Steps to Place Restrictions on Loans to Consumers to Stay Within Federal Reserve Guidelines

This increase in the power and especially the scope of government is a major change which warrants attention.

Special Interest Legislation

There are two major causes for this trend toward big government. The first occurred very early in U.S. history as individuals, often businessmen, realized they could obtain special privileges from government. Special interests sought grants, subsidies, exclusive licenses and various forms of protective legislation. This was the history of most early regulatory agencies. They were created to protect the "public interest" but soon fell into the hands of the special interests. They were "captured" by the very industries they were supposed to regulate. As a result, they aided and protected various vested interests. One need only visit the halls of Congress and observe trade associations, labor leaders, and businessmen lobbying for various types of special interest legislation to realize that this factor in the growth of government continues today.

The reason this type of plunder has been so successful and is still going on is because, as Milton Friedman and others have pointed out, the benefits are concentrated in the hands of a few, while the costs are diffused among millions of taxpayers. For example, a particular

industry lobbies in Washington, D.C., for a subsidy of ten million dollars. This benefit is concentrated. With \$10 million at stake, the industry will hire lobbyists to wine and dine Congressmen; they may form a political action committee to distribute thousands of dollars to the re-election campaigns of Congressmen favorable to their subsidy. In short, the benefit is concentrated so potential recipients will go all out to obtain it.

On the other hand, the dollar costs are diffused. The subsidy will be collected from taxes, both direct and hidden, levied on millions of taxpayers. A subsidy of \$10 million to a special interest is not much to excite a taxpayer, since his share of the \$10 million is, on average, less than a dime. It would cost a taxpayer more than that to write a letter or telephone his Congressman to protest this subsidy. The cost is diffused. This is why there has never been much vocal opposition to the specific subsidies granted special interests; taxpayers simply, and quite naturally, don't feel the added burden of each specific program.

This scheme is even more effective when the subsidy is in a non-monetary form—a protective tariff, a licensing law, an increase in the minimum wage, and so forth. In these cases not only are the dollar costs diffused, but they are hidden, usually in the prices of goods and

services. These are ideal subsidies from the standpoint of politicians since the dollar costs are usually in the form of higher prices, not higher taxes. Furthermore, the costs are often in terms of what is unseen—goods which are never produced or tasks which are not profitable to complete.

This is the first reason for the growth of government—special interests engage in legalized plunder because the benefits are concentrated, while the costs are diffused and hidden.

The New Adversary Class

The second major cause is the advocacy and lobbying by the "new adversary class." This trend is responsible for much of the regulation of recent years. Self-proclaimed consumer, environmental, and worker interests have managed to use government to force compliance with goals they view as socially desirable. These are generally sincere, well-motivated individuals. They want Americans to drive safe cars; they want our energy sources to be environmentally safe; and they want to eliminate hazards in the workplace—all laudable goals. These advocates of economic democracy even claim to support competition and human liberty. The tragedy of this is that while many of them seek such lofty objectives, the policies they advocate would take us in the opposite

direction. Their proposals would lead to an increased centralization of power, reduced production, less competition, and greatly diminished human liberty, not only for businessmen but also for consumers, workers, and shareholders. In short, we would be further down the road to serfdom.

A brief look at some of the so-called evils of big business demonstrates that advocates of economic democracy have faulty powers of observation and little understanding of the free market process. Furthermore, most seem to lack any fundamental principles that might serve as restraints against unlimited expediency.

They are horrified by giant corporations because they are giant. Big is bad, they claim. Yet they fail to understand how—in a free market—a corporation becomes a giant corporation. It can grow only if consumers *voluntarily* buy the product it offers, only if workers *voluntarily* work for the wages it can pay, and only if individuals with savings will *voluntarily* invest their capital in the corporation. In short, it achieves bigness only by convincing individuals that it is in their self-interest to voluntarily associate with the corporation.

In his excellent book, *In Defense of the Corporation*, Robert Hessen describes the situation as follows: "Combining the capital of millions

of investors and talents of millions of workers, giant corporations are a testament to the ability of free men, motivated by self-interest, to engage in sustained, large-scale, peaceful cooperation for their mutual benefit and enrichment. As a result, Americans today enjoy a standard of living—of luxury, leisure and longevity—that is unprecedented in world history and unparalleled in contemporary socialist societies.”

But not only is big business bad simply because it is big, we are told, but also because it is powerful. Big-business means power, critics claim. This view indicates a poor understanding of the role of consumers in a free market and how they determine profit and loss. The charge that businessmen are primarily after profit is generally accurate. For most, this is true. However, this should not be considered a derogatory remark. It is precisely the desire for profit that drives businessmen into the never-ending effort to fulfill consumer desires.

The Consumers Are in Charge

Rather than consumers being at the mercy of giant corporations, as “consumerists” charge, it is the other way around. In a free society, it is consumers, through their everyday purchasing decisions, who hold life and death power over corporations. This is true consumer sovereignty. Businesses spend mil-

lions of dollars every year trying to determine what consumers want. It is consumers who ultimately decide what products are brought to the market, which sellers will make a profit, and how high that profit will be.

This is another complaint of many critics of capitalism—that profits are too high or that they come at the expense of workers and consumers. Most businessmen try to defend their profits with all sorts of figures showing that profits are being misreported or misunderstood—that they are really very low. However, this ignores what profit is. Profit is an indication of the efficient use of scarce land, labor and capital. Losses are an indication of the inefficient use of these resources. The way to increase profit is to use resources more efficiently. Those best served by the efficient use of scarce resources are the consumers. More efficient use of resources means more for less—more goods from a given or smaller amount of resources. Those who criticize profits, especially high profits, are criticizing consumers for casting their dollar votes in the marketplace for producers who employ resources most efficiently in serving consumers. In other words, those who attack profits are attacking consumers, not businessmen.

Just as important, from the standpoint of consumers, as the freedom to make a profit is the free-

dom to make mistakes—the freedom to fail. Ours is a profit and loss system. Only producers who respond to consumer demands in an efficient manner will survive. As Dr. Bertel M. Sparks wrote in the June, 1975 *Freeman*, "... every time the government intervenes to prop up a failing business or to restrain the operation of a successful one, the government is using the consumer's hard-earned tax dollars to veto the consumer's wishes that have already been registered in the market place."

The Responsibility of Management toward Shareholders

Shareholders and workers also have a veto power over business, despite charges to the contrary by critics of the system. Proponents of corporate democracy charge that shareholders are not involved in the everyday decisions of corporations—they propose shareholder plebiscites on any action involving 10 per cent or more of the corporation's assets. The reality they overlook is that most shareholders do not desire to make the management decisions of a corporation. They buy stock because they don't have the time, talent, or desire to manage that portion of their savings. If they don't like what the corporation is doing they can sell their share of ownership. If enough other shareholders do likewise it is the corpora-

tion that will suffer and be subject to takeover or possible bankruptcy.

The responsibility of the officers and directors is to the owners—the shareholders—and this is usually a responsibility to maximize return on investment. If officers fail in this task they risk losing their positions in the business. The relationship of shareholders to a corporation is completely contractual and voluntary. Some social critics may not like it, but they have neither moral justification nor legal right to prohibit it.

A further criticism of big business is that because it is big and interested only in profit, it will overlook quality, particularly in the area of safety. The consumer protection movement, growing out of Ralph Nader's attack on the Corvair, believes government should mandate standards of safety producers must follow. Yet this overlooks the fact that safety is a matter of degree and a function of cost. In a free market, consumers will purchase safety up to the point at which the additional cost for safety outweighs the value they place on alternative uses of their money. From an efficiency standpoint, mandated safety generally means higher prices and therefore is a burden which hits the poor especially hard.

But the real question is whether government should prohibit individuals from *voluntarily* purchasing

relatively unsafe products. If consumers do not desire to pay hundreds of dollars extra for an automobile with seat belts, air bags, and bumpers that absorb 30 M.P.H. collisions, should government force them to do so? The so-called "consumerists" want to force consumers to buy extras they arbitrarily determine consumers should have. But if consumers can't afford these extras, should they be forced to go without an automobile or continue driving older, less safe vehicles?

Yet, the overlooked reality in this situation is that businessmen try to produce what consumers want—if consumers indicate a desire for added safety features in products by voting for them with their dollars, producers will respond. As Dr. Sparks asks in the previously quoted article: "... if the buyer is not permitted to exercise his own judgment as to the suitability of a product for his purposes, who is to make that judgment for him? That is the critical question too often ignored by those who would deprive the consumer of his dominant role in the market place. . . . The real question is whether or not a person of mature years should be free to make mistakes."

The History of Capitalism

The historical record of capitalism is one of the improvement of the material condition of mankind. More importantly, but less recog-

nized, capitalism is the only economic system consistent with freedom. Capitalism is a system that *has* worked, that *does* work, and that *can* work. Consumer, worker, businessman—all have benefited from the ingredients of capitalism: private property, the division of labor, peaceful and voluntary cooperation, diversity, opportunity, self-reliance, and an expanding economic pie. If you really have the interests of the consumer in mind, if you are truly concerned about the disadvantaged minorities, if you want to offer hope to the poor, then you must support the free market system.

But to say it *has*, it *does*, and it *will* work is not to say it is working. That is not a free market out there. We have adopted a mixed-economy, and it isn't working. Each regulation that is enacted has its costs, in terms of both personal freedom and economic efficiency. We've saddled our productive, free sector with so much taxation, red tape, regulation and control that it is slowing down. We can see the effects. It threatens the future of the American Dream and of our free society.

It is important that we advance our understanding of how the free market system works. We must acknowledge that profits are not something to apologize for—they are the mark of success. They indicate the efficient use of scarce resources in

supplying consumers with the goods and services they want. The businessman who makes a profit is the genuine servant of the consumers.

Furthermore, it must be recognized that government can only control people. Government cannot control automobiles, it can only control the people who manufacture automobiles, or the consumers who wish to purchase them. Government cannot control wages or prices, only people. Price controls are people controls. A wage control intervenes in the voluntary agreement between an employee and an employer, denying each a certain degree of freedom. Attempts to use government to implement political, social or economic goals, no matter how desirable they may seem to be, require the use of coercion and therefore diminish precious freedom.

In Defense of the Market

The real consumer advocate is the individual who understands the free market process and is willing to defend it. A free market makes production and economic progress possible. To be a genuine consumer advocate one must support this system, for production is a necessary precedent to consumption. The policies of the self-proclaimed consumerists have so saddled our productive sector that they have imperiled the ability of business to respond to consumer demand. It is the ultimate in folly that opponents of production and economic progress have appropriated the title of consumer advocate. Their policies threaten the survival of our free, productive society and therefore make the consumer an endangered species. 

Consumers Choose

CAPITALIST SOCIETY has no means of compelling a man to change his occupation or his place of work other than to reward those complying with the wants of the consumers by higher pay. It is precisely this kind of pressure which many people consider as unbearable and hope to see abolished under socialism. They are too dull to realize that the only alternative is to convey to the authorities full power to determine in what branch and at what place a man should work.

In his capacity as a consumer man is no less free. He alone decides what is more and what is less important for him. He chooses how to spend his money according to his own will.

IDEAS ON



LIBERTY

AGAINST ALL ENEMIES

Part II

JOHN QUINCY ADAMS, sixth President of the United States, once observed: "Our Constitution professedly rests upon the good sense and attachment of the people. This basis, weak as it may appear, has not yet been found to fail."

Up until President Adams' administration and for many years afterwards, our Constitution did indeed work in the manner it was meant to work. Times have changed, though. Although the principles of the Constitution of the United States remain as strong as ever, we have seriously neglected and forsaken them. The Constitution itself is a rugged, foresighted document, but, as Presi-

dent Adams said, its effectiveness lies in how well we observe its provisions.

Tragically, too many Americans today have abandoned the faith of the Founding Fathers. Our Constitution has been trampled upon by government officials, members of the mass media, educators, other public-opinion molders, as well as the average citizen.

Consider for a moment how some Americans (particularly those serving in Congress) have manipulated the "general welfare" clause of the Constitution. The "general welfare" is mentioned in the preamble and in Article I, Section 8.

The preamble reads: "WE THE PEOPLE of the United States, in Order to form a more perfect Union, establish Justice, insure domestic Tranquility, provide for the common

In this three-part series, Robert Bearce of Houston, Texas identifies the basic principles of limited government as set forth in the Constitution of the United States. He shows how we have forsaken many of the basics, and points the way toward a restoration of freedom.

defense, promote the general Welfare, and secure the Blessings of Liberty to ourselves and our Posterity, do ordain and establish this Constitution for the United States of America."

Article I, Section 8 of the Constitution mentions the "general welfare" in this way: "The Congress shall have the Power to lay and collect Taxes, Duties, Imposts and Excises, to pay the Debts and provide for the common defense and general welfare of the United States . . ."

The preamble clearly defines the two major functions of government: (1) ensuring justice, personal freedom, and a free society where individuals are protected from domestic lawbreakers and criminals, (2) protecting the people of the United States from foreign aggressors.

No Special Privileges

When the Founding Fathers said that "WE THE PEOPLE" established the Constitution to "promote the general Welfare," they did not mean the federal government would have the power to aid education, build roads, and subsidize business. Likewise, Article I, Section 8 did not give Congress the right to use tax money for whatever social and economic programs Congress might think would be good for the "general welfare."

James Madison stated that the "general welfare" clause was not a

freeway for Congress "to exercise every power which may be alleged to be necessary for the common defense or general welfare." If by the "general welfare," the Founding Fathers had meant any and all social, economic, or educational programs Congress wanted to create, there would have been no reason to list specific powers of Congress such as establishing courts and maintaining the armed forces. Those powers would simply have been included in one all-encompassing phrase, to "promote the general welfare."

Writing about the "general welfare" clause in 1791, Thomas Jefferson saw the danger of misinterpreting the Constitution. The danger in the hands of Senators and Congressmen was "that of instituting a Congress with power to do whatever would be for the good of the United States; and, as they would be the sole judges of the good or evil, it would be also a power to do whatever evil they please."

The Founding Fathers said in the preamble that one reason for establishing the Constitution was to "promote the general welfare." What they meant was that the Constitution and powers granted to the federal government were *not* to favor special interest groups or particular classes of people. There were to be no privileged individuals or groups in society. Neither minorities nor the majority was to be favored.

Rather, the Constitution would promote the "general welfare" by ensuring a free society where free, self-responsible individuals—rich and poor, bankers and shopkeepers, employers and employees, farmers and blacksmiths—would enjoy "life, liberty, and the pursuit of happiness," rights expressed in the Declaration of Independence.

Quoting the Tenth Amendment, Jefferson wrote: "I consider the foundation of the Constitution as laid on this ground: That 'all powers not delegated to the United States, by the Constitution, nor prohibited by it to the States, are reserved to the States or to the people.' To take a single step beyond the boundaries thus specially drawn around the powers of Congress is to take possession of a boundless field of power, no longer susceptible of any definition."

A Monstrous Bureaucracy

Jefferson was correct in fearing that Congress could "take possession of a boundless field of power," but he was wrong in saying that such unlimited power could not be defined. It can indeed be defined by simply looking at the federal government of the United States today. There we see a "boundless field of power" in both little and big matters.

Unlike public officials during Jefferson's time, our modern-day legislators have a very loose interpreta-

tion of the Constitution. The result is that government has snowballed into a monstrous bureaucracy. Consider the power given to Congress by the Constitution in Article I, Section 8, clause 8: "To promote the Progress of Science and useful Arts. . ."

Does that mean Congress has the right to use our tax dollars to finance agencies like the National Science Foundation and the National Foundation on the Arts and Humanities?

Definitely not! The complete clause reads: "To promote the Progress of Science and useful arts, *by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries*" (emphasis added).

That's what the Founding Fathers meant by encouraging science and the arts. An appropriate Copyright Office was set up. Article I, Section 8, clause 8 is just one example of how the Constitution protects individual freedom and assures the individual the right to enjoy the fruits of his own labor, energy, and abilities.

Our present-day legislators, however, have ignored the Constitution as they pass legislation to help science and the arts. We now have the federally funded National Science Foundation, National Endowment for the Arts, and National Endowment for the Humanities. How do

these federal programs spend our tax monies? Well, it has been reported that \$130,000 from the National Science Foundation was used to study the evolution of the cricket. Another \$46,000 was evidently spent by the National Endowment for the Arts to finance a film documentary on the history of the toilet. On the other hand, we are informed that for only \$2,500 the National Endowment for the Humanities was able to finance a study on why tennis players are rude on tennis courts. A real bargain!

Undoubtedly, federal programs like the National Science Foundation have had some worthy results, but the benefits received are not the issue for discussion or debate. The problem is that such federal programs are unconstitutional. Rather than depending upon free individuals to encourage science and the arts through *voluntary* contributions to private foundations, Congress is taking money from some citizens and giving it to whomever it judges to be needy of federal handouts.

Congress Assumes Powers Beyond Intent of Founders

Congress is continually usurping its constitutional power, spending more of our tax dollars, and otherwise assuming obligations the Founding Fathers never meant it to undertake. For example, our generous government offers us such help-

ful publications as *And Now a Word About Your Shampoo*, *Keeping Your Pet Healthy*, and *Imaginative Ways With Bathrooms*. The really nice thing about these publications is that they are "free."

Now, it might be heartening to some people to know that our government wishes to advise us on how to plan or remodel our bathrooms, but are we to believe that federal funding for such publications is provided for in the Constitution?

The Constitution is being twisted and manhandled as our legislators toil in Congress to do what we can and should do for ourselves. One prominent Senator proudly lists in his legislative newsletter laws and proposals he has worked for in our behalf. These include a National Technology Act . . . federal subsidies for mass transit . . . a child abuse act . . . aid for bilingual education . . . a legal Services Corporation . . . an Arthritis Act . . . a Drug Utilization Improvement Act . . . subsidies for solar energy . . . monies for public service jobs, and so forth and so on.

The Senator's constituency, as well as all American citizens, should recall Jefferson's advice: "... Still one thing more, fellow citizens—a wise and frugal Government, which shall restrain men from injuring one another, shall leave them otherwise free to regulate their own pursuits of industry and improvement, and shall not take from the mouth of

labor the bread it has earned. This is the sum of good government."

Yet, our federal government today rumbles on, disavowing the Constitution and taking from our "mouth of labor the bread it has earned" through taxation. Government grows bigger and more comprehensive as federal funds are spent for cooperative farm extension work . . . urban mass transit . . . child-nutrition programs . . . public housing . . . elementary and secondary education . . . air and water pollution control . . . rural-housing grants . . . minority business development . . . public broadcasting . . . adolescent health services and pregnancy prevention . . . boating safety assistance . . . new-community assistance grants . . . urban renewal, and so forth and so on.

A Free Economy

America's past progress in achieving material prosperity in a climate of freedom and human dignity did not come as a result of government intervention into social/economic matters. Our nation has prospered because we were true to the Constitution. The Founding Fathers believed that the role of government was to provide a political framework that would permit individuals to work together in voluntary cooperation, pursuing their own destinies. Individual initiative and personal responsibility—not government so-

cial and economic intervention—were the basis for stability and growth.

The critical question for us is how many of the federal government's departments, boards, projects, and agencies are constitutional. We should remember that elected and appointed public servants are sworn to support and defend the Constitution of the United States. Consider what the Constitution has to say about private property, and then think about how government has abused its authority.

The Fourth Amendment states: "The right of the people to be secure in their persons, houses, papers, and effects, against unreasonable searches and seizures, shall not be violated . . ."

The Fifth Amendment assures us that we will not "be deprived of life, liberty, or property, without due process of law . . ."

The Fourteenth Amendment states that citizens will not be deprived of "life, liberty, or property, without due process of law . . ."

Few government officials, if any, will deny that private property is a basic principle or right enjoyed by Americans. Yet, these same public officials support laws that have the effect of infringing upon our liberty and property.

Without the right to dispose of our property as we best see fit, the right to private property is mean-

ingless. Our property includes everything from our homes or the business we might own to our earnings at whatever job or profession we have. Our pay checks are just as much a matter of private property as are our homes, automobiles, and TV sets. Government deprives us of liberty and property to the extent that it (1) tries to manage our economic lives for us; (2) prevents us from reaping the rewards of hard work and enjoying the fruits of our own property. Through unnecessary government regulations as well as excessive taxation we are not in full control of our property.

Private Property Protected

James Madison, known as the Father of the Constitution, understood that government interference threatens freedom and private property:

"That is not a just government, nor is property secure under it, where arbitrary restrictions, exemptions, and monopolies deny to part of its citizens that free use of their faculties, and free choice of their occupations, which not only constitute their property in the general sense of the word; but are the means of acquiring property so called."

Madison, Roger Sherman, and other men who wrote our Constitution achieved a wise, firm balance between personal liberty and gov-

ernment power. The Constitution has proven itself to be a stable but flexible document. Our problem today is that we have allowed flexibility to be interpreted as a blank check for government to do whatever it wishes. This is seen in the misinterpretation of the "general welfare" clause and the so-called "elastic clause" of Article I, Section 8 which says Congress shall have the power:

"To make all laws which shall be necessary and proper for carrying into Execution the foregoing Powers, and all other Powers vested by this Constitution in the Government of the United States, or in any Department or Office thereof."

Our government officials continually distort the meaning of the Constitution's "elastic clause." In doing so, they have stepped beyond the boundaries of limited, constitutional government. If he were alive today, James Madison would tell us that many government laws and programs might be useful, but they are certainly not "necessary and proper" according to the Constitution. He would remind us that no law is constitutional unless it is "necessary and proper" to carry out *specifically enumerated* powers given to the executive, legislative, or judicial branches of government by the Constitution.

The duty of the federal judiciary—the Supreme Court and lower federal courts—is to determine whether

laws are constitutional and whether they have been broken. Just as both the executive and legislative branches of government have shown their contempt for the Constitution, so the judiciary has failed to carry out its legitimate responsibilities. Instead of rightfully interpreting the Constitution as a bulwark defending individual freedom against government oppression, many judges in our federal courts reject the Constitution and interpret it to agree with what *they* believe to be politically, economically, morally, or socially correct.

Meanwhile, Congress flouts the Constitution by not only making laws but also interpreting them and enforcing them—responsibilities of the judicial and executive arms of government. Countless agencies, commissions, departments, and boards set up by Congress issue burdensome, unconstitutional guidelines, regulations, and laws. What would the Founding Fathers think of this federal bureaucracy? They would recall what the Declaration of Independence had to say about government and the King of England.

"The history of the present King of Great Britain is a history of repeated injuries and usurpations, all having in direct object the establishment of an absolute Tyranny over these States . . . He has erected a

multitude of New Offices, and sent hither swarms of Officers to harass our people, and eat out their substance."

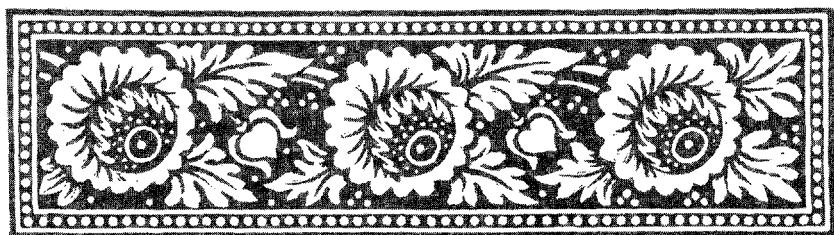
Freedom Threatened

The patriots of the War for Independence fought to preserve freedom against a "multitude of New Offices" and "swarms of Officers." Later, the people of the United States adopted a Constitution designed to limit government authority and protect individual liberty. That freedom is threatened today, not so much from foreign aggression as from many of our own citizens who do not want to live by the principles of the Constitution.

Senators, members of the House of Representatives, and other government officeholders have sworn that they will support and defend the Constitution "against all enemies, foreign and domestic." Our public officials have also sworn to "bear true faith and allegiance" to the Constitution.

Are they living up to their oath of office? Are other citizens, "WE THE PEOPLE of the United States," bearing "true faith and allegiance" to the Constitution? ☸

(Editor's note: "Against All Enemies" will be concluded in the next issue of *The Freeman*.)



Samuel Smiles

SELF-IMPROVEMENT

TO DO JUSTICE, a man must think well not only of himself, but of the duties which he owes to others! He must not aim too low, but regard man as created "a little lower than the angels." Let him think of his high destiny—of the eternal interests in which he has a part—of the great scheme of nature and providence—of the intellect with which he has been endowed—of the power of loving conferred upon him—of the home on earth provided for him; and he will cease to think meanly of himself. The poorest human being is the centre of two eternities, the Creator overshadowing all.

Hence, let every man respect himself—his body, his mind, his character. Self-respect, originating in self-

love, instigates the first step of improvement. It stimulates a man to rise, to look upward, to develop his intelligence, to improve his condition. Self-respect is the root of most of the virtues—of cleanliness, chastity, reverence, honesty, sobriety. To think meanly of one's self is to sink—sometimes to descend a precipice at the bottom of which is infamy.

Every man can help himself to some extent. We are not mere straws thrown upon the current to mark its course; but possessed of freedom of action, endowed with power to stem the waves and rise above them, each marking out a course for himself. We can each elevate ourselves in the scale of moral being. We can cherish pure thoughts. We can perform good

actions. We can live soberly and frugally. We can provide against the evil day. We can read good books, listen to wise teachers, and place ourselves under the divinest influences on earth. We can live for the highest purposes, and with the highest aims in view.

"Self-love and social are the same," says one of our poets. The man who improves himself, improves the world. . . . Society at large is but the reflex of individual conditions. . . .

Then again, a man, when he has improved himself, is better able to improve those who are brought into contact with him. He has more power. His sphere of vision is enlarged. He sees more clearly the defects in the condition of others that might be remedied. He can lend a more active helping hand to raise them. He has done his duty by himself, and can with more authority urge upon others the necessity of doing the like duty to themselves. How can a man be a social elevator, who is himself walking in the mire of self-indulgence? How can he teach sobriety or cleanliness, if he be himself drunken or foul? "Physician,

Samuel Smiles (1812-1904) was born in Haddington, Scotland. He was trained as a medical doctor but gave up practice early in his career to become a journalist. He served as a railroad executive for several years before returning to writing. What fascinated him most were the possibilities of achievement for those who would study, work, save, invest, and innovate. Among his books are *Self-Help* (1859), *Character* (1871), *Thrift* (1875), and *Duty* (1880).

heal thyself," is the answer of his neighbors.

The sum and substance of our remarks is this: In all the individual reforms or improvements that we desire, we must begin with ourselves. We must exhibit our gospel in our own life. We must teach by our own example. If we would have others elevated, we must elevate ourselves. Each man can exhibit the results in his own person. He can begin with self-respect. ☉

From the book, *Thrift*, by Samuel Smiles (Chicago: Belfords, Clarke & Co., 1879), pp. 31-32.



THE MYTH OF THE STABLE PRICE LEVEL

INFLATION has become a way of life for most Americans, changing the values they place on saving for the future as opposed to consuming luxury goods today. When all prices are seen as rising, why should you try to save up the cash for some purchase when you might buy it now on credit, and pay just a little bit more over the next several years. In financial circles, the emphasis is no longer on asset management but liability management. Inflation benefits the risk-taking speculator, not the conservative or prudent who dislike financial risks. The average citizen feels the pain, and public opinion polls reflect a demand for a stable price level.

Almost every economist would agree that a stable price level would

be a desirable social objective. Some economists would argue that a little bit of inflation is a healthful tonic for a stagnant economy, but rare indeed is the economist who wants to see a declining price level. It is as if any general trend for prices to fall might cause some kind of economic disaster. A Great Crash in the stock market, perhaps, would recur.

The economists, however, who put their faith in a stable price level are not really practicing economics at all. They are indulging in politics. Certainly the line between economic policy analysis and political practice is a narrow one, but the difference is clear. An economist might look closely at the indirect economic effects of a government policy and make a professional judgment about the effects of the policy; but when he evaluates them as "good" or "bad"

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he is a mere politician, advocating a government action for reasons of his own.

The Idea Develops and Becomes Fashionable

The idea of a stable price level became fashionable during the early years of this century, after the political debates of the 1870-1910 period. For the first 25 years of this period, there was a slow and steady increase in the purchasing power of gold, followed by a relatively rapid drop in its purchasing power when gold was discovered in South Africa and the Klondike. In addition, the demand for gold increased following the Franco-Prussian war, when Germany adopted the gold standard; and throughout this era, Europe and America enjoyed rapid industrial growth. The heightened demand for capital and labor during this era of international peace and economic expansion had a predictable effect, at the margin, on the demand for money and credit.

There were several interest groups in the United States that demanded an inflationary monetary policy, to supply them with the capital and credit they thought they deserved. Many farmers, for example, unwisely mortgaged their properties at fixed rates of interest, and then saw a period of declining farm prices, lower interest rates, and the bankruptcy of marginal farming enter-

prises. Agricultural employment, you will recall, was giving way to relatively more productive industrial employment. But the politicians (and the economists) looked for a solution to the complaints of the farmers. There was the Greenback Movement that demanded inflation, and the free silver movement that had a similar program, but coining silver instead of printing paper money was their pet project since the Nevada silver miners were part of the coalition.

The economists came up with the idea that a declining price level is "bad" because debtors have to repay their loans with more valuable units of money than they borrowed. Since a free market adjustment to this situation might require a *negative interest rate*, they said it was impossible. After all, who ever had heard of a loan where you would repay less than you borrowed—even if the units of money themselves increased in value as the years rolled by? This, of course, was pure hidebound prejudice; they forgot that the market always adjusts to changing circumstances.

So the economists, playing the role of politicians, have decided that a stable price level is much better than a declining price level. For many years, also, there were economists like Paul Samuelson and John Maynard Keynes who argued that a little inflation is *better* than a stable

price level, because they said it would stimulate employment, growth, and other good things. The stage was set by such politically-motivated economists to launch the Great Inflation of the 1970s.

Productivity and Declining Prices

Economic growth includes, among other things, the increase in capital investment and concomitant increase in the productivity of labor. There is every reason to believe that the free market, without government interference with the money supply, would bring about lower prices over time for various goods and services. The examples of the ballpoint pen or the electronic calculator or the digital wristwatch come immediately to mind. Historically, we find that the increase in productivity occurred in almost every area of production and distribution. Surely no economist would view this as a "bad" development. Yet, they seem to think that a "declining price level" is not good.

Milton Friedman proposes that the government should expand the money supply at a slow and steady rate in order to prevent a declining price level. Some economists couch this argument in terms of increasing the money supply at the long run average rate of the growth in productivity of the economy, but it amounts to the same proposal. Some economists seem to think that the

new, government-printed money is necessary for the economic growth itself to occur; others will tell you that it is to accommodate the demands of labor unions for higher wages, which otherwise might cause some unemployment.

No economist, however, who subscribes to the current orthodoxy of macroeconomic theory is willing to endorse a zero-growth policy for the money supply. Some of them will exclaim that this would cause massive unemployment, another Great Depression, bank failures, and so forth. Others will just dismiss the idea with the words, "That's politically unrealistic . . ." without telling you why—or even how they came to possess their expertise in politics, rather than economics.

If declining prices would be the normal pattern under a free market system, the proposal to increase the money supply in order to keep the average level of prices from declining is in truth *a proposal to nationalize part of the increase in productivity*. Since the newly issued money that is supposed to cause just enough upward pressure on prices to keep them from declining is legal tender, just like the old money that already is folded away in people's pockets, the government that prints it is also the first to spend it, and so the government reaps the fruit of other people's labor. Since this "painless tax" is supposed to keep the price

level stable, it is assumed that nobody notices. Yet, as we have shown, it is an insidious example of the old "broken window fallacy" because without this new money, prices would fall and everyone would benefit throughout the general society. With the "stable price level" policy, in effect, only the government and its clients can benefit from the growth in productivity.

The Fallacy of the Price Level

The problem of a policy to promote a stable price level is much more flawed, however, than the discussion above would suggest. Economists talk about The Price Level as if it were a concrete, economic phenomenon. At best, however, they are really talking about an index of prices, such as the Consumer Price Index. An index of prices is a statistical sample of various quoted or recorded prices in the economy at any given point in time. Additional samples at later times will tell you if the index has increased or decreased, and this is supposed to inform you about the change in "the price level."

There are two general kinds of price indexes. Since all such indexes are made up of "market baskets" of goods, and since people's purchasing habits change—especially if relative prices change, and they substitute more of a cheaper product for a relatively more expensive one they

used to prefer—the price index between two periods of time can either hold the basket of goods constant in Period One and measure its price changes at Period Two, or it can take a basket at Period Two and look back to see what prices were quoted in Period One. The second procedure usually shows a smaller proportionate change. The United States Consumer Price Index is an example of the former. In statistical theory, a very large random sample should be a good measure of the average level of prices in the economy.

The "average level" of prices in the economy, however, is not a very important bit of information (except to journalists). Even the macroeconomists who pretend to place great emphasis on "the price level" have no real use for the information. It shows up in their computer model simulations of the economy as part of their data, but they might just as well have made up the data since their computer models generally fail to predict the direction of the economy or the coming year's index of prices anyway. The price index has as much use to economists as the Dow Jones averages have to the investor: it satisfies a moment's curiosity, but no serious professional would make a decision based on it.

Indeed, for the businessman, the average level of prices is totally irrelevant. What is important for economic decisions is *the relative dif-*

ferences in specific prices. An entrepreneur might want to know about price changes for a certain type of structural steel, to judge whether to buy steel or aluminum to manufacture a product; but the average price of steel or the average price of aluminum would not help him make this decision, much less the average of all prices. Indeed, the specific price of steel might well include a stipulation about delivery date, location f.o.b., and terms of payment. Moreover, in every case the entrepreneur would be looking for future prices, not the prices of last week or last month, since his plans to make use of the steel are future-oriented.

Resources Reallocated

The policy of the government to issue money, in order to keep the price level from falling with the growth in productivity, can be positively destructive to the efficient coordination of plans that Professor F.A. Hayek identifies as the central purpose of the price system. When the government issues new money, somebody always receives it first—whether it appears in the paychecks of civil servants, or as Social Security payments, or as loans to favored companies, such as the Chrysler Corporation, or as bailouts for municipal bonds, as with New York City.

If the new money goes into the chain of production, then some businesses receive funds to bid away re-

sources from others that might have made better use of them. If the money goes first to consumers, then the demand for consumer goods will increase relative to the demand for capital goods and there will develop a relative shortage of capital. There is no way to predict the full range of distortions in the productive process that could result from the artificial creation of new money and credit by the government, in order to promote a "stable price level." Indeed, as we have seen in the past fifteen years, the result of government policies to stimulate the economy by expanding money and credit have produced a raging inflation as well as a serious economic downturn with significant unemployment.

Ideas Have Consequences

The idea of a stable price level may be at the root of our problems with inflation. Since most people seem to believe that a stable price level is the same thing as "zero inflation," this might be surprising. Yet, the conclusion by professional economists that a stable price level is the optimal policy immediately suggests that the government should do something to achieve this policy—since the free market itself would bring about declining prices. Here we observe a group of "experts" endorsing an active government role of intervention. If any citizen might doubt that government intervention

into the economic affairs of a nation is good, the solemn, non-political expert will assure him that "it is absolutely necessary."

It is the loss of perspective by the economics profession that is at the root of the problem. The younger economists have been taught that a stable price level is the necessary, optimal policy—rather than a stable money supply. The old professors seem to have forgotten that politics and economics are different fields of expertise, and that economists make bad politicians. An economist who tells the truth is unlikely to be popular, since he has to tell his supplicants that there is no such thing as a free lunch; and an economist who tries to judge what may or may not

be politically feasible will end up giving second-best advice, if not worse.

Economic concepts, such as "the price level" and even "the money supply," are dangerous to play with loosely because it is so easy to lose sight of the market process that gives rise to such generalizations. Even a policy objective of "a stable money supply" would be misleading, because it too relies upon statistical measures of money—and omits the many significant substitutes. The only economic policy that has ever "worked" the way politicians and economists expected was the policy of *laissez faire*, which changed the course of history and lifted mankind out of the dark ages. ☉

The Free Market

The free market, by decentralizing the decision-making process, by rewarding the successful predictors and eliminating (or at least restricting the economic power of) the inefficient forecasters, and by providing a whole complex of markets, including specialized markets of valuable information of many kinds, *is perhaps the greatest engine of economic continuity ever developed by men*. That continuity is its genius. It is a continuity based, ultimately, on its flexibility in pricing its scarce economic resources. To destroy that flexibility is to invite disaster.

The myth of the stable price level has captured the minds of the inflationists, who seek to impose price and wage controls in order to reduce the visibility of the effects of monetary expansion. On the other hand, stable prices have appeared as economic nirvana to conservatives who have thought it important to oppose *price* inflation. They have mistaken a tactical slogan—stable prices—for the strategic goal. They have lost sight of the true requirement of a free market, namely, flexible prices.

IDEAS ON



LIBERTY

Henry Hazlitt

The Sphere of Government



Nineteenth Century Theories: *3. Thomas H. Huxley*

THOMAS HENRY HUXLEY was primarily a biologist, second only in eminence in the nineteenth century to Charles Darwin, whose theories of evolution he defended with such pertinacity and effectiveness that he was popularly known as "Darwin's bulldog." He also wrote on a wide range of other subjects, including scientific method, philosophy, education, religion (he called himself an "agnostic," and invented the term)—and politics.

His views on the proper sphere of government are principally set forth in two essays: "Administrative Nihilism" (1871), and "Government: Anarchy or Regimentation?" (1890).

In the first of these essays, he be-

gins with an unsympathetic description of the opponents of wide-ranging state powers:

"To these opponents, the Education Act is only one of a number of pieces of legislation to which they object on principle; and they include under like condemnation the Vaccination Act, the Contagious Diseases Act, and all other sanitary Acts; all attempts on the part of the State to prevent adulteration, or to regulate injurious trades; all legislative interference with anything that bears directly or indirectly on commerce, such as shipping, harbors, railways, roads, cab-fares, and the carriage of letters; and all attempts to promote the spread of knowledge by the establishment of teaching bodies. . . . According to their views, not a shilling of public money must be bestowed upon a public park or plea-

Henry Hazlitt, noted economist, author, editor, reviewer and columnist, here continues a series of nineteenth century theories on the sphere of government.

sure ground; not sixpence upon the relief of starvation, or the cure of disease. Those who hold these views support them by two lines of argument. They enforce them deductively by arguing from an assumed axiom, that the State has no right to do anything but protect its subjects from aggression. The State is simply a policeman, and its duty is neither more nor less than to prevent robbery and murder and enforce contracts. . . . On the other hand these views are supported a posteriori, by an induction from observation, which professes to show that whatever is done by a Government beyond these negative limits, is not only sure to be done badly, but to be done much worse than private enterprise would have done the same thing."

Huxley declares that he is unconvinced by these arguments, or by that "great negative commandment—"Thou shalt not allow any man to interfere with the liberty of any other man." He goes on:

"If my next-door neighbor chooses to have his drain in such a state as to create a poisonous atmosphere, which I breathe at the risk of typhoid and diphtheria, he restricts my just freedom to live just as much as if he went about with a pistol, threatening my life; if he is allowed to let his children go unvaccinated, he might as well be allowed to leave strychnine lozenges about in the way

of mine; and if he brings them up untaught and untrained to earn their living, he is doing his best to restrict my freedom, by the burden of taxation for the support of jails and workhouses, which I have to pay."

Huxley dismisses offhand the argument that, "If the right of the State to step beyond the assigned limits is admitted at all, there is no stopping." And he blandly concludes: "The Government, being nothing but the corporate reason of the community, will find out when State interference has been carried far enough."

No Fixed Limits as to Extent of Government Action

It is not only modern libertarians who will rub their eyes today at this argument, but the great majority who write on political affairs. It is naive to identify the politicians in office with the community, or to conclude that those who gain political powers can be safely trusted to decide the proper limits of those powers. But Huxley does not hesitate to carry this assertion to its logical conclusion, and to tell us: "I do not see how any limit whatever can be laid down as to the extent to which, under some circumstances, the action of Government may be rightfully carried. . . . The question where to draw the line between those things with which the State ought,

and those with which it ought not, to interfere, then, is one which must be left to be decided separately for each individual case."

So we are back to "the merits of the case" argument that Spencer had so eloquently derided—an argument which could be finally used to justify the totalitarian state.

Huxley returned to the subject of the proper sphere of State power in two other essays, both published in 1890. The first of these was "Natural Rights and Political Rights." I commend it to anyone who still takes Natural Law or Natural Rights doctrines seriously. Huxley regards such doctrines as the product of "the vicious method of a priori political speculation." Their plausibility depends upon a confusion between two senses of the word "right"—right as might, the "natural right" of tigers, for example, to attack and devour men—and *moral* right, which is utterly different. Huxley's essay is, incidentally, a devastating analysis of the theories of Henry George's *Progress and Poverty*.

But some of Huxley's own deductions combine truth with error. For example: "It is a necessary condition of social existence that men should renounce some of their freedom of action; and the question of how much is one that can by no possibility be determined a priori." The first part of that sentence is almost a truism; the part after the semicolon is a con-

tention that, as we shall see, no freedom-loving democracy today has been willing to concede.

Anarchy or Regimentation

The second 1890 essay by Huxley to which I earlier referred, "Government: Anarchy or Regimentation?" bore directly on the question of the proper province of the State.

In this essay Huxley undertook to examine in turn the answer to this question of practically all the great political philosophers of modern times, up to 1890. Specifically mentioned and dealt with were Hobbes, Locke, Morelly, Mably, Rousseau, Von Humboldt, Dunoyer, J. S. Mill, Stirner, and Auberon Herbert. And he rejected all of them alike (with the exception of Dunoyer) for building their case on abstract a priori assumptions regarding a previous "state of nature" and a subsequent "social contract." Huxley pointed out, however, that this had led them into two opposite camps: on the one hand, that espoused by Hobbes, Morelly, Mably and Rousseau, which justified "Regimentation" (the description suggested by Huxley) and the absolute power of the State; and, on the other hand, "Individualism," which Huxley condemned as equivalent to anarchy. He summed up:

"Thus the whole fabric of a priori political speculation which we have had under consideration is built upon the quicksand of fictitious his-

tory. So far as this method of establishing their claims is concerned, *Regimentation and Individualism*—enforced Socialism and Anarchy—are alike out of court.”

And what, then, is Huxley's own conclusion? One would expect him to come back once more to the conclusion of his “Administrative Nihilism” essay of 1871, that “the question of where to draw the line between those things which the State ought, and those with which it ought not, to interfere. . . is one which must be left to be decided separately for each individual case.” Perhaps he considers this conclusion implicit, but he does not draw it explicitly. Instead, he is content to tell us that the task which he set before himself was “simply a destructive criticism of a priori political philosophy, whether regimental or individualistic”; and if he has done this successfully, he implies, he has done all that a reader is entitled to ask of one essay.

He goes on to declare: “The political problem of problems is how to deal with overpopulation, and it faces us on all sides.” But whether or not this is true, or seemed true at the time he wrote it, it is irrelevant to the problem—the proper province of government—that his essay started out to discuss. No matter what the “problem of problems” is, the question before him was *who* shall have the power to decide it.

Now let us ask whether Huxley did in fact prove that there is no room for “a priori assumptions” or deductive reasoning in political philosophy.

It is quite true that Locke's assumptions, for example, do seem to rest in part on fictitious history. Huxley's sarcasm makes the most of this:

“To listen to Locke, one would imagine that a general meeting of men living in the state of nature having been called to consider the ‘defects’ of their condition, and somebody being voted to the tree (in the presumable absence of chairs), this earliest example of a constituent assembly resolved to form a governmental company, with strictly limited liability, for the purpose of defending liberty and property,” and so forth.

Individualism Attacked

All this is good fun, but it does not prove that Locke was wrong in assuming that “no one ought to harm another in his life, liberty, or possessions”; that it is the province of government to ensure this state of affairs, and that this was a sufficient task to give any one agency the power to carry out.

Huxley certainly carried his attack on “Individualism” and “Liberalism” too far. “Liberalism,” he declared, “tended to the adoption of Locke's definition of the limits of

State action, and to consider persistence in letting alone as a definition of the whole duty of a statesman." (My italics.)

I can think of no eminent Liberal of the nineteenth century, and certainly none holding political office, who ever propounded such a view of his duties as that laid down in the clause I have italicized. Liberals deprecated the piling up of legal prohibitions and compulsions, burdensome taxation, government efforts to redistribute wealth and income, and other specific interventions in economic life, but they believed in enforcing a fundamental framework of law to protect their citizens against fraud, theft, and violence, internal or external. This in itself, if done well, is a tremendous assignment.

Today it is not done well anywhere; because—arguing from "the merits of the case"—too many other assignments are loaded onto the State, designed to save at least some of us all effort and risk. Once we assume that it is a legitimate function of the state to redistribute income, for example, we practically guarantee that the majority of politicians running for office will be charlatans and demagogues, outpromising each other concerning the largess they can provide to the nonproductive part of the population at the expense of the productive.

To return to Huxley's argument:

No doubt some of the leading political philosophers did base their theories on fictitious history, or on basic assumptions that were not justified. But Huxley seems to reject all "aprioristic" thinking in politics, which would mean that he rejected any attempt in advance to put any constitutional limits whatever on the sphere and power of the State. He apparently would have been satisfied with a constitution which read, simply: "The government may pass and enforce any law it sees fit, guided only by what it regards as the merits of the individual case; and no part of any citizen's freedom or property shall be respected if a majority of 51 percent or more decide otherwise."

In his thinking in the physical sciences Huxley was a professed empiricist, and suspicious of all mere deduction. Nevertheless, in his book on Hume, we find him writing with approval: ". . . [T]he form of the crest of every wave that breaks, wind-driven, on the sea-shore, and the direction of every particle of foam that flies before the gale, are the exact effects of definite causes; and, as such, must be capable of being determined, deductively, from the laws of motion and the properties of air and water."¹

The scientific belief in the law of

¹Hume. Ch. VI, "Propositions Concerning Necessary Truths."

universal causation is based on something more than frequent observance of it in particular cases, plus no certain knowledge of contrary cases. The concept of universal causation is built into our thinking. We can hardly conceive of an effect without a cause. In any case, its prior assumption is necessary for all rational deduction and all rational action.

Established Principles of Law to Prevent Arbitrary Abuse

Perhaps our basic political, legal or moral principles can never enjoy the same type of definitude and certainty as the laws of physics. But the discovery and adoption of such basic principles seem no less necessary as guides in our political, legal, and moral life than the laws of physics in our physical scientific reasoning. We do not leave it to an individual judge, for example, to decide the punishment for each case of fraud, theft, assault or murder—or to decide what actions he is entitled to punish at all—simply in accordance with his own judgment of the individual iniquity of each act. The law has already sought to define and categorize each type of offense and to prescribe minimum and maximum penalties. The principles and definitions of law have been worked out over the centuries, by careful reasoning and respect for precedent, precisely to limit or prevent any ca-

pricious or arbitrary exercise of police or judicial power.

The same thing has happened in the evolution of constitutional law. In the United States, neither a city, a state, nor our federal government can enact or enforce any law it sees fit, guided only by "the merits of the individual case." The Constitution, adopted in 1787, assigned the Congress, the President, and the judiciary only *enumerated* powers. And then, two years later, to nail things down, a Bill of Rights was adopted, beginning with the First Amendment: "Congress shall make no law respecting an establishment of religion, or prohibiting the free exercise thereof; or abridging the freedom of speech, or of the press; or the right of the people peaceably to assemble . . ." And so on through nine other amendments.

Huxley should have remembered that. And he should have remembered, also, that though not all modern democratic governments have written constitutions, and England still does not, the English Constitution was even in his own day—one might say especially in his own day—a very real and unmistakable protection against government arbitrariness or tyranny. No less than our own it protected the citizen's freedom of speech, freedom from arbitrary arrest, freedom of religion, and freedom of association.

The English Constitution exists

in no single document. It is made up of Magna Carta, the Petition of Right act, the Habeas Corpus act, the Bill of Rights and the Act of Settlement. But in addition to all these, it consists of innumerable statutes, a mass of custom and convention, hundreds of judicial decisions and precedents, and even, as the *Encyclopaedia Britannica* has suggested, of "textbooks, lawbooks, the writings of historians and political theorists, the biographies and autobiographies of statesmen," and so on.

If Huxley had remembered all this, he would not so disdainfully have dismissed all the proposals of the older political philosophers as "mere apriorism." That all political power tends to be abused, and that absolute power is certain to be abused,

might reasonably have been suspected in advance. But even so it is no mere a priori conclusion. It has been forced on us by bitter and endlessly repeated experience.

Exactly where the boundaries of State power should be drawn, is one of the two great problems to which this series of articles is addressed, and which we have still to try to solve. But that they must be drawn by constitutional limitation somewhere, and unmistakably, is one conclusion no longer open to debate. What we have discovered, rather, is that in not a single country today have the existing constitutional limits on government power and interference in the lives of the citizens proved sufficient to prevent untold mischief. ☉

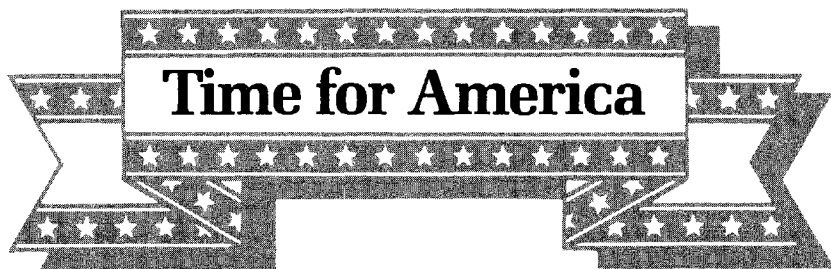
The Foundation of Laws

LET the bar proclaim "the laws, the rights, the generous plan of power" delivered from remote antiquity, inform the world of the mighty struggles and numberless sacrifices made by our ancestors in defense of freedom. Let it be known that British liberties are not the grants of princes or parliaments but original rights, conditions of original contracts, coequal with prerogative and coeval with government; that many of our rights are inherent and essential. . . . Let them search for the foundations of . . . laws and government in the frame of human nature, in the constitution of the intellectual and moral world. There let us see that truth, liberty, justice, and benevolence are its everlasting basis; and if these could be removed, the superstructure is overthrown of course.

IDEAS ON



LIBERTY



Time for America

MANY believe that time has run out on America, that the leading wave of history has begun to pass us by. Drawing analogies between the current state of America and the declining phases of previous cultures, these fatalists believe that we are destined to live out some theory of inevitable cycles or repetitions in history. They locate somewhere in our past a point at which America reached its pinnacle and began its decline. America's fate, however, has not been sealed by any historical imperative. Men *make* history through creating, witnessing, and recording significant deeds and events. History has not abandoned America; on the contrary, Ameri-

cans have abandoned their place in history.

At one time, our forebears looked almost exclusively to the past for guidance. Mythical events that had happened in earlier times provided unchanging paradigms for individual and social actions. Having limited knowledge of the world and their place in it, these ancestors did not seek to study or understand history. Instead, they followed what they felt were sacred ways of thinking and acting. In contrast, one of the hallmarks of American thought is our rejection of such deterministic views of historical precedence.

In keeping with our rational, empirical bent, we pore over artifacts, classify them, and then devise various theories to explain their existence and significance. However, our

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scientific evaluations of the past cannot be truly accurate, for we cannot know all of the variables that shaped the events and artifacts we study. Moreover, we carry to our studies of history the situations and forces acting on us today and, as a result, tend to fill in gaps in our knowledge by projecting these situations and forces into the past. Through such projection we actually *create* historical models for current problems and experiences. In effect, we have reversed the earlier view of the past as a repository of sacred paradigms. Rather than use the past to guide the present, we use the present to discover meaning in the past.

Because we can neither retrieve complete information about the past nor fully comprehend the information we do have, history lies open to divergent interpretation. Our widely educated populace, schooled in the veracity of scientific investigation, can understand and accept multiple interpretations of history. Hence, the past becomes a mutable area of theoretical study rather than a fixed template for human experience. This multiplicity of equally valid interpretations brings into question the embracing of any particular pattern of ideals or principles stemming from the past and, therefore, leads Americans to look to the ongoing present for personal and social guidance, as well as for historical understanding.

The mercurial present, though, provides little stability upon which to found guiding ideals. Eschewing the significance of time-honored meanings and portents, we constantly scan the present for events and situations of such import that they can be used to direct our thoughts and actions. This continual search for meaning has resulted in, to borrow a phrase from Wordsworth, "a craving for extraordinary incident, which the rapid communication of intelligence hourly gratifies." As has often been pointed out, the media satisfy this "craving" by treating us to a diet rich in sensationalistic, often titillating, events and crises. That these sensations are in many cases non-events that have been inflated through media hype is common knowledge.

A Glut of Information

With no enduring standard(s) by which to judge significance, we feel uncertain despite our wealth of facts; so we demand more information, which the media readily supply. Of course, it is also to the advantage of television, radio, and other hourly or daily news media to emphasize recent events because one of these media's most highly touted features is the ability to communicate information rapidly—they are anxious to bring us the latest news.

This steady stream of current facts (as well as attendant background

studies, personality profiles, historical comparisons, human interest stories, critical commentary, and other related reports) provides so many bits of information that current events seem to pass in slow motion and are thereby transformed into an ever-changing, ever-relevant, contemporaneous history. But as views that held great sway one day become erroneous or meaningless the next, this ephemeral history proves an unreliable guide, leaving us isolated in the present without reliable means for organizing the glut of specific, factual information heaped on us daily.

As we project current views and events into the past in our search for historical precedents, we encounter another major stumbling block to our understanding of history. Due to a number of factors, primarily our increased knowledge of the physical world and our inflated material affluence, we have a distorted grasp of large numbers. Where once hundreds and thousands were thought great, millions and billions are now tossed about casually. Historical and geological time tables, which often span thousands and millions of years, are regularly compressed into frameworks we can readily comprehend, such as the lengths of an hour, a day, or a single year. Such compression presents a false, greatly speeded-up view of history. Thus, events that took decades and centu-

ries in the past become analogized to monthly and yearly situations in the present, leading to further distortion of history and reality.

Limited Vision

Focused on the present and deluded in our understanding of history, we attempt to fine tune international developments, economic indicators, social structures, personal happiness, and as many facets of our lives as possible within too small a time frame. In responding to and effecting changes within inordinately short periods of time, we are like the hypochondriac who, feeling not quite right, first takes a laxative to loosen his bowels and then must take paregoric to bind them again. As one quick fix follows another, the body is thrust to extremes with no chance of attaining equilibrium. Such instability creates further alarm until soon the sufferer becomes fixated on panaceas and miracle cures. Intent only on the present, we too readily adopt any measure, no matter how hasty and superficial it may be, so long as it promises immediate gratification with little or no investment on our part. What we find, of course, is that we get what we pay for.

Alienated from the past and finding no stability in the present, we lose hope for the future. Our fixation on instant palliatives has so absorbed our time and resources that

we have all but ceased to look beyond what is immediately facing us. When we stop planning for and investing in a bright future, as much American industry and many individual Americans have done, we eventually arrive in a present that is beset with genuine crises, a sense of entropy, and widespread personal despair.

To curb our frantic, ill-conceived reactions to events of the moment, to redeem our future, we must redefine and reassert ideals that will provide America with guiding tenets for understanding and action. Such rededication to ideals does not imply a renunciation of facts and specifics in favor of metaphysical or abstract concepts. Rather, it is a reassertion of the healthy relationship between particulars and abstractions, the world of sensations and the world of ideas.

Abstractions and Specifics

Specifics embody abstractions, thereby giving ideals a form that can be perceived—seen, heard, felt, smelled, tasted—in the actual world of experience. In turn, abstractions are needed to relate and give meaning to the sea of individual specifics. Through a reassessment of fundamental American ideals, we can regenerate our past, investing it with particular meaning and significance. Establishing and promoting our stand on these ideals will allow

us to make sense of the specific facts and events of the present and to project a defined course of action into the future.

The obvious problem in reasserting American ideals is determining just what these ideals are and what priorities they have among themselves. Our pluralistic society affords Americans the right to aspire to numerous, divergent ideals. Consequently, rather than pressuring for national adoption of any one set of these ideals, we must revitalize our overarching commitment to the freedom of the individual to pursue his or her own chosen beliefs and tenets.

Such an assertion of individual freedom must look beyond our current, reductive interpretation of individual as self. Increasingly, our temporal isolation in the present has been accompanied by a spiritual isolation of the self. With quickening pace the ideal of the free individual united with other free individuals in a government designed to govern least has been usurped by an ethic of the dominant self among other dominant selves each seeking to advance his or her personal cause(s) while restricting the freedoms of others. In the self-centered, dog-eat-dog milieu created by this change, many Americans have sought through the extension and proliferation of governmental control to legislate the sense of solidarity and se-

curity previously generated through private, yet mutual, dedication to shared ideals.

Restrictions on the Individual

As the government has gained in authority, individuals have felt increasingly threatened and helpless in the face of restrictions sponsored by others; consequently, more powers have been deeded to the government to restrain these others, and the situation has escalated. We must break this cycle of repression by demanding not only our own personal freedom but, more importantly, the freedom of other persons—all who can exercise their individual freedom in compromise with the individual freedom of others.

The key word here is *compromise*. When a neighbor runs his power tools, cuts his grass with a power mower, has a party, or engages in any one of a number of noisy activities while I am working, I get annoyed, even mad. My impulse is to find some way to silence him, to prevent him from ever making such noise again. He is violating my freedom to silence. Of course, when I use my power tools, mow my yard, or whatever, I don't feel the same way—why, they're my tools, my lawn, etc.; I should have the freedom to do whatever I wish on my own property. As for myself, I would like it if he had to be silent and I could do whatever I wished when I wished.

Yet, I realize that to preserve my freedom to act, I must not just grudgingly allow, but actively affirm, his freedom to act also. Occasionally, he impinges on my freedom and, occasionally, I on his; in this way we both remain free to pursue our individual interests.

Now, if my neighbor's individual interests ran to raising hogs, rebuilding engines, or opening a skeet shooting range, I would not affirm his freedom to do so. Neither would most of our other neighbors. None of my neighbors, however, acts with such selfish disregard for others. On an individual level, despite our differences, we all get along fine. The fact is that most people get along just fine on an individual level. It is to this individual level that I think we must go to reawaken the spirit of American freedom.

We must reassess how much of our freedom and wealth we wish to place under governmental control. In making this reassessment, we should recognize that when we call upon the government to regulate the activities of others, we are oiling machinery that can serve to repress our own freedoms as well. We should also remember that such repression is not unknown in America. From witch hunts to lynchings to persecution campaigns, America has a history of sporadic, yet virulent, attacks on the freedom of the individual. Therefore, we must decide ex-

actly where our loyalties lie; upon what fundamental set of ideals will we base our understanding, actions, and dreams—on the American ideal of individual freedom or on some other ideal(s) that will necessitate the suppression of our rights and privileges.

The American experiment in individual freedom and democracy has not outlived its time. Everywhere, people have sought and are still seeking the rights and freedoms we enjoy. Not all, however, do seek such ends; in fact, many prefer some form of master/slave, ruler/subject relationship that maintains their chosen system of ideals. We have always stood virtually alone in our

national commitment to the ideal of individual freedom. To preserve the option of this freedom in an often hostile world, we must each promote individual freedom for ourselves and others. With the material and educational development of the Third World, many may soon be afforded an opportunity to experience greater individual freedom than they have ever known. By reasserting the autonomy of the individual on the national and international levels, America can retain its vanguard position in history. Rather than being a time of inevitable dissolution and decay, now—perhaps more than ever—is the time for American ideals. ☉

In Defense of the Individual

WE ARE BORN into a family and a community. An immense social heritage is put at our disposal—a storehouse into which has been distilled the contributions of an enormous number of individual men and women, some famous and some nameless. Knowledge, wisdom, skills, and some of the very thought-forms by which we may avail ourselves of this treasure are handed down to us. The problem here is not analogous to rationing a given quantity of goods to a certain number of people; it is analogous to keeping a conduit open so that the spiritual accumulations of previous generations can flow unimpeded, to be enriched through understanding and application by this generation and passed on to those to come. Diminution of political liberty is comparable to the silting up of the conduit; freedom is the removal of obstructions to the flow of energy.

IDEAS ON



LIBERTY

Thinking About Government

ONCE upon a time most people believed the world was flat, but that did not make it so. There were times when learned men believed one might discover a way to turn lead into gold or to build a perpetual motion machine. When I was a child, Mother made me wait an hour after eating before going swimming lest I get stomach cramps.

We all know better today. But did you ever wonder how many things believed today will be absurd thoughts in the future, laughed at even by children? Just for instance, what do we think is the proper role of government in our lives?

The world is a wonderful place. Mankind is on an upward course. Progress, though not constant, seems to be part of the natural order of

things. Mother nature goes on unchanged, but people are able to improve their lot. They are able to build tools to increase their effectiveness. They are able to pass both tools and the knowledge to build tools on to future generations, who in turn can improve on the knowledge and build better tools, to pass on, to be again improved. These tools and this knowledge have permitted more and more people to live more comfortable lives with less effort and less pain and less cruelty toward others.

The progress has not been continuous or uninterrupted. It has faltered. Whole continents or areas have regressed for long periods. Who among us can forget the section from our grade school history books about the "dark ages"? But while the once great have gone backward, sooner or later other areas have become new

centers of learning and development, always surpassing the best that was previously known. China, Egypt, Greece, Rome, Spain—all had periods of rapid progress and subsequent decline. And now in just two generations (the time of our grandparents and parents) the United States has experienced the most rapid development and accumulation of knowledge and tools ever known in the world—a growth that seems to be ending.

The fundamental thing to remember is that the accumulated tools, the accumulated knowledge, and the passing of this accumulation on to succeeding generations is what has permitted man to improve his lot in life.

The Rise and Fall of Nations

The Western world of Europe and the United States today is exhibiting some of the signs that were evident in China, Egypt, Greece, Rome, and Spain prior to their decline. What is the common thread of the ascendance and decline of great civilizations and nations? What can we learn from history? Why is there rapid progress in some areas and little in others? Climate, fertility of the soil, natural resources, intelligence of the people does not explain it. Why do some areas once blessed with rapid progress slow down and even decline? Natural catastrophe such as flood, earthquake, or even

war is not the cause. The common thread somehow seems to be the manner in which the people are motivated; how hard they work, not how smart they are; how they perceive opportunity.

What causes people to work, and to save part of what they produce in order to build a better tomorrow; and what causes a people, once they are working and saving and passing on their accumulated knowledge and tools, to stop or reduce their saving and thus bring an end to progress? This is the important question. And the answer is known. We know what causes men to work, study, produce, invest, save, and help succeeding generations continue the development and progress of man. It is no secret. Some men have known it for thousands of years. It's simple.

Before coming to that answer, we must face a second and more difficult question: "If the answer is so simple why don't we do it?"

What is involved here is a matter of human nature—the natural behavior of man. It is the natural desire of everyone to get the most he can with the least effort. We are all the same. You and I both desire to accomplish the most benefit with the least effort; and this includes the willingness to live off the labor of another without work if we can do so without shame or loss of pride. This is the answer to the second question. We have not yet learned a

way to restrain the temptation of man to enjoy a life of ease at someone else's expense.

The Destruction of Incentives

The Chinese civilization began its decline when the governing officials began to take more and more of the work product of the common man to support the privileged class. The man who produced the crops and clothing, shelter and transportation had less to spend on himself and his family, less incentive to work, and less property to pass on to the next generation.

Egypt declined for the same reason. The government grew and began to take a larger portion of the producer's efforts to support the non-productive. More and more people became privileged to live at the expense of another. The government built pyramids to put people to un-productive work. The pyramids were simply relief projects which expanded the number of people who were privileged to live off the productive work of others. The Bible tells of Joseph and the ever-normal granary to store grain in good years. This was simply a subsidy to the privileged at the expense of others. The privileged were the farmers whose grain was purchased by the government at higher than market prices. The rest of the population suffered the consequence of higher priced food.

History seems to repeat itself. People develop a government to guarantee protection of property, which causes prosperity; then government increases the tax burden to permit more and more people to live off the labor of others until the incentive to work and to save is reduced, less and less is passed on to the next generation, prosperity ebbs, and finally the government falls. In fact, the fall of government seems to be part of the natural order which permits man's progress to continue. The work and productivity of individuals were the keys to progress. Government, by protecting property, created a social condition conducive to such progress. But in granting privileges to particular persons and classes, instead of being an institution to protect property, government itself becomes the main threat to life and property.

Look at Rome. The number of people supported by taxes kept increasing and the number of people performing productive work kept falling. Even slavery could not support the large numbers of nonproducers and that was the end of Rome.

Spain's period of development and progress ended similarly, but under the additional handicap of the large amounts of gold and treasure stolen from the Indians of the new world. The effect of the gold was to increase the powers of government, create inflation, and cause more and

more people to attempt to live off the productive labors of others until the decline became unstoppable.

The Principle of Least Effort

It is human nature to attempt to get the most we can for the least effort. This is an advantage so long as it makes us more efficient or productive in our own labors. But it is disastrous if it turns us to seeking benefits at the expense of *another's* productive labors.

If we can shell a bushel of corn in an hour by hand but can use a machine to shell 25 bushels in an hour everyone has benefited—the machine maker, those of us who use the machine, and the persons who buy our corn—all are able to share to some extent in the saving of effort. But assume that A and B who are in control of government put a tax of two pounds of corn for every bushel shelled by a mechanical sheller. The tax is a hindrance. It tends to reduce the number of machines that may be sold, the profit of the machine maker, and the profit of the farmer shelling the corn. It tends to reduce the supply of corn, the standard of living and the ability to pass on capital to future generations.

But this is only the beginning of the evil. What are A and B going to do with the corn tax? Suppose they use it for their own riotous living? Is this right or wrong? Is it beneficial to society? Suppose they take it for

distribution to the "needy"—surely a noble-sounding purpose. But who are the needy, what constitutes need, who is to decide? Does this change the effect on the farmer or society? Has any real good been done? In light of the natural human tendency to get the most one can with the least effort, will the recipient of the free corn be more inclined or less inclined to work for his own well-being?

The answer is obvious: He is going to be less inclined to work for his own well-being. While no one can say which particular individual will be "needy" as a result of the free corn dispensing, we can say with certainty that there will be more "needy" after free corn distribution is commenced than the number of "needy" before. A subsidy increases the size of the group being subsidized.

When the human trait to get the most with the least effort involves Needy N acquiring some of the work product (shelled corn) of Farmer F, it is to the questionable benefit of N and is to the detriment of Farmer F and everyone else in society. Needy N has simply obtained the benefit of the corn produced by Farmer F. It is easy to see that Farmer F is worse off. But it is also true that neighbors C and D who get no handouts of corn but pay a higher price—that these neighbors, as well as succeeding generations—are worse off as a re-

sult of the involuntary transfer of wealth from Farmer F to Needy N.

Confusing the Issue

Here it is that we cross from black and white to grey, from what every thinking person can see is good or evil to the hazy grey areas of where do you draw the line. Whether it is proper for government to take corn from Farmer F to give away is a matter of principle, it can be discussed intelligently and logically, and it is either right or wrong on its own merits. But the minute we inject the needy person N into the consideration the absolute and fundamental question of whether it is right or wrong for A and B to take from Farmer F becomes obscured with the consideration of how needy is N and the relative affluence of Farmer F. Do you give it to N if he is completely incapacitated and bedridden, deaf and blind, blind only, almost blind, has a serious limp, is somewhat of a clumsy fellow and people won't pay him much, has six children, is a drunkard, has slow blood, is lazy? And how do the above considerations become altered if Farmer F happens to be blind in one eye and has a crippled arm but is still able to farm and support a wife and eight children? How does one assess the relative merits of Farmer F and Needy N?

Even more important, who should determine those relative merits?

And who should pay the benefit? Does it make a difference if the one deciding the need is different from the one paying? Will A and B make the same decision as to who is needy if they are giving their own corn instead of giving the corn of Farmer F? In short, there are so many variables that no two people will agree. Once the basis of the decision shifts from the fundamental of right or wrong to whether you or others feel sorry for someone, society is thrown into turmoil, disagreement, dissension, and discord. Personal acts of charity and compassion are modified and government may become more hindrance than help to the needy.

In considering the impact of the relief payment on Needy N, we must bear in mind the many kinds and degrees of need. Needy N may be both mentally and physically incapacitated requiring confinement in an institution. This is the one extreme of an endless variety of "needy." Let us however take the case of Needy N who simply has no motivation or ambition and won't work—not that he can't work but that he won't work at a job he doesn't like or one that doesn't pay very much so long as he can get relief. Is the relief really helping this Needy N and his family? We seem to focus our attention on the material well-being of N and his family and to ignore the psychological and mental

well-being of N or the other family members. We also forget the way that relief will affect one's incentive and desire.

Killing Self-Respect

Most of us take some pride in fighting the battle of life and being able to support our family. It is a real accomplishment that makes us happy and gives a feeling of being in tune with life. Can the recipient of public aid have these feelings? What kind of lesson do the children learn in such a household? How will they feel about their father? How will the children mature and what kind of responsibilities will they have? Is putting the family of this able-bodied man on relief psychologically beneficial for either the father or the children? The point is that giving someone relief is not necessarily doing him a favor.

For another example, let us assume Needy N has broken his leg (at home). He has no savings, a wife several months pregnant, no relatives, four small children; he is living in a rented house, it is winter, the food closet is empty, and it will be three weeks before he can put weight on the cast to go back to work all day as a mechanic at the local Ford dealer.

Under the above circumstances, should Needy N be helped and by whom? Should A and B in control of government take from Farmer F and

give to N? How about letting people who know N do what they feel necessary? Does anyone really believe that N and his wife would go hungry, that the heat would be turned off, that the landlord would throw them out of the house, that the wife would have no one to deliver the baby, that no neighbor, friend, employer, fellow church member, or stranger would come to their aid?

Some Nagging Questions

Is the situation as bad as it sounds? Are we sure N really needs help to the extent that A, B, C, D, E, and F would agree? And how much of the predicament is of N's own making, from which he could learn something if left to his own resources? Why hasn't N laid a little money aside for a rainy day? Shouldn't people know that misfortunes are to be expected? Wouldn't this teach the lesson? Could he not have saved instead of spending for cigarettes and beer? Couldn't N borrow some money? Has he established a reputation of paying his bills—or of trying to avoid people to whom he owes money? Does he have a car or hunting dog or a boat or camera he could sell or a wedding ring he could hock? Shouldn't these things be done before forcing others to come to his aid?

Suppose A thinks N can get along on his own and won't do anything to help? Suppose that B, C, D, and E

think differently? What is to stop them from helping N on their own? Do they need A? And how much will B, C, D, and E help, and will they agree? Do they pay the rent, gas, electricity, groceries, and doctor bill—or only some of these things? Are cigarettes and beer to be included in the groceries? Do they pay N's rent even though the landlord wouldn't throw him out? Do they pay the bills now that could be postponed until N gets back to work? It gets complicated. People can and do have differences of opinion.

What it all boils down to is the trait of human nature to get the most for the least effort. As applied by an individual in his own productive work, it is proper and correct and works to the good of everyone. But when it comes to getting some of another's productive effort, it is not necessarily to the good of the recipient, or the giver, or a stranger to the transaction. We all have differences of opinion and no one can be sure he is doing more good than harm in giving someone something. The only thing certain is that once the privilege is conferred to receive a part of another's property, the number of people who enjoy this privilege grows and grows and peaceful production and trade are disrupted.

So the answer to the question of what causes progress, what causes man to work, study, produce, invest,

save, and pass on part to succeeding generations is simply the right of man to enjoy the benefits of his labor. Where government has thus protected and defended life and property, the conditions have been established for the great civilizations of the past. Man was encouraged to work to produce the most he could with the least effort, and by working hard to help himself and his family he also benefited all other people in the society and the future generations to come.

Government Perverted

And what caused these civilizations once great and prosperous to decline and fall? The answer was the failure of government to protect the working man in his right to the benefits of his work. Government in fact became the principal violator of the worker's rights to property. Instead of protecting the worker from theft, government in effect became a thief, taking part of his earnings or savings by taxation and inflation, in order to give it to the privileged. When the number of privileged was small and the taxes small, the effects were small. But when the number of privileged grew and the taxes grew, there was less incentive to work and the ability to save and pass on part to succeeding generations was diminished.

So it was an over-reliance on government which caused the downfall

of the great civilizations of the past. It made no difference whether the government was a monarchy or a dictatorship or a republic. The form of government was not important. The loss of a worker's property through taxation was the cause of the destruction of the civilization. It matters not that the purposes may have been noble-sounding or humanitarian and the privileged were thought to be needy and unfortunate. The loss of private property rights meant the destruction of the society.

In summary we can conclude:

1. Man attempts to work as little as possible to improve his condition in life as much as possible. If he must work to get what he wants he will work; if he can get what he wants without working he won't work.
2. A government that protects man's property from theft creates a social condition of incentive and reward, causing each man to work and thereby creating prosperity and progress for society at large.
3. A government that permits man's property to be taken by others or by government itself (even though it be for relief to the needy) creates a social condition that reduces incentive, reduces the reward for working, and thereby retards prosperity and progress.

This is not the generally accepted belief today, but the world is progressing and learning.

My mother's generation thought eating before swimming would cause stomach cramps. My generation thinks government transfer payments are a social good. I hope the next generation learns as much about the proper role of government as my generation has learned about swimming and cramps. The progress, prosperity, and well-being to flow from this simple understanding would stagger the imagination of the supreme optimist. ☉

Thomas Babington Macaulay

IDEAS ON



LIBERTY

EITHER some Caesar or Napoleon will seize the reins of government with a strong hand; or your republic will be as fearfully plundered and laid waste by barbarians in the twentieth Century as the Roman Empire was in the fifth;—with this difference, that the Huns and Vandals who ravaged the Roman Empire came from without, and that your Huns and Vandals will have been engendered within your own country by your own institutions.

Ingrid Rottinghuis

On Manipulating Others



If we believe that no man should live under the dominance of another, we must be able to recognize signs of subtle manipulation of human beings in ourselves and others. Sometimes as we manipulate or are being manipulated, we may vaguely sense what is going on, but do not consciously realize the implications.

Among our most important human relationships are those with our marriage partner, our children and our friends.

Aren't we all familiar with the situation where a person tries to leave a party early, for whatever personal reason, but meets ardent protests? "You can't be the first to go home and start breaking up the party! Come on, be a good sport, have another drink, stay with us!" Apparently, our host is warm and

hospitable. On second thought, we may be dealing with an overbearing person who manipulates others by vaguely suggesting that the leaving guest is more of a kill-joy or spoilsport than a friend.

When we are imposing extremely high standards on our child and expect excellent performance in all fields, we may think that we are encouraging him to unfold his potentiality. But we may be unknowingly brutal in our great expectations and we may be displaying a deep disrespect for him as a person. We have the power to manipulate a child, by giving love and approval, or by withholding it. We may, in the process, be directing his life into "serving his parents' desire" for his greatness, thus building a compulsive perfectionism into the child's character.

We also should learn to recognize the means by which our children try to manipulate us into catering to

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them. Is our child really too young to learn to tie his own shoelaces, or are we being manipulated by what seems a charming display of helplessness or cuteness? Children are clever at the "art of manipulation" and discover in infancy what kind of behavior will make us run to their rescue. We have to care for our children and attend to them; but we also have the responsibility of raising them toward independence.

Do we borrow sugar from the neighbors because we are too lazy to run an errand, or do we restrain our borrowing habits, which may be imposing on others? And do the neighbors send their children to us whenever they want their hands free? "You are such a wonderful mother! My children adore you and love to play with your youngsters on that marvelous equipment in your yard. You really have a way with children. Of course you have more time for them, while I have my hands full with four small ones." Are we being paid a compliment, or are we flattered into carrying another person's load?

Perhaps a wife wants to apply for a paying job when her children have reached school-age. Her husband discourages her in every possible way, by pointing out that he has a handsome salary and that children sometimes do have colds and other ailments, or snow-days off from

school. Does she have a concerned husband? Chances are that he may indeed be very concerned for the children, and that he is offering to be financially responsible for her, so that she can enjoy a luxurious life. But it may be that he unconsciously resists the idea of a financially independent wife, who unfolds her talents outside the home, instead of being always available to serve the family, to make their beds, iron their shirts, cook their meals. Maybe he is manipulating her by using the children as an excuse, instead of helping find solutions for snow-days and sickness and encouraging her to build a life of her own.

Libertarian philosophy can have far-reaching implications!

A wife who urges career ambitions on her husband might be motivated by the noble wish for him to unfold his talents. Or, again, she might be manipulating him into competing with the Joneses.

Do we have the courage to give a friendly but firm "no" to aggressive fund-raisers on the telephone or on our doorstep, or are we manipulated into giving our money out of fear of being disliked or appearing avaricious?

And can we take "no" for an answer, without offense, when others turn down our demands?

Are we our own master, or the slave of public opinion or inner compulsion?

Do we respect the fact that other people want to be their own master, pursue self-interest and live by their own values and that our friends and relatives are not living on earth just to do us favors?

A voluntary and friendly exchange of services is a nice way of cooperation as long as we do not take each other for granted or think in terms of duties. A grandmother may be very willing to babysit for us, but it is not her duty.

Even the tiniest infant, who is completely dependent on us, has a "self" which should be respected. If we lift our baby from its cradle for every admiring visitor, we disrespect the child's need for undisturbed sleep. A child is not an object, not our property.

Equality does not mean that children have a right to unrestricted freedom. We often mistake license for freedom. While trying to be "modern" parents, we sometimes tolerate children with deplorable manners, loud demands for attention and tantrums whenever they are refused something. Dr. Rudolf Dreikurs writes in his book, *Children: The Challenge*: "Equality means that people, despite all their individual differences and abilities, have equal claims to dignity and respect."

This word "people" includes children, the very aged, the handicapped and all those who cannot be

expected to live without our help and guidance.

People who cannot live "free" under the authority of their own self-discipline, because of mental disability, immaturity, senility or whatever other reasons, cannot make a claim to the same amount of freedom enjoyed by mature and responsible citizens. But they do have a claim to dignity and respect and such freedom as they can handle, such degree of independence as is within their limits. In that sense, "equality" stretches out to include those who *have* to live under the authority of others.

Authority can be wise leadership and counseling, respectful of the human nature, the *individual nature*, of those under guidance. Authority can also mean overbearing dominance, which must lead to rebellion and an urge to break away from authority.

The book I've quoted, *Children: The Challenge* by Rudolf Dreikurs, M.D., and Vicki Soltz, R.N. (Hawthorn Books, Inc.) is one I've found especially useful as a guide in helping children grow toward adulthood, responsibility, self-respect and respect for others. Beyond that, it has challenged me to review my relationships with all fellow beings. To be free of manipulation by others, we must refrain from manipulating their lives.

THE WAR AGAINST PROGRESS

IN the old days we used to start things and clean up afterwards. Now, for fear that there might be something unforeseen to clean up, we argue interminably. It is coming to take ten or more years to get "yes" on a project, and even then the possibilities of court action are not exhausted. Herbert E. Meyer calls it *The War Against Progress* in a book of that title (Storm Publishers, Inc., 4 East Main St., Box 252, Middletown, N.Y. 10940, 195 pp., \$11.95). He can't quite bring himself to recommend going back to the old ways, but he does think a happy medium could be struck.

The difficulty of reaching a happy medium is that the war against progress consists of hundreds of battles that seem unconnected. As Mr. Meyer says, no single battle is especially dangerous by itself. But when the battles are all added up, the wallop is significant. Mr. Meyer likens it to a bleeding that comes from

a thousand tiny cuts. It could kill a man.

Mr. Meyer describes some of the single battles. There is a fierce one now raging in Alaska. Since Alaska is relatively unpopulated, its citizens don't have much argumentative clout. The federal government owns most of the land, and the rules can be made by a distant landlord. Environmentalists in the lower forty-eight states who will never visit Alaska can set the tone in Washington, D.C. So we have a bill that would set aside 125 million acres of Alaska territory for parks, national forests, wildlife refuges, scenic rivers and plain "wilderness." This latter is a special category that would prohibit the building of roads of access, so not even the hardest outdoorsman would have much of a chance to taste a bit of wilderness life.

What the enthusiasts of caribou and grizzly bears do not see is the

connection between maintaining 100 percent environmental purity in Alaska and the future spread of urban slums in the lower forty-eight states. Geologists think there might be billions of barrels of oil under the Arctic National Wildlife Refuge. There could be trillions of cubic feet of natural gas. Mining companies have already discovered a multi-billion-dollar deposit of copper, lead and zinc in wilderness territory in the western Brooks Range. The oil of Prudhoe Bay, which the environmentalists kept us from getting for ten years, could be a mere foretaste of what Alaska might contribute to the health and prosperity of the western world. Without new energy sources and industrial raw materials, wars and depressions loom. And urban slums grow in depression climates.

You could forget the need for Alaskan oil and gas if atomic plants were on the increase and coal technology had an unimpeded run. But the "separate battle" against the use of atomic energy has resulted in a temporary victory for the No More Nukes forces. As for coal, there is enough of it in the United States to run our power plants for hundreds of years and to provide a life-sustaining surplus for western Europe. Moreover, coal can be turned into gas and a methanol that could run automobiles. Everything on the coal front lags, however, as worries about

sulfur in the atmosphere and the possible warming effects of a "greenhouse" condition are debated. Wyoming and Montana cattlemen don't like the idea of a new Pittsburgh being built on the rich reserves of local coal that can be easily strip-mined. And in Colorado, skiers and forest rangers take a jaundiced view of a new molybdenum mine that will, if and when it gets going, solve many of the alloying problems of American industry.

A Suggested Strategy

Politicians who are kept in power by local interests find it safer to reflect local prejudices about the building of a new refinery or opening up a new strip mine in the neighborhood. The sum total of a lot of local "noes" make it difficult for a national "yes" ever to prevail. Mr. Meyer has no magic formula for changing this. He thinks the tide of the separate battles won't be reversed until there is a coalition of businessmen and labor leaders willing to volunteer as the natural leaders of a still unformed army. He sympathizes with executives and union officials who have been loath to stand up in the past—"no one," he says, relishes being "mowed down by the guns of an advancing army." We have been living through a time when reticence has been the better part of valor. But the time has arrived, he says, "to climb out of the

trenches and to lead a forward charge." It is now or never.

If nobody can say "yes" in the United States, what will happen to the rest of the world? The Cold War will swing toward a victory for the Russians. This will not help the Third World: Communism has nothing worthwhile to export. Other nations—France, Japan—may be saying "yes" to nuclear plants making use of breeder reactor fuel, but the Free World needs a strong United States to lead it.

For one thing, says Mr. Meyer, the U.S. is the linchpin of the world's communication system. The International Tele-communications Satellite Consortium, which has established communication links to parts of Asia, Africa and South America that could have been opened up in no other way, is a product of the U.S. space program. The domestic communications of Canada and Indonesia depend on hooking up with U.S. produced satellites.

A Call for Leadership

"There is not the slightest possibility," says Mr. Meyer, "that any of our country's allies could fill the various gaps—military, economic, communications, cultural—that would be created by the destruction of the U.S. All of our allies put together have less military firepower than we have. All of their

economies put together are weaker than our own. All of them combined lack the satellite-communications technology that we have. All of them combined do not equal a culture as dynamic, productive and creative as our own . . . We and we alone have the power. We have the broadest shoulders."

If the U.S. were to succumb in the "war against progress," it will trigger destruction everywhere. Brazil's newest industries would collapse without our computer technologies. Nigeria and Mexico need us as a market for their oil. A major part of Canadian industry would go bankrupt if there is a bad U.S. tailspin. Meanwhile, some of our allies are having troubles of their own with the anti-progress termites. It took the Japanese twelve years to open up their new international airport outside Tokyo at Narita.

Mr. Meyer's book deserves a wide reading. It makes a few mistakes: Samuel Slater did not build an engine factory, as Mr. Meyer says on page 27, he built textile mills from his memory of Arkwright models. But flyspecks are minor. The impact of the book could be devastating if it could only be circulated among those industrialists and labor leaders who have been elected by Mr. Meyer to change the no-growth climate that has afflicted us now for almost a generation. ©

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the Government the Market and the Poor

David Osterfeld



WHEN one argues that the government has become too large and ought to be reduced inevitably the first question that comes to the minds of most people is: what would happen to the poor? This is certainly a legitimate question. What would be the condition of the poor if all government "poverty" programs were abolished?

An accurate assessment of the impact of such a change in policy can best be obtained by dividing this broad question into two parts: (1) what is the *actual impact* on the poor of existing government policies and (2) what would be the *probable impact* of a program of *laissez-faire*?

This paper will attempt to deal with both of these questions.

Part I: *The Government and the Poor*

1. The "Ideal" Model: The Way Government is Supposed to Work

In the area of the market economy, or the "private arena," we are constantly told, the proper concern of the individual is with satisfying his own personal needs. Thus, in the economic arena the individual is assumed to behave *egotistically* in order to *maximize* his *individual utility*. In contrast, since the proper concern of government and politics, or the "public arena," is the well-being of the entire society, individuals in this arena are assumed (or perhaps "supposed" is a better word) to act *altruistically*. Politicians and government bureaucrats are not

concerned so much with maximizing their own personal utilities but with maximizing "*social utility*," i.e., with pursuing something called the "public good."¹ Thus, the individual is divided, as it were, into two parts: the egotistical, which is given free rein in the private, or market, arena, and the altruistic, which dominates the public or governmental arena.

The ramifications of this "ideal" model for analyzing the politico-economic world are significant. In the competitive struggle that prevails in the open market between egotistically-motivated individuals, the economically strong, i.e., the wealthy, the well-educated, the cunning, and the unscrupulous, emerge as the victors, while the weak, i.e., the physically and mentally handicapped, ethnic minorities, the un- and under-educated, and the poor in general, are piteously ground underfoot. But since individual behavior in the governmental sphere is assumed to be altruistic, an important function of the government becomes that of helping the casualties of the economic conflict by adopting policies, sometimes referred to as the "bucket" method of eliminating poverty, which transfer wealth from the economic winners to the economic victims. Thus, according to the "ideal" model, while the egotistical behavior of the individual in the private, economic sphere creates poverty among the weak, the altru-

istic behavior of individuals in the public sphere serves to eliminate, or at least ameliorate, it.

2. The Problem: Assumptions about Individual Behavior

The fatal flaw in the foregoing model lies in the assumption that while individual behavior in the private arena is egotistical, that in the public sphere is altruistic. Regardless of how one believes that individuals *ought* to act, there is no reason to suppose that individuals *actually* compartmentalize their lives after the fashion of the "ideal" model. True, individual behavior is always a combination of egoism and altruism, with the particular "mix" of each not only varying from individual to individual but within the same individual over time. But it is unwarranted to assume that individuals act altruistically in one realm and egotistically in the other.

Surely, individuals can, and do, behave "altruistically" in the private arena, as is demonstrated by any voluntary contribution to a charitable cause. And just as surely, and far more importantly, individuals can, and do, behave "egotistically" in the public sector. Aside from the daily revelations of the scandalous behavior of many of those in the public arena—Watergate, Koreagate, Abscam, etc.—one has simply to note, after all, that to get elected a politician must try to convince a

majority of the voters that *more benefits* will accrue to them from his election than from the election of his opponent. One may, as a Plato, or a Rousseau, adopt the moral posture of condemning such "egotistical" behavior as unsuitable for the "public arena," but it is scarcely deniable that such behavior is no less prevalent in the public than the private arena.

The recognition that "egotistical" behavior exists in both arenas entails an entirely different way of viewing government which, as we shall see, has significant ramifications for the "ideal" perspective.

According to this alternative perspective, which Professor James Buchanan has termed the "logical" or "individualist" model,² there exists no such thing as "the public interest." In fact, government, as such, has no "goals." Individuals and only individuals possess goals, which may run the gamut from purely selfish to purely altruistic. And just as the market is an *instrument* which the participants use to attain their goals, so government is viewed as an instrument which the participants in the political process try to use to their own benefit.

The critical question then becomes not, as in the "idealist" model, which type of behavior, egotistical or altruistic, or which type of goals, individual or social utility, ought to take precedence, but which instru-

ment, the market or government, can best, or most efficiently, satisfy the needs and wants of the members of society. Economic tools, in other words, are brought to bear on the political process.³

3. The "Logical" Model: The Way Government Actually Works

The first thing to be noted in developing an alternative view of government is the fundamental difference between government and the market. The market is nothing more than the nexus of exchanges. Force is absent. Not only can anyone offer to make an exchange, anyone can refuse any offer. This means that for any exchange to occur, each party must value what he obtains in the exchange more highly than what he gives up. Thus market or voluntary exchange must, *ipso facto*, entail benefit to both parties.

In contrast, government is precisely that agency in society which claims a monopoly on the use of force. This unique position of government means that while it does not, in fact cannot, create wealth its monopoly on the use of force can be used to transfer wealth from one group to another. It is this aspect of government which makes it a potentially valuable instrument for any group or groups that can obtain control of it. An important question is: who is likely to obtain control?

(a) **The Process of Politics.** Even

though based on different assumptions regarding individual behavior it might seem that the results of the "logical" model would be identical to those expected by the "ideal" model. Democracy means rule by the majority. And if those who are relatively poor are in a majority they should be in a position to benefit themselves by seeing to it that the government adopts and follows a policy of transferring wealth from the relatively rich to the relatively poor.

Reality, however, is far more complex. To understand the flaw in the foregoing we must look a little more closely at the concept of "majority rule." There is, in fact, no such thing as "the majority." Rather, each individual has various interests which he desires to see protected and furthered. Since single individuals seldom have much influence in the political process, those individuals who possess the same or similar interests tend to join together to form interest groups, such as the National Association of Manufacturers (NAM), the AFL-CIO, the National Organization for Women (NOW), etc.

The purpose or goal of the interest group is, of course, to advance the interests of its members. This can be done in any number of ways but one of the chief means is by influencing government policy. Thus, labor groups like the AFL-CIO desire such things as increases in the minimum

wage, closed or union shops, or a national health care program; business groups, like the NAM, the Fatty Acid Producers Council, or the Underwear Negligee Association, generally push for such things as subsidies or licensing restrictions to shield themselves from domestic competition and tariffs to protect themselves from foreign competition, although it must be borne in mind that "business" is not monolithic. Department stores like Sears benefit from the lower prices that foreign competition brings and therefore oppose tariffs while such industries as clothing and TV manufacturers are hurt by such competition and therefore favor tariffs.⁴

If a primary goal of an interest group is to influence government policy one would quite naturally expect that they would endorse only those politicians who promise to support their demands. It can be seen that there is no such thing as "the majority" to which a politician must appeal to be elected. Rather, the goal of the politician is to pledge his support for the demands of enough interest groups to create a coalition of groups totaling a majority of the voters in an election.⁵

(b) Who Influences Government? We are now in a position to answer the question: who is most likely to influence or even control government? Superficially, it still might seem that since the relatively

poor would be a fairly large group which politicians could not afford to ignore, the result of interest group politics would be the governmental transfer of wealth from the wealthier segments of society to the poorer. The data, however, belie this assumption. While it is no doubt true that some government programs do benefit some groups of poor, nearly all studies indicate that the *poor as a whole* do not benefit.

Although the federal income tax appears on the surface to be progressive, much of this progressivity is eliminated by loopholes. And when this is combined with the regressive nature of most state and local taxes, the overall effect is that the tax burden is "essentially proportional for the vast majority of families."⁶ But government revenues are only half of the story; there are also government expenditures.

The venerable John Calhoun recognized long ago that what is crucial is not solely what one pays in taxes but what one pays in taxes relative to the government benefits one receives. And he also realized that if some groups are *net tax beneficiaries*, other groups must be *net tax losers*.⁷ This means that while all income groups pay approximately the same percent of their income in taxes, the poor could still be considered gainers from the political process if the benefits they received from government exceeded the taxes

they paid to it. While the evidence is somewhat mixed, this seems unlikely.

When one considers the direct effect of such programs as subsidies to businesses, and the indirect effect in terms of higher prices, of such policies as tariffs and licensing restrictions, it is likely that the overall impact of government policies is a slight transfer of wealth from the less well off to the better off. As a dramatic illustration, economist Walter Williams has determined that \$250 billion is spent annually at all levels of government simply to "fight poverty." Now, if all of this were divided equally among those families with incomes below the poverty line, each poor family would receive a yearly stipend of \$34,000.⁸ Of course very little of this ever reaches the poor. Most of it gets eaten up in bureaucratic overhead or siphoned off by private contractors.⁹ The "bucket" is clearly very leaky.

In brief, far from showing that government helps the poor, the evidence indicates the opposite: the poor tend to be the net losers in the political process. The significant question is: why are the less well off, who would appear to be a potentially powerful interest group, unable to exercise any effective control over government policy? Two related principles of the "logical" model explain this seeming paradox rather

well: the "Iron Triangle" and "Olson's Law."

(c) The "Iron Triangle." Political scientist, Theodore Lowi, has pointed out¹⁰ that if a particular interest group desires a particular policy it goes, not to Congress *as a whole*, but to the Congressional committee or subcommittee with jurisdiction over this policy area. Since it is normal for Congressmen to be placed on committees that deal with the concerns of their districts, those representing farming districts get on the Agricultural Committee, those representing districts or states that are primarily urban desire to be placed on, say, the Banking, Housing and Urban Affairs Committee, etc. This, of course, makes the committee quite sympathetic to the concerns of the interest groups that appear before them, and it is common for the Committee to deal with a particular concern simply by adopting the policy recommended by the interest group and then instructing the bureaucratic agency to carry it out.

Typically, the agency will then go to the interest group that initially proposed the policy for information and guidance in implementing the new policy. The Tobacco Institute and the Retail Tobacco Distributors of America, for example, desire continued or expanded government subsidies for tobacco. Since seven of the eight members of the House Subcommittee on Tobacco come from to-

bacco growing states, it is hardly surprising that the Subcommittee is sympathetic to this. And since, in administering the program, agencies in the Department of Agriculture have nearly daily contacts with tobacco growers it is also quite natural for them to see themselves as protectors of the interests of the tobacco growers.¹¹

But the best known "triangle" is probably the "military-industrial complex." Between 1969 and 1973, 1,406 Pentagon officials left government to take positions in defense industries. Given this close connection between government and the defense industry it is not surprising that, a recent study disclosed, profits in the aerospace industry were 12.5 percent higher than for American industry as a whole. One defense corporation, in fact, averaged 245 percent profit on 22 government contracts.¹² These are only two examples where an "iron triangle" composed of an interest group, committee and bureaucratic agency, has emerged. The public is locked out and the interest group is left to, in effect, regulate itself.

The problem, in so far as the poor are concerned, is that to influence government in this fashion requires three things: time, money and expertise. Both time and money are required to put together an effective interest group; money is also required to hire the services of a lob-

byist; and some expertise is needed to know how to manipulate the political system. Usually, the poor lack all three: by definition they do not have money; their working schedules tend to be inflexible; and since the poor tend also to be the less well-educated, they lack expertise. Consequently, as one commentator has put it, the interest group system is "skewed, loaded, and unbalanced in favor of a fraction of a (wealthy) minority." And, he adds, probably "about 90 percent of the people cannot get into the pressure system."¹³

(d) Olson's Law. Reinforcing the effect of the "iron triangle" is "Olson's Law of small groups." Isn't it possible for the poor to compensate in numbers for what they lack in wealth? After all, it's ultimately votes that count and each vote counts equally. The flaw here stems from the failure to distinguish between the *potential* and the *actual* group. For instance, since everyone is a consumer, the potential membership of a consumer group is the entire population. But the actual membership is only a tiny fraction of this. Why? This can best be seen by way of an example. Assume that a tariff on the importation of foreign cars would cost consumers \$10 million per year. If we assume that about 50 million Americans will buy a car in a year the cost of the tariff to each car-buyer would be about 20¢. But since there are only three American

auto manufacturers, the benefits to each would be approximately \$3.5 million. It is easy to see which side would devote the greater time and resources to influence Congress on the passage of the tariff.

Thus, as economist Mancur Olson has pointed out,¹⁴ when the benefits of a law or policy are concentrated on a particular group, while its costs are dispersed to the larger population, the interest group will have an incentive to work for its passage while the larger population will have little or no incentive to oppose the policy. This is so because it would cost each member of the larger group more in time and money to oppose the tariff or policy than he would gain by the defeat. In brief, according to "Olson's Law" there is an inverse relationship between size and political effectiveness: the larger the group the less effective it tends to be.

(e) Conclusions. Lowi's "Iron Triangle" and "Olson's Law of Groups" help to explain why the poor, as a group, have not and do not benefit from government policies. We live in an interest group system. Yet the poor lack the three elements—time, money, and expertise—needed to participate effectively. But we can go even further. Since small, well-financed interest groups are able to influence government, and since, according to the "iron triangle," they are also able, literally, to regulate

themselves, one would expect to see many interest groups actually wanting to be regulated by government. And this is exactly what we see.

Milton Friedman has noted that "the pressure on the legislature to license an occupation rarely comes from the members of the public . . . On the contrary, the pressure invariably comes from the occupation itself."¹⁵ Since regulatory boards typically set maximum rather than minimum prices, and since licensing boards serve to limit rather than encourage competition, their effect is to raise prices. It's been estimated that the cost of such regulation is about \$130 billion per year.¹⁶ And since the poor can least afford high prices they are the ones most severely hurt by these agencies. Thus, not only do the poor *not* benefit from government policies, as a rule, they are actually hurt by them.

Part II: *The Market and the Poor*

Before one can appreciate the manner in which the plight of the poor is eased through the workings of the market process, a few preliminary observations are necessary.

1. The Culture of Poverty

Although it is a truism to say that the poor are those without much wealth the most important thing to

realize is that poverty is *not so much an economic as a sociological problem*. Professor Edward Banfield, among others, has distinguished between lower, middle, and upper class individuals on the basis of their *time-orientation*. While middle and upper class individuals are future-oriented, the lower class individual lives in and for the present. A future-oriented culture is one which emphasizes hard work and delayed gratification, i.e., discipline in the present for the attainment of a larger "payoff" in the future. Such a culture, Banfield notes, "teaches the individual that he would be cheating himself if he allowed gratification of his impulses . . . to interfere with his provision for the future."¹⁷

In contrast, he continues, the "lower-class individual lives from moment to moment. If he has any awareness of a future, it is of something fixed, fated, beyond his control: things happen to him, he does not make them happen. Impulse governs his behavior, either because he cannot discipline himself to sacrifice a present for a future satisfaction or because he has no sense of the future. He is therefore radically improvident: whatever he cannot use immediately he considers valueless. His bodily needs . . . and his taste for 'action' take precedence over everything else—and certainly over any work routine. He works only as he must to stay alive, and drifts

from one unskilled job to another, taking no interest in his work."¹⁸

In brief, the goal for those in the middle class is "to get ahead;" to succeed; the means are hard work and delayed gratification. The goal for those in the lower class is "to enjoy now," i.e., immediate gratification; the means are to work as little as possible and to spend whatever you make as soon as you make it. These are, of course, pure types. But while all individuals are mixtures of the two life styles, a lower class individual lives far more in the present than a middle or upper class person.

Although there are many reasons for poverty, what is important is that it is found disproportionately among those exhibiting the values of the "lower class mentality." Perception of this fact has significant ramifications both for determining the *number* of those who are actually poor and the *ability* of the government, even assuming the *best of intentions*, to deal with the problem. It is to these two issues that we now turn.

2. Government Poverty Statistics

Approximately 12 percent of the population of the United States have, according to official statistics, incomes below the poverty line.¹⁹ "The poor," however, must not be thought of as a permanent economic class. Given the affinity of a lower class individual for risk, action, and impulse behavior, it is not surprising

to discover that, as Professor (now Senator) Daniel Moynihan has noted, many who are classified as poor have high risk and/or seasonal jobs and therefore that their "incomes rise and fall with changing employment conditions . . ."²⁰ The result is that the turnover rate among those whose income is below the official poverty line is about one-third per year. This means that if poverty statistics were measured on, say, a two or three, instead of a one-year, period, the *actual number* of poor would be significantly less.

Also, since people must pay tax on their incomes there is a built-in incentive for people to *underreport* their incomes. While this is true for all income groups and not just the poor, what is significant is that basing poverty statistics on *reported income* inflates those statistics. In testimony, a few years ago, before the House Hearings on the Economic Opportunity Act of 1964, Margaret Reid disclosed that those *reporting* incomes of under \$1,000 per year were actually *spending* an average of approximately \$2,500 each per year. And reinforcing this is the fact that such high-risk, action-oriented occupations as gambling, loan sharking, prostitution and the like, naturally attract a disproportionate share of "lower class" individuals. But since these activities are illegal, this income cannot be reported. Although the amount of income from

such activities is difficult to gauge there is no doubt that it is in the billions. Regardless of what one may think of these activities one thing is clear: If such income could be taken into consideration "a considerable percentage of the 'poor' in some of the large cities would turn out to be well-off."²¹

There is no doubt that there are people in this country who are poor. Yet, it is also clear that the official figure of approximately 12 percent is highly inflated. This is due to the basing of poverty statistics on (1) one-year periods and (2) reported income rather than actual spending.

3. The Poor and the "Ideal" Model of Government

The concept of the "culture of poverty" also indicates just how limited is the ability of the government to help the poor, even assuming the best of circumstances, i.e., that the government follows the altruistic policy prescribed by the ideal model.

Consider the government policy regarding education. One of the reasons for compulsory, "free" grade and high school education, and zero or minimal tuition, taxpayer supported, state universities, was to make education accessible to children of poor families. This, so it was reasoned, would break the "cycle of poverty" by providing such children with the skills needed to enter high paying occupations. What happened

was instructive. The payoffs from education lay several years in the future. Consequently, while middle and upper class individuals began attending state-run universities in droves, the poor were not particularly attracted, even when it was free. Instead, they entered the workforce and began paying taxes, some of which went to provide low-cost education for middle and upper class children at state universities.²²

Another government program was "jobs training," which began with much fanfare in the "War on Poverty" programs of the 1960s. This too proved a failure and for the same reason: like education, the payoffs from training programs lay months, maybe years, in the future. In fact, the entire program was based on a contradiction. A program designed to train the poor for good jobs could not succeed for the same reason that the poor do not have good jobs in the first place: both good jobs and successful training are future-oriented; the poor live in the present.²³

One final anti-poverty policy might be mentioned: the minimum wage. This is probably the most pernicious of all "anti-poverty" legislation. Wages are determined by the marginal productivity of labor. And since the poor as a rule do not have the skills that would enable them to become highly productive members of the labor force the only jobs for which they are suited are low-pay-

ing ones. This is most unfortunate but good intentions are not enough. Since minimum wage legislation does not, and can not, increase the marginal productivity of the poor, its only effect is to eliminate their jobs. If an individual worker's marginal value to the firm is \$3.00 per hour, an increase in the minimum wage from \$2.90 to \$3.10 per hour means that that worker will lose his job. Thus, the ones most hurt by minimum wage laws are the least productive members of society, i.e., the poor.

If the foregoing is correct, then the ability of government to eliminate poverty is most limited, indeed. It should therefore not be too surprising to discover that while the percentage of the population classified as "poor" had declined steadily for decades, its rate of decline actually *slowed down* during the vaunted government "War on Poverty" program of the mid-1960s. And, despite the continued increases in the "anti-poverty" budget throughout the 1970s, the percent of those classified as poor has remained at 12 percent for the past decade.²⁴

Once the cultural basis of poverty is recognized, the government appears to have but two options: (1) to insure everyone a minimum income and/or (2) to somehow change the time-frame of the poor from a present to a future orientation. The problem with the former is that if

the minimum is set high enough to eliminate poverty it would also be high enough to have a disincentive effect on those whose incomes are only slightly above the minimum. If some of this group quit not only would this increase the number of those receiving handouts from the government, it would also impose increased taxes on those who continued to work, thereby encouraging still others to quit. The result would be an ever-increasing number of "beneficiaries" living off an ever-dwindling number of producers until the whole pyramid collapsed. As Milton Friedman is fond of pointing out, if you pay people to be poor, you will have no shortage of poor people. But, if the minimum were set low enough to preserve the incentive to work, it would no doubt be too low to eliminate poverty.

But what of the second option? Since values are picked up very early in childhood, usually from the parents, the "weeding out" of the "lower class mentality" would require nothing short of the seizing, probably at birth, of all children born to "lower class" parents. These children would then be placed in homes or schools and inculcated with middle class values. While this could work, the medicine is probably far worse than the disease. At the very least such a draconian measure raises significant moral and ethical questions.

In brief, there is next to nothing that the government, even assuming the best of circumstances, can do to help the poor: if one is poor but doesn't have a lower class mentality, he will not need government help to succeed; but if he does have such a mentality, no amount of aid will work.

4. The Market Process and the "Culture of Poverty"

Even though government statistics exaggerate the amount of poverty in America there is no doubt that there are people who are needy. Given the "culture of poverty," government efforts at dealing with this problem have been ineffective. The question therefore becomes: given this same condition, would pure market measures prove any more effective than government policies? There is reason to believe that this is so.

There prevails on the unhampered market a tendency to employ every factor of production, including labor, at its most value productive point. Since people only buy what is useful to them there can be no distinction between production for use and production for profit. Profits result from successfully supplying consumers with what they most intensely desire at the time of their evaluations; losses from the failure to do so. In the quest for profit, labor and capital perpetually flow to areas

where they can reap the most lucrative returns on investment and away from areas manifesting loss. In the same way the market also determines prices for the factors of production.

Since what the entrepreneur can bid for factors is limited by his expected yield from the sale of his product, those making the most profits can make the highest bids. Thus the factors of production are channeled into the production of the most intensely desired goods. Since it is precisely the poor who can least afford the lower standard of living caused by the squandering of scarce resources, they are the economic class most benefited by the market process.²⁵

But, it might be objected, this is all very well for the "able-bodied" poor, but most who are poor today have limited education and/or physical or mental handicaps. Such unskilled workers do not benefit from the market process since their productivity tends to be so low that they cannot even find jobs. This line of reasoning is based on a fallacy. The reason that such individuals cannot find jobs is not because of their low productivity but because minimum wage laws establish wage rates in excess of their productivity.

For example, in the 1950s and early 1960s, most elevators were operated manually and many restaurants had their dishes washed by

hand. These jobs were filled by the unskilled: the young, uneducated and the handicapped. They did not pay much, of course, but that is just the point. As the minimum wage was raised to 75¢, then to \$1.00 and then to \$1.25 per hour, the building owners discovered that it *now* was economical to automate their elevators, thereby eliminating the jobs in that field. And the same was true with dishwashers: as the minimum wage was pushed upward, dishwashers were replaced with automated dishwashing machinery.²⁶

The root of the problem, therefore, is not the low productivity of the unskilled worker, but the fact that the minimum wage prevents the worker from offering a "compensating difference" for his low productivity. As Walter Williams points out, "Less-preferred chuck steak can compete with more-preferred filet mignon only by offering a compensating difference—a lower price. If we had a minimum price law for steak of, say, \$4 a pound, sales of chuck steak would fall relative to sales of filet." Chuck steak, in other words, would be "unemployed" *under those conditions*. The same thing applies to minimum wages. Since an unskilled worker cannot offer a "compensating difference," his labor, *under those conditions*, is overpriced and he is therefore unemployed.²⁷

Thus, while a worker's productivity has a bearing on his wage rate,

it would not affect his ability to get a job *provided the market were free*. Unemployment rates are especially high among the handicapped and the unskilled because of such government restrictions on the market as the minimum wage.

But, it might be objected, in the absence of the minimum wage the unskilled might find jobs. Such jobs would pay so little, however, that the workers would still have to rely on the government for assistance. This, too, is a fallacy. First, most of the lowest-paying jobs are not had by the breadwinner but by other members of the family desiring to supplement the family income. And second, wage rates, Ludwig von Mises noted, do "not depend on the individual worker's 'productivity,' but on the marginal productivity of labor."

A barber, Mises comments, "shaves a customer today in the same manner his predecessors used to shave people two hundred years ago. A butler waits at the table of the British prime minister in the same way which once butlers served Pitt and Palmerston . . . Yet the wage rates earned by all such workers are today much higher than they were in the past. They are higher because they are determined by the marginal productivity of labor. The employer of a butler withholds this man from employment in a factory and must therefore pay the equivalent of the

increase in output which the additional employment of one man in a factory would bring about."²⁸

This means that, while the unskilled worker would seldom become wealthy his wage rate would tend to be higher than commonly thought, *provided there were alternative means of employment open to him*. What is needed are more jobs available for the unskilled. But the effect of such regulations as the minimum wage and licensing restrictions is to eliminate just those jobs. Repeal of such legislation would be expected to provide adequate, but not lucrative, wages for the unskilled.

The market process would also help the poor in their capacity as consumers. Consider, for example, the "ghetto merchant." Since prices in the ghetto average about 10 percent more than prices for goods in other neighborhoods, the ghetto merchant is often excoriated for exploiting the poor. But the key question is why is the ghetto merchant able to charge, *and receive*, such prices; why don't such prices attract additional competitors? The answer is that higher prices do not mean higher profits. Ghettos are high crime areas and this means higher insurance premiums, expensive padlocks, safes, etc. The higher prices, economist Walter Block points out, merely reflect the additional expenses of doing business in the ghetto.

If, in the name of "fairness," the government imposed "equal" prices between neighborhoods, profit margins in the ghetto would be reduced, forcing the bankruptcy of many ghetto merchants. The resulting shortages would, of course, entail severe hardships on the poor. Conversely, if the market operated unimpeded, higher profit margins in the ghetto would lure additional merchants into that neighborhood, thereby lowering prices. This means that the ghetto merchant is actually a benefactor of the poor, for his presence serves to keep prices lower than they otherwise would be. And the more such merchants, the lower the prices.²⁹

The same is true, Block has demonstrated, of many other commonly condemned occupations. The "slumlord" is another example. This person is usually depicted as charging exorbitant rents for dirty unsanitary apartments, located in old, dilapidated buildings. But the problem of slum housing "is not really a problem of slums or of housing at all. It is a problem of poverty." This is unfortunate but not only is he not responsible for this condition, the slumlord, *regardless of his motives*, helps the poor make the best of their bad situation.

Consider what would happen, Block asks, if slums and slumlords suddenly disappeared. If the slumlord truly harmed his tenants, then

his disappearance should increase their well-being. But exactly the reverse would occur. For the poor would then "be forced to rent more expensive dwelling space, with consequent decreases in the amount of money available for food, medicines and other necessities."³⁰ But this is just what occurs when the government imposes rent controls, housing codes, and the like. Forced to charge lower rates, some landlords will go bankrupt; others will employ their property in alternative uses. The resulting housing shortage can only leave the poor worse off.

These two examples could be multiplied many times over. But they demonstrate how the unhampered market works to the benefit of the poor.

5. Care for the Truly Poor

There is one final question to be dealt with. What would happen to those few who were (almost) completely incapacitated and could not take care of themselves? Regardless of the socio-economic system, such people can be provided for only out of "surplus production." The complete elimination of government intervention would have two effects: (1) it would eliminate the poverty unnecessarily created by such government policies as minimum wages and licensing restrictions; and (2) it would increase output and thus "surplus production." There is, of

course, no guarantee that this "surplus" would go to the truly needy. Yet, in 1977 Americans donated \$32 billion to charity.³¹ If one assumes that under a pure laissez-faire economy there would still be about 6 million poor, this would prorate out to over \$5,000 for every poor *individual* in the country. And, given an even more productive economy coupled with the significantly lower taxes resulting from the dismantling of the welfare state, it is likely that this figure would be even greater under pure laissez-faire.

Conclusion

The "ideal" model depicts a government implementing policies designed to help the poor. But this model is based on the faulty behavioral assumption that people act altruistically in the "public sphere." In fact, the poor are more commonly the victims rather than the beneficiaries of government programs. Further, what is important are results, not intentions. Even assuming that the government operates as envisioned by the ideal model, the cultural basis of most poverty not only renders the government incapable of benefiting the poor, it actually increases the incidence of poverty. The market, on the other hand, has the capability of both reducing poverty to those few who are completely incapacitated, or nearly so, and creating the economic sur-

plus necessary for the care of those few.

In short, there is every reason to believe that the poor would fare considerably better under the market than under the government approach. ☉

—FOOTNOTES—

¹While this model is something of a hybrid, it runs throughout much popular as well as academic literature. Jacques Maritain, *The Person and the Common Good* (New York: Scribner, 1947), and Mortimer J. Adler, *The Common Sense of Politics* (New York: Holt, Rinehart and Winston, 1971), are two, of many, philosophers for whom the notions of the "common good" and "altruistic" behavior in the political sphere are central. Also see Roland J. Pennock, *Democratic Political Theory* (Princeton: Princeton University Press, 1970), pp. 183–91, for overview of this approach.

²James Buchanan, "An Individualistic Theory of Political Process," *Varieties of Political Theory* (Englewood Cliffs: Prentice-Hall, 1968) ed. David Easton, pp. 25–37; and James Buchanan, "An Economist's Approach to 'Scientific Politics,'" *Perspectives in the Study of Politics* (Chicago: Rand McNally, 1968) ed. Malcolm Parsons, pp. 77–88.

³While the economic approach to government can be traced back to the writings of Thomas Hobbes and John Locke in the seventeenth and eighteenth centuries, it was not until the mid-twentieth century that economic tools began to be applied to the study of politics in a systematic way. The landmark book was Anthony Downs' *An Economic Theory of Democracy* (New York: Harper and Row, 1957). The number of works employing this economic or "public choice" approach to the study of government has mushroomed since 1957. Two of the more important, and read-

able, however, are James Buchanan and Gordon Tullock, *The Calculus of Consent* (Ann Arbor: University of Michigan Press, 1974); and Gordon Tullock, *Private Wants, Public Means* (New York: Basic Books, 1970).

⁴Robert Lineberry, *Government in America* (Boston: Little, Brown and Company, 1980), pp. 278–83.

⁵The interest group model is developed in far more depth in such works as Robert Dahl, *A Preface to Democratic Theory* (Chicago: University of Chicago Press, 1956); David Truman, *The Governmental Process* (New York: Alfred Knopf, 1971). For a provocative article using economic tools to analyze interest-group politics see William Landes and Richard Posner, "The Independent Judiciary in an Interest-Group Perspective," *The Journal of Law and Economics* (December 1975), pp. 875–901.

⁶Joseph Pechman and Benjamin Okner, *Who Bears the Tax Burden?* (Washington D.C.: Brookings Institution, 1974), p. 10. Also see Robert Sherrill, *Why They Call It Politics* (New York: Harcourt Brace and Jovanovich, 1979), p. 300; and Michael Parenti, *Democracy for the Few* (New York: St. Martin's Press, 1977), p. 97. A recent study by R. A. Herriott and H. P. Miller shows the following relationship between income classes and total tax takes:

Selected Income Classes	Percent of Income Paid in all Taxes
Under \$2,000	50
\$ 4,000–\$ 6,000	31
\$ 8,000–\$10,000	29
\$15,000–\$25,000	30
\$50,000 and over	45

Cited in Murray Rothbard, *For a New Liberty* (New York: Macmillan, 1978), p. 161.

⁷John C. Calhoun, *Disquisition on Government* (Indianapolis: Bobbs-Merrill, 1953), pp. 16–19.

⁸Walter E. Williams, "Commentary," *Newsweek* (September 24, 1979), pp. 57–59. See also Thomas Sowell, *Race and Economics* (New

York: David McKay, 1975), pp. 195-200.

⁹See Tom Bethell, "The Wealth of Washington," *Harper's* (June 1, 1978), pp. 41-60; also see Tom Alexander, "Why Bureaucracy Keeps Growing" *Fortune* (May 7, 1979). For a study that concludes that the poor are net tax payers see Gabriel Kolko, *Wealth and Power in America* (New York: Praeger, 1962). But for a contrasting conclusion see Morgan Reynolds and Eugene Smolensky, "The Post Fisc Distribution, 1961 and 1970 Compared," *National Tax Journal* (1974), pp. 515-30.

¹⁰Theodore Lowi, *The End of Liberalism* (New York: Norton, 1979).

¹¹Lineberry, pp. 268-69.

¹²Philippa Strum, *Presidential Power and American Democracy* (Santa Monica, Cal.: Goodyear, 1979), pp. 51-54.

¹³E. E. Schattschneider, *The Semisovereign People* (Hinsdale, Ill.: Dryden Press, 1975), pp. 34-35.

¹⁴Mancur Olson, *The Logic of Collective Action* (Cambridge: Harvard University Press, 1965).

¹⁵Milton Friedman, *Capitalism and Freedom* (Chicago: University of Chicago Press, 1962), pp. 138-44.

¹⁶See "The Regulators," They Cost You \$130 Billion a Year," *U.S. News and World Report* (June 30, 1975), pp. 24-28.

¹⁷Edward Banfield, *The Unheavenly City Revisited* (Boston: Little, Brown and Company, 1974), p. 57.

¹⁸*Ibid.*, p. 61.

¹⁹See Robert Lineberry, pp. 490-92; also see Herman P. Miller, "Inequality, Poverty and Taxes," *Dissent* (Winter, 1975), p. 45. The "poverty line" is calculated by determining how much it costs to feed a typical family of four and then multiplying that figure by three.

²⁰Daniel Patrick Moynihan, "Poverty in Cities," *The Metropolitan Enigma* (New York: Anchor, 1970) ed., James Q. Wilson, p. 369.

²¹Banfield, pp. 128-29.

²²The same holds true for programs like social security. First, since the tax is regressive, the poor pay a higher percentage of their earnings in social security taxes. Second, since the poor usually do not go to college, they tend to enter the workforce earlier than middle or upper class individuals, and therefore begin paying social security taxes much sooner. And finally, statistics show that the poor have a shorter life expectancy than other economic classes. The result is that the poor tend to pay the most into social security and receive the fewest benefits.

²³See, for example, Reo Christenson, *Challenge and Decision* (New York: Harper and Row, 1976), pp. 79-86. Especially see p. 80: "about one-fourth of the (Job Corps) recruits stayed less than a month. Less than half stayed for six months, though strongly encouraged to stay for nine months."

²⁴Miller, p. 45.

²⁵See, for example, Ludwig von Mises, *Human Action* (Chicago: Regnery, 1966); and Murray Rothbard, *Man, Economy and State* (Los Angeles, 1971).

²⁶See Yale Brozen, "Wage Rates, Minimum Wage Laws, and Unemployment," *The Libertarian Alternative* (Chicago: Nelson-Hall, 1974) ed., Tibor Machan, pp. 380-99; and Walter Block, *Defending the Undefendable* (New York: Fleet Press, 1976), pp. 232-33.

²⁷Williams, pp. 58-59; and Banfield, p. 107-08.

²⁸Ludwig von Mises, *The Anti-Capitalistic Mentality* (New York: Van Nostrand, 1956), pp. 88-89.

²⁹Block, pp. 162-70.

³⁰*Ibid.*, pp. 154-61. See also Sowell, pp. 184-189.

³¹In *Help: the Useful Almanac* (Washington, D.C.: Consumer News, Inc., 1978) ed. Arthur Browne, p. 356.



SOCIALIST GAMES

DEAR to the hearts of socialists is the phrase "social justice." It strengthens belief in their cause and gives them a stick to beat their opponents with. Like many high-sounding phrases, however, it is never defined.

Social embraces society, its organization, and all the people who live in it. Justice is a rendering of what is due or merited, as in "Render unto Caesar the things which are Caesar's."

Who is to decide what is due to all the people or what they merit? Will Tom decide what sort of house Dick ought to live in? Will Dick determine the reward that Harry should get from his labor? Will Dick and

Harry combine to order Tom's affairs? Experience tells us that any such attempts would be resisted. Good fences make good neighbors.

How is it, then, that otherwise sensible people, who are on excellent terms with their neighbors, will raise no objection to a comparable interference in their lives by politicians and civil servants they have never met, in short, by the state?

They have been led to believe not only that the state is wise and just but also that it has wealth of its own. They are encouraged to forget that it consists of politicians and civil servants who are people much like themselves and every bit as prone to error.

Social justice means what the socialists want it to mean and that, usually, is "fair shares," not equality

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of opportunity but equality of result.

Tom, Dick and Harry live by a free exchange of the goods they make or the services they provide. In the process they create the wealth of the society they live in. The money they save (financial capital) is converted into the productive capital (land, tools, machines, factories) that keeps the wealth growing.

The state's job is to set the rules of exchange and to see that they are obeyed. But when the state, which produces nothing, uses its arbitrary power to change the results, exchange is neither as free nor as productive as otherwise. The society's wealth ceases to grow because more and more of its people are assured of rewards whether they produce or not.

Suppose that the same principle were applied to games. The supporters of an unsuccessful team would demand social justice for their side and that the results be adjusted to

equalize wins and losses. Without competition there would be no point in playing. Yet we have come to admit the same principle to the much more important game of life.

Baseball and other games are played to rules that everyone understands. Umpires and referees are employed to enforce them. In the game of life, too, there are rules that everyone used to understand. Heading the list is: "In the sweat of thy face shalt thou eat bread."

Now the politicians and civil servants who are supposed to enforce the rules have changed them. In the name of social justice they take what some have earned and give it to others. When it is no longer politic to increase the take they print money instead. The recipients are persuaded they need sweat no more.

But the game of life is like any other game. The challenge and the joy are in the playing. By trying to fix the outcome the state spoils the game for everyone. ☉

Ralph Waldo Emerson

IDEAS ON



LIBERTY

THERE is a time in every man's education when he arrives at the conviction that envy is ignorance; that imitation is suicide; that he must take himself for better for worse as his portion; that though the wide universe is full of good, no kernel of nourishing corn can come to him but through his toil bestowed on that plot of ground which is given to him to till. The power which resides in him is new in nature, and none but he knows what that is which he can do, nor does he know until he has tried.

Unbinding Prometheus:

Productivity through Morality

How can we unfetter productivity? How can we unleash the inborn incentives dwelling in each and every one of us? How can we release the job-creating, prosperity-inducing genie of savings, of business investment, of capital formation?

How can we, in other words, unhamper our much hampered system of capitalism? I think the answer is, in a sense, as simple as saying, *laissez faire-laissez passer*, as Adam Smith and the French Physiocrats said more than 200 years ago. (Or saying, in five "D's"—deregulate, decontrol, despend, detax and disinflate.) We know, in other words, what

has to be done. After all, our problem is not really economic; it is political, and beyond that it is moral.

Even so, I think we who believe in a free society are perhaps at a loss (I know I am) as to just how to tell all concerned—and, really, everybody is concerned—how to unravel the endless, counterproductive snarls of our mixed or, rather, mixed-up economy or, better yet, mixed-up man.

Somehow, then, we must unbind this bound Prometheus that is America—

... this so-called Superpower humbled by Iran, bullied by the Soviet Union, hoodwinked by the Third World, and stretched over a barrel of oil by OPEC,

... this nation with about the lowest personal saving, business in-

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vestment and employee productivity rates in the last decade of any nation in the Western industrial world,

... this pitiful seemingly helpless giant economy just wracked by unprecedented double-digit inflation and extremely high interest rates* and now plunged into its seventh recession since the end of World War II,

... this increasingly "underground" economy, many of whose citizens commit criminal tax evasion in unreported transactions equivalent to more than 10 percent of the GNP or currently more than a quarter-trillion dollars, according to an estimate by economist Peter M. Gutmann of City University of New York,

... this increasingly confiscatory economy whose central government soak-the-rich progressive income tax rates stretch from 14 to 70 percent and whose taxpayers year by year pay soak-everybody higher and higher de facto if unlegislated rates as inflation surges ahead,

... this socially disturbed society whose once sacred institutions of home and family are being battered by rising divorce and desertion rates and whose literature mirrors a troubled society,

... this increasingly criminalistic society whose serious crime rate against both persons and property has about tripled since 1960,

... this huge amorphous Welfare State doling out an ever larger share of its precious national income in the form of politically-entangled incentive-destroying transfer payments, payments for which the Federal Government receives no goods or services in return, payments in an amount, by the way, of some \$350 billion at an annual rate currently, or about 60 cents out of the Federal expenditure dollar, up from 35 cents in 1960, today at 16 percent of the national income, up from 7 percent in 1960.

So the question is—can this once mighty industrial colossus possibly rediscover the lost genius of its own creation?

Indeed, I think the question boils down to—can America save itself?

Or maybe the larger question is—if America represents the quintessence of Western Civilization, if it represents the only military might that could conceivably dissuade the Soviets from their dream of world conquest, now advanced by the subjugation of Afghanistan, if it represents the only island of freedom and free enterprise, however emaciated, to which an increasingly Marxian world can hopefully repair—then the larger question is: can man save himself?

*The Consumer Price Index was up 18% at an annual rate in the early months of 1980, a time when the prime interest rate at major banks hit 20%.

Productivity, you see, represents survival. It cuts to the very soul and eons-long heritage of man who, not that long ago, emerged from a cave, and began to cultivate crops and domesticate animals. Man the thinker, the human actionist, you see, is the answer to productivity—or its lack. And that answer, again, is ultimately not economic but moral. In my judgment, our age is marked by a profound moral crisis, a crisis involving a free-lunch philosophy of something-for-nothing and a rising misuse of the state to that end, hence a crisis involving the sanctity of property and the dignity and freedom of the individual. And on questions of morals, I believe we must look to the nature of man, to his goals, values and traditions, to his fears, confusions and misapprehensions. As Alfred Marshall said at the outset of his classic *Principles of Economics* some 90 years ago: "Economics is concerned, on the one side, with the study of wealth, and on the other and *more important* side, with the study of man." (My italics.)

Inordinate Action

In this discussion let me reintroduce man in his ancient and modern moral dilemma of using the state not for preservation of life, liberty and property à la John Locke but, advertently or inadvertently, for usurpation of life, liberty and property via the basically immoral pro-

cess of redistribution of wealth. Let me first provide some background for my point of reference.

Again, our problem is how to unbind Prometheus or, if you wish, unfetter productivity. Recall the story from Greek mythology of Prometheus, the Titan who stole fire from Olympus and presented it to man. The act was inordinate and it infuriated the great god Zeus who punished Prometheus by chaining him to a rock. There each day an eagle tore at Prometheus' liver until he was finally rescued by Hercules.

To me the message of Prometheus—read the Western democracies—is the temptation of inordinacy. Inordinacy—the word and the idea are to be found in *The Reigning Error*, the classic 1974 work on inflation by William Rees-Mogg, editor of the *London Times*—means man's temptation to reach beyond his grasp, to seek to go beyond the rules and limits of nature and ethics, i.e., to knowingly commit wrong at the expense of right. Such inordinacy is not only fraught with frustration, it is fraught with the greatest danger to the Western world, a danger mirrored today in the high price of gold.

To get back to right and wrong: The key wrong, in my judgment, is the apparently inborn human penchant for lapsing into defiance of principle, into avoidance of restraint, into derision of tradition,

into a philosophy of statism, into the undermining of property, into a disdain of work, into, in a word, inordinacy. Today that penchant is seen in surging crime. It is seen in swelling government budgets. It is seen in mounting waste, bureaucracy, corruption. It is seen in galloping inflation. As Rees-Mogg has noted: "Inflation is an inordinacy of money. It is money without order."

So inordinacy is a form of human folly, an abandonment of reserve, a loss of self-control, even a crime of sorts, a crime against the inherent limits of man, of nature, of law, a folly of robbing Peter to pay Paul. It is manifest in the Old Testament, which, broadly, is a message against inordinacy, a rebuke from the Lord Jehovah to the children of Israel.

Biblical Call for Discipline

The Israelites are told the story of Adam and Eve who had partaken of the Forbidden Fruit, were banished from Paradise and condemned to eternal scarcity ("By the sweat of thy face shalt thou eat bread"). They are told the story of how Cain slew his brother Abel and became a fugitive from justice, the story of the Great Flood that covered the earth and wiped out every living thing save the family of Noah and the creatures in his ark, and the story of Noah's descendents who sought to build a tower reaching up to Heaven, and how their inordinacy of this

Tower of Babel suddenly made their words incomprehensible to many.

These and other Biblical stories add up to a call for discipline over self. For order. Control. Restraint. The Law of Moses proclaims dietary restrictions, including prohibition of the partaking of swine and camels. The Ten Commandments spell out limits, boundaries, restraints, moral scruples, "Thou shalt not do this . . . thou shalt not do that."

So it is in Greek mythology. Greek tragedy is concerned with the inexorable retribution of hubris, the inordinacy of extreme human pride, of daring to reach beyond the limits of man and nature.

So it was, then, that Icarus flew so close to the sun that his wings melted and he plunged to his death, that Phaethon borrowed the chariot of the sun only to be struck down by a thunderbolt from Zeus to prevent the world from catching fire, that Zeus punished the aforementioned Prometheus for stealing fire from Olympus and giving it to man.

All these myths are in the nature of admonitions, of warnings, of cautions that life is perishable, that man is fallible, that judgment is difficult, that power is corrupting, that human nature has a dark side, that the immoralist wreaks retribution sooner or later, that rob-the-rich-give-to-the-poor Robin Hood can relieve the rich merchants traversing Sherwood Forest once or twice but

soon the merchants wise up, travel a different route, and the poor are worse off than ever, that life, you see, is inevitably bound by checks and balances, by built-in feedbacks and controls. As Emerson noted in his essay on *Compensation*: "Dualism underlies the condition of man. Every sweet has its sour; every evil its good. For everything you have missed, you have gained something else; and for everything you gain, you lose something. All things are moral."

Social Limits and Controls

In the social world, all things are indeed moral. Thus morals, ethics, values, traditions are social controls, evolved through the hard knocks of man's experience; and all systems of control have in common one simple principle: they set limits; they establish boundaries; they require norms; they condition behavior. And morals, I submit, bear heavily on the problem of unfettering our much fettered productivity.

Some limits are conventional, as in the provisions of the U. S. Constitution, or in measurements of football fields and tennis courts, the provision of so many points for a touchdown, of so many games in a set.

Some limits are physical, as in the application of physics to the engineering of a given internal combustion engine, for example, so that

gasoline explosions can be converted into sustained energy that propels your car. Limits are strict. Thin the walls of the engine enough and the engine will blow up.

Says Rees-Mogg on this point: "Sanity consists in limitation; the inordinate is always insane and always ends in destruction." Or as Samuel Johnson observed in 1751 (thereby supplying the title to the Rees-Mogg book): "The reigning error of mankind is, that we are not content with the conditions on which the goods of life are granted."

On the other hand, while just laws, political and moral, set bounds to human conduct, they nonetheless allow that conduct to be free within those bounds. Man is free where he is not legally or morally prohibited; but it is up to him how he pursues that freedom, how he, to paraphrase the Declaration of Independence, pursues that happiness.

For in truth, freedom and order are two sides of the same coin. Freedom is a function of law, civil and moral. Without this rule of law, where anything goes, where nothing is sacred, where nothing is prohibited, where property and contract are unprotected, where personal responsibility counts for little, then human cooperation breaks down, and with it civilization, quite apart from productivity. Beginnings or extensions of such breakdown trends are evident in our

times, especially in the progressive removal of limits in our once-limited system of government. The irony of this condition is that the greatest threat to freedom today is law—inordinate law, extortionate law, regulatory law, tax law, monetary law, situational ethics, warped civil and moral law transformed into a Frankensteinian monster of a Welfare State.

For, it is still argued, as it has been for millennia, that if we could only release ourselves from Moloch capitalism, from the vices of greed, avarice and selfishness, and if we would just put our trust in princes, into a benevolent state, we would be gloriously able to distribute income on the basis of justice, righteousness and fairness. Then altruism would replace naked self-interest, then all would be good and lovely in the world. Such is the message derived from a host of writers including Plato, Sir Thomas More and Karl Marx.

Theory of Public Choice

Strange, all such Brave New Worlds of which we have a historical record, all such attempts to strike down profit-seeking and elevate selflessness and the "common good," have met frustration if not disaster. Yet the siren-song of statism goes on: Private choices are obviously selfish; public choices are clearly altruistic. Or so we are told.

Indeed, a fairly new development to undo such mythology in the history of economic thought came in 1962 when James M. Buchanan and Gordon Tullock wrote their *Calculus of Consent* and expounded their "theory of public choice." All too often political scientists and professional economists have held, say Buchanan and Tullock, that "the representative individual seeks not to maximize his own utility, but to find the 'public interest' or 'common good.' Moreover, a significant factor in the popular support for socialism throughout the centuries has been the underlying faith that the shift of an activity from the realm of private to that of social choice involves the replacement of the motive of private gain by that of social good. . . ."

In other words, Buchanan and Tullock believe that people do not change their self-centered thinking when they shift from the marketplace to the polling booth. In both places people aim at their own advantage and interest. The rational pursuit of self-interest not only holds for individual voters but for politicians, bureaucrats and other government officials as well, whatever platitudes about the "common good" they may voice.

Thus the art of government, especially in this sanctimonious age of democracy unlimited, springs from a moral void and increasingly follows the dictum of Voltaire: to take

from some to give to others, to engage in the trade of conferring of privileges and immunities, to fashion government into a game or racket, of quid pro quo, of protectionism, of a benefit for a vote. So vote yourself better housing, cheaper food, free medical care; and, whether citizen or legislator, vote all this in the holy name of the public interest. Or as the Romans observed in the context of "bread and circuses," *Beneficium invito non datur* (a benefit cannot be conferred on an unwilling person). Thus does statism progressively overwhelm capital creation and smother productivity.

Elusive "Social Justice"

Let us suppose, however, altruism somehow does replace self-interest as at least the nominal economic *modus operandi*. Let us further suppose a public-spirited government planning board is thus charged with altruism as its guiding light to fix wages and prices and allocate production. Social justice. That would be the only criterion.

Ah, but economists from Adam Smith to Ludwig Mises have pointed out the inherent inability of *just* wages and *just* prices to clear markets. Human nature and marketplace dynamics simply do not allow such clearance. Utopia is not of this earth. Planning—that sweet-sounding euphemism for socialism—is therefore vain, even though many

continue to equate planning with Christian charity and brotherly love.

As Hayek wrote in his *Road to Serfdom*, the alternative is not plan or no plan. The question is, whose plan? Should each individual plan for himself, or should a benevolent Big Brother plan for him? Mises said the issue is not automatism versus conscious action; it is freedom versus government omnipotence. Said Mises: "Laissez faire does not mean: Let soulless mechanical forces operate. It means: Let each individual choose how he wants to cooperate in the social division of labor; let the consumers determine what the entrepreneurs should produce. Planning means: let the government alone choose and enforce its ruling by the apparatus of coercion and compulsion."

Unlimited Democracy

The devil of this truth lies in the *Zeitgeist* of the 20th century—a spirit of unlimited democracy, of democratic interventionism or, if you wish, interventionistic democracy. Democratic planning does not lessen the force of what Mises calls "the apparatus of coercion and compulsion," but the problem is people think, inordinately, it does. *Vox pop, vox Dei*. And so a few years ago, in a tribute to that perennial gladiator, Senator Hubert Horatio Humphrey, we passed, however emasculated, the Humphrey-Hawkins Full Employ-

ment and Balanced Growth Act, which calls upon the President to set 5-year goals for the U.S. economy. Planning of a foot-in-the-door sort, apart from extensive interventionism, is now an official doctrine of the land.

Witness, then, inordinate democracy at work. Observe how organized minorities work their demands on cowed (or, should I say, cowardly) politicians. Observe powerful organized minorities representing farmers, veterans, blacks, educators, women, elderly (euphemistically called "senior citizens"), unions, businessmen (usually subdivided into industries), bankers, doctors, lawyers, Indians, Mexican-Americans, Italian-Americans, Irish-Americans and scores, if not hundreds, of other hyphenated and unhyphenated interest groups, exercising their public choice, ever anxious to wangle some contract, grant, tariff, subsidy, minimum wage, privilege, immunity, exception, welfare benefit or what have you from Congress and various legislatures and bureaucracies. Such wangling, such dark-sided human nature, serves to deter capital formation and individual incentive—i.e., to fetter productivity.

To be sure, all these organized minorities add up to majority rule. Naturally enough, the politician curries favor with these voting groups, frequently and ironically by

giving them grants out of their very own tax money. The extent of this mutual milking process in America is seen in figures prepared by economist William A. Niskanen, Jr. of Ford Motor Company in 1976 based upon 1975 figures.

He found that there are more Americans being supported by tax dollars than there are workers in the private sector who support them. He toted up civil servants at all levels of government, members of the armed forces, the unemployed and disabled, public pensioners and those on welfare. He sought to eliminate double-counting—i.e., those on more than one welfare program. (However, he did not allow for nominally private sector employees of government contractors such as defense suppliers.) He then found that these tax dependents, including family members, outnumbered working nongovernment taxpayers by a healthy—or, rather, unhealthy—margin, of about 81.3 million tax dependents against 70.2 million private sector taxpayers. The numbers and the margin are of course greater today, five years later.

Spend, Tax, and Elect

Can there be any doubt that these tax dependents, through their elected representatives, will continue, most inordinately, to vote themselves goodies from the U.S. Treasury? Is this not the theory of

public choice in action? Is this not but a logical consequence of public choice, of "voter rationality," of might makes right, of incipient moral bankruptcy? The situation brings to mind the remark attributed to Harry Hopkins, the intimate of Franklin D. Roosevelt: "We shall spend and spend, tax and tax, elect and elect."

As a wealth redistribution scheme, I think we can agree that the process is none too efficient. It breeds bureaucracy. It breeds red tape. It breeds social friction. It breeds the crassest politics. It breeds immorality. Moreover, as noted, it significantly destroys human incentive and capital formation—the very foundation of our productivity and well-being. And yet for all of us who think we're getting too much government, let us be thankful we are not getting all the government we are paying for.

We are paying, however, for a good deal—almost a three-fold increase in the share of personal income going for total government spending in the last half century in the U.S., from 10 percent in 1928 to 39 percent in the first quarter of 1980.

Currently, as we noted, federal government transfer payments—mainly to individuals but including grants-in-aid to state and local governments, and net subsidies to farmers and others—are running around an annual rate of \$350 bil-

lion out of total current federal government expenditures of around \$580 billion, or about 60 cents out of each expenditure dollar. They are greater than current defense spending of about \$130 billion at an annual rate or, for that matter, total current business spending on new plant and equipment at an annual rate of about \$190 billion. Indeed, current transfer payments come to more than defense and business investment spending combined.

Moreover, the easy assumption that transfer payments are zero-sum games, in contrast to voluntary exchanges which are positive-sum games, is not so. In truth, transfer payments are *negative*-sum games—for four reasons. First, government overhead to effectuate the transfers—overhead with the usual Parkinsonian tendencies. Second, the resources expended by lobbying groups seeking or defending the transfers. Third, the negative incentive effects on working and saving. And, fourth and most important, the destruction of vast *potential* capital formation.

Transfer Payments

This outlay of \$350 billion in transfer payments, I need hardly remind you, is especially inordinate and politicized. Most politicians regard the outlay as sacrosanct. To seriously reduce or eliminate the outlay would be tantamount to political

suicide. So these transfer payments are fraught with dubious morals, with a something-for-nothing syndrome, if not with quite a degree of outright corruption. For instance, Joseph Califano, when he was Secretary of Health, Education and Welfare, conceded in 1978 that some \$6 billion in welfare funds could not be accounted for. How much of that sum slipped into the wrong pockets on both the giving and receiving ends of government largess?

Immorality? Corruption? Sagging productivity? Logically, then, these seem to be the implications of what has been called our Redistributive State. It was Machiavelli, let me remind you, who said politics and morals don't mix. It was Tocqueville, I believe, who first coined the phrase "democratic despotism" to describe the tyranny of the majority. It was Emerson who said democracy becomes a government of bullies. It was Henry Adams who said politics boils down to the organization of hatreds. (Witness the official assault on the oil companies in America.) It was Disraeli who said there is no honor in politics. (And not long afterwards he had the occasion to upbraid a fellow Tory on the floor of Parliament: "Damn your principles! Stick to your party!")

I cite these authorities in an effort to buttress the moral answer to our plight of sagging productivity.

For in our economic education ef-

forts, should we not only utilize fact and theory but moral principles as well? Even Franklin D. Roosevelt felt compelled to bemoan welfare when he declared in his State of the Union Message of 1935: "The lessons of history . . . show conclusively . . . that continued dependence upon relief induces a spiritual disintegration fundamentally destructive to the national fibre. To dole out relief is to administer a narcotic, a subtle destroyer of the human spirit. . . . The federal government must and shall quit this business of relief." But quit it never did. Relief has now blossomed into that spectacular failure, the ubiquitous Welfare State. Listen to George Gilder writing on "The Coming Welfare Crisis" in *Policy Review* 45 years after F.D.R.: "Welfare now erodes work and family and this keeps poor people poor." Or to Marvin Stone, editor of *U.S. News and World Report*: "Welfarism, once planted, sinks deep roots that are difficult, if not impossible, to dig out."

Is Government Necessary?

Well, is government necessary? Most affirmatively, yes. Without it, who would serve to preclude fraud and force? Who would protect private property and the sanctity of contract? Thomas Paine described government as a necessary evil but it was Ludwig Mises who reminded us: "Government as such is not only

not an evil but a necessary and most beneficial institution, without which no lasting cooperation and no civilization could be developed and preserved."

Is there a way out? Can we save ourselves from ourselves? Maybe. Maybe not. I believe in democratic if limited—repeat, limited—government. I believe in education. I believe education is, indeed, our only salvation. I believe we as economic educators should reassert the moral basis of freedom and free enterprise. The moral basis of government was well stated by Locke who, citing the corruptibility of power long before Lord Acton, gave the case for *limited* government. He declared that the only reason for government was for the protection of life, liberty and property. Let us, then, reaffirm that nothing is for nothing, that something is only for something, that the essential purpose of government is to provide law and order, to preclude fraud and force.

Let us say further that the market is far more democratic than anything that can be found in the polit-

ical realm. Let us say that the consumer is a lot more sovereign in the marketplace than he is in the polling booth, that economically he votes every day, usually several times a day, that virtually every producer-candidate he votes for is running scared and delivering on his campaign promises on an "or else" basis.

Let us also say, in the vein of Adam Smith, that the market system is a system of social cooperation and, moreover, the Golden Rule in action. As you know, the Golden Rule says, "Do unto others as you would have others do unto you." What does the market say? It says, in the words of Adam Smith in his *Wealth of Nations*: "Give me that which I want and you shall have this which you want." The market, in other words, says, let me help you so you can help me.

In sum, unfettering productivity is a matter of unfettering freedom and free enterprise—i.e., reining in our inordinacy, regaining our moral roots and limiting once again our now unlimited government. ☉

Lewis Stearns

IDEAS ON

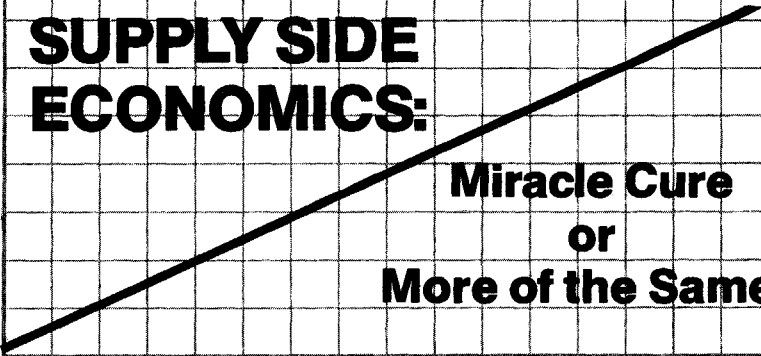


LIBERTY

TO BE USEFUL, government must be carefully contained and limited. How it is permitted to get out of control—whether by military coup, revolution, or by the incontinent political action of a democratic majority—is unimportant; for once unconfined, government always takes the same form: the rampant destroyer of the only fuel upon which it thrives—liberty!

Robert G. Anderson

SUPPLY SIDE ECONOMICS:



Miracle Cure or More of the Same?

AFTER two generations of government manipulation of business structured on the dogma of demand economics, it appears that the death knell is finally sounding for the Keynesian Revolution. The claim that "we are all Keynesians now," made just a decade ago, has become an embarrassment to the government economists. In its place today is heard the rhetoric of reindustrialization and supply side economics.

Whether such changes bode good or ill is far from certain. Like all labeling of economic ideas, supply side economics and reindustrialization mean different things to different people. To government economists the terms have become just another game in semantics, as old statist programs continue to be advanced

under this new rhetoric. To proponents of the free market, however, the labels of supply side economics and reindustrialization mean policies that would reduce the burden of government. Now more than ever, therefore, the proposals behind these new banners must be closely scrutinized.

Few economists any longer challenge the charge that past Keynesian policies have taken an awesome toll on the prosperity and freedom of the American people. Government intervention, in pursuit of the Keynesian Remedy, has generated immense deficit expenditures and a massive increase in the money supply in an attempt to absorb those deficits. The Keynesian doctrines have created the omnipotent state.

A mere repudiation of Keynesian economic policies is no longer enough

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today. What is also required is the dismantling of the omnipresent state that these policies helped to create. But the frightening question is whether this historical problem of our age, a growth in the magnitude of government, has yet been recognized.

Will the new rhetoric of supply side economics and reindustrialization, as viewed by free market economists, lead to less government and away from disaster? Or, failing to recognize the basic problem of over-extended government, will supply side economics merely mean a change in the direction and structure of government intervention by the statist planners now in charge? This is the great issue that looms ahead.

What proponents of the free market know is that there is only good economics and bad economics. The danger of segmenting economics into categories such as supply side, demand side, labor, urban, welfare and the like is that it can, and often has, led to special interest politics that do harm to the general welfare of society.

Production for Use

That profound observation by Adam Smith that, "the sole end of productive activity is consumption," needs to be constantly recalled. The market process has demonstrated its superiority in bringing forth more

of the world's goods whenever it has been free to do so. Freely acting traders are motivated to produce more because they can then consume more, recognizing that a greater supply provides them with greater demand. For both the individual and nation, supply creates its own demand since in the aggregate they are one and the same.

When government meddles with production or consumption it frustrates the ultimate purpose of all economic activity—the efficient satisfaction of human wants. Too often the end sought by government programs becomes production itself or the creation of jobs. The result is nothing more than modern "pyramid building" or formulation of meaningless employment. The wasteful consumption of productive resources in such endeavors therefore denies these resources to the satisfaction of human wants.

Especially alarming in this respect are many of the proposals being offered by political economists. Calls for all manner of new government subsidies and government directed enterprises are being heard. Vast new government spending projects are urged as the panacea for the decline in productive activity.

Stubbornly retaining their bias for government manipulation of the economy, many of these economists are promoting policies of interven-

tionism under the new banner of supply side economics. Under their direction, the potential of supply side economics becoming nothing more than an additional rationalization for expanding government is a very real threat. Such action would miss entirely the real issue of over-extended government.

This dangerous idea of turning to government to do something still has a powerful appeal among many economists. Proponents of this brand of supply side economics and reindustrialization seem convinced that all that is required is a simple change of places at the "public trough."

The tragedy, of course, is that further manipulation of the economy pyramided on top of the present structure of government means certain disaster. A shift in the direction or nature of government intervention in no way addresses the basic problem, but can only worsen it by making government an even greater force in society. What is required instead is an abandonment of the massive governmental structure that is plundering and depriving the citizen of his productive efforts.

Regulated Decline

It would seem that after two generations of government manipulation of economic affairs, the lesson of an expanding government stifling individual freedom would be well

learned. The Keynesian interventionist policies of the past have inflicted the very worst of consequences upon this nation. The Keynesian Remedy has transformed this nation from a society of free and prosperous people into a regulated society suffering from economic decline.

And the primary legacy of this failure of Keynesian economics has been the growth of the omnipotent state. After many years of government policies rewarding leisure and consumption, assaulting productive capital and taxing work effort, the magnitude of government has finally reached oppressive proportions. The result is a declining standard of living for Americans and a mood of pessimism regarding their future.

A different program of supply side economics, led by free market proponents, could be the path to freedom. Policies under the banner of "supply side economics" that reduce taxation on productive capital and work effort, that eliminate interferences and regulations among individual traders, that curtail political harassment in the marketplace, and abolish the vast transfer of wealth through the political process would drastically shrink the magnitude of government.

If "supply side economics" is perceived as this kind of alternative intellectual force, then the advance-

ment of individual initiative as a replacement for government dominance in economic affairs and the prospects for a dynamic reindustrialization and future prosperity are great. Rather than adding just another layer of statist tinkering on the economy for different reasons, the potential for reducing government's role in society through supply side economic policies holds much promise.

What must be recognized and fully understood about the present state of affairs is that America's problems have reached crisis proportions because of the magnitude of government itself. It is not only *what* government has done but also *how much* government has done that lies at the source of this nation's ills.

A program of "supply side economics" that leads to a reduction in the size of government and a return to economic freedom is the great hope and promise for a prosperous future. Supply side economics channeled in such a direction can be the path back to freedom. If supply-side ideas that lead to a reduction in government are chosen, then we will have found our miracle cure. Otherwise, only a change in the direction of socialism in America will be the result.

It is too early to know which kind of "supply side economics" will prevail, but the hope of the future rests on choosing the right path. For it will ultimately determine whether we will be free individuals or servants to an omnipotent state. ☉

"Planning" vs. the Free Market

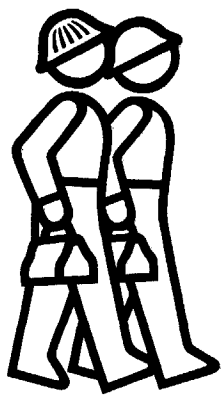
IDEAS ON



LIBERTY

THE WAY to get a maximum rate of "economic growth"—assuming this to be our aim—is to give maximum encouragement to production, employment, saving, and investment. And the way to do this is to maintain a free market and a sound currency. It is to encourage profits, which must in turn encourage both investment and employment. It is to refrain from oppressive taxation that siphons away the funds that would otherwise be available for investment. It is to allow free wage rates that permit and encourage full employment. It is to allow free interest rates, which would tend to maximize saving and investment.

HENRY HAZLITT



Government Empowers Unions

DURING the years 1932-1935 Congress passed acts which had the effect of empowering labor unions. The tendency of these acts was not only to authorize labor unions to organize and engage in collective bargaining but also to enable them in considerable measure to prevail. Thereafter, union powers were further augmented by court decisions and by rulings of the National Labor Relations Board. Many welfare programs, too, contribute to the empowerment of unions by providing aid to those unable to find employment because of government and union policies and practices.

It is generally understood that from 1932 onward the United States government set on a course of *en-*

couraging unionization. It is not so generally understood that it was done by *empowering* unions. Much of the burden of this article, then, will be to submit the evidence that government empowered unions by restraining itself in applying laws of general applicability to unions, used its powers in support of unions, and permitted unions to use coercion in pursuit of their own ends. That, in large, is how they were empowered.

But there is more involved here than proving that unions have been empowered. It entails a fundamental departure from the principles of good government. And when that has been grasped it is much easier to see the empowerment. Before reviewing the evidence for empowerment, then, we will examine the departure from principle that is entailed.

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The principle violated by the empowerment of labor unions lies in the bowels of the law. The principle is that government must have a monopoly of the use of force within its jurisdiction. The justification for the monopoly is to provide a common justice for all within its jurisdiction. Indeed, the provision of justice is the very justification of government.

Remedy at Law

There is another legal principle which is essential to buttressing government's claim. It is usually stated in this way: For every injury there is a remedy at law. That does not mean, of course, that every person who believes himself to have been injured will be satisfied with the remedy. Nor does it mean that every possible injury has been covered by legislative enactment or legal precedent. Rather, it means that an adequate legal system provides means for redressing grievances where actual injury can be shown. Otherwise, it would have to be admitted that it would be necessary to act outside the law to obtain justice. Such an admission is tantamount to abdication by government. Courts of equity provide a forum of adjudication in the United States for injuries not covered by positive law.

There is no place for coercive labor unions within our system of law. To empower them is to return labor re-

lations to a state of nature, i.e., to a condition which would exist if there were no government. The meaning of the return to a state of nature can be clarified by reference to natural law theory, the theory which undergirds our own system of law. In a state of nature, it has been maintained, it would be both necessary and right for the individual to defend himself. That is, he could rightfully use force to right the wrongs against him and to redress his grievances. Obviously, in such circumstances every man becomes a law unto himself. The necessity for government is patent, at least to most of us. And, under government, the individual gives up the right to defend himself and redress his grievances by force except under exceptional and dire circumstances. In return for the surrender of this right, government undertakes to provide justice and to defend the individual in the exercise of his rights.

The use of *force* is what makes the difference. Anyone who is injured has a primary interest, of course, in seeing to it that matters are made right. He may go in person to anyone who he believes has wronged him and make request for settlement. Or, he may appoint others to represent him in seeking amends. The person who is accused with wrongdoing may treat with him or not, as it pleases him, and may enter into discussions with those ap-

pointed to represent him, if, as, and when he will. But the aggrieved party may not force himself upon those who have supposedly injured him, nor may he resort to coercion to attain retribution. At the point where force is to be used, government must do it. Otherwise, there is a return to a state of nature—and might, not right, will rule. What is true for individuals is equally true for all associations and organizations which are private in character.

These are fundamental precepts of our law. There are formidable difficulties in the way of unions fitting within them. One such difficulty is on the question of injury. What unions have sought to achieve mainly—higher wages, shorter hours, and better working conditions—are matters about which, if there were legal remedies, unions would be largely superfluous. In short, if the injuries were demonstrable, and there were legal remedies, as in theory there must be, the only function of a union would be as a legal aid society. In fact, the remedies which unions seek are not actionable, and unions do not wish them to be.

Redress of Grievances by Direct Action

The other great difficulty for unions is that they seek to redress their own grievances by direct action. More pointedly, they use coer-

cion in seeking to attain their ends. Labor unions have had a violent history. They have used intimidation frequently in getting members. They have used force to keep people from work when they were on strike. They seek to punish employers who do not yield to their demands by cutting off their labor supply. Moreover, they have used the boycott on many occasions to deny market access to non-union produced goods. They mass numbers, concert their action, and use collective action to compel negotiation and acceptance of their demands by unwilling employers.

The empowerment of unions, then, is, in effect, the granting of the power by government to unions to redress their own grievances. It sanctions the private use of coercion to attain "justice." It returns the union side of labor relations to a state of nature.

The United States government did not go about empowering unions directly. It could have been done, theoretically at least, by granting them jurisdiction and conferring governmental powers upon them. For example, they could have been incorporated, as cities are by states, and granted the status of governments in labor disputes. Except, labor union leaders would not have wanted that, and the legality of it would have been subject to all sorts of challenges. Instead, the empowerment was achieved indirectly, by circum-

vention, and had the form, if not the substance, of law.

There had been some tentative steps toward giving unions special status before 1932. One of the first was the setting up of a bureau in government to deal with labor matters. In 1884, Congress created a Bureau of Labor and assigned it to the Department of Interior. It was exclusively an information gathering agency.¹ It went through several status changes until 1913 when its head attained cabinet rank in a separate Department of Labor. The stated purpose of the department was to "foster, promote, and develop the welfare of the wage earners of the United States, to improve their working conditions, and to advance their opportunities for profitable employment. . . ."² From the outset, however, it was more unionist in orientation than its purpose suggests. As a scholar of labor policy has said, "It is essentially a department *for* labor, organized to promote its interests primarily as envisaged by organized labor."³ The Secretary of Labor has usually been a union leader or a pro-union man (or woman).

The War Labor Board

Another step was taken when a War Labor Board was set up during World War I. It was unionist in tendency, as indicated by its position "that the right of workers to orga-

nize and bargain collectively was not to be denied or interfered with."⁴ Union membership nearly doubled between 1915-1920. Here is a description of the role of government in that:

If we examine the figures of growth from 1917 to 1919, we shall find that the war policy of the government was by far the greatest factor, for it was the government that opened the doors to unionism in industries heretofore closed. . . .⁵

Although the government promotion of unionism generally was ended shortly after the war, it was continued in one area. A Railroad Labor Board was authorized by the Transportation Act of 1920. More, collective bargaining was encouraged by the Railway Labor Act of 1926. Both management and labor were to act by representatives chosen "without interference, influence, or coercion" by the other party.⁶

However, as already noted, it was in 1932 that the United States government began its move to empower labor unions generally. The Norris-LaGuardia Anti-Injunction Act was the opening wedge. For several decades, the injunction had been increasingly used by the courts to curb union coercion. The courts had also restrained unions from attempting to induce employees to break contracts with employers in which they agreed not to join a union (called "yellow dog contracts" by unionists).

Section 2 of the act declared that for the worker:

it is necessary that he have full freedom of association, self-organization, and designation of representatives of his own choosing, to negotiate the terms and conditions of his employment, and that he shall be free from the interference, restraint, or coercion of employers of labor, or their agents, in the designation of such representatives or in self-organization or in other concerted activities for the purpose of collective bargaining or other mutual aid or protection....⁷

(The phrase, "right of self-organization," crops up frequently in the labor laws passed during these years. It is a unionist euphemism for the right to join a union other than a shop or company union. It tacitly placed the government on the side of "independent" unions.)

The main body of the Norris-LaGuardia Act placed formidable obstacles in the way of court action to restrain union conduct. Section 6 provides that neither unions nor their officers are to be held responsible for acts done by individual members of a union unless it can be shown that they participated in or authorized the acts. Section 7 describes the conditions under which courts may offer injunctive relief. In order for an injunction to be granted, the court must find that "unlawful acts have been threatened and will be committed unless restrained,"

though how a court may know that an act will be committed is difficult to discern. In addition to the above requirement, the court must find:

(b) That substantial and irreparable injury to complainant's property will follow;

(c) That as to each item of relief granted greater injury will be inflicted upon complainant by the denial of relief than will be inflicted upon defendants by the granting of relief;

(d) That complainant has no adequate remedy at law; and

(e) That the public officers charged with the duty to protect complainant's property are unable or unwilling to furnish adequate protection....⁸

The act is the fulfillment of a union lawyer's dream. It affords opportunity for almost every delaying tactic imaginable. Provision for temporary injunctions was made, but even these were now limited by special restrictions in labor cases. They could only be issued after hearings had been held and could only remain in effect for an unusually short time. It should be noted, too, that while the act only prescribed rules for Federal courts, the Supreme Court has since ruled that the Federal government has preempted the field of labor relations.⁹ Thus, state courts are usually powerless in affording relief.

While the Norris-LaGuardia Act did not place labor unions and their members beyond the law, it did es-

tablish a legal twilight zone for them. The common law rules for injunctive relief remained in effect in other cases, but in labor disputes they were drastically modified. While the law does not state that there are now to be injuries for which there is no remedy, it places the main remedy almost beyond reach.

The next step in the empowerment of unions came with the passage of the National Industrial Recovery Act. This act was the center piece of New Deal measures which were supposed to bring about economic recovery. New Deal intellectuals who drew up most of the legislation that was hurriedly passed in 1933 believed in a collectivist solution to American problems. Thus, business and labor leaders in each major industry were to devise and agree upon industrial codes for their industry. The Agricultural Adjustment Act incorporated a similar idea for farmers. Section 7(a) of the NIRA dealt with labor unions:

Every code of fair competition, agreement, and license approved, prescribed or issued under this title shall contain the following conditions: (1) that employees shall have the right to organize and bargain collectively through representatives of their own choosing, and shall be free from the interference, restraint, or coercion of employers of labor, or their agents, in the designation of such representatives or in self-organization or in other concerted activities for the purpose of collective bargaining

or other mutual aid or protection; (2) that no employee and no one seeking employment shall be required as a condition of employment to join any company union or to refrain from joining, organizing, or assisting a labor organization of his own choosing; and (3) that employers shall comply with the maximum hours of labor, minimum rates of pay, and other conditions of employment, approved or prescribed by the President.¹⁰

With employers hamstrung, with other interests empowered to take collective action, labor leaders had an unprecedented opportunity to get members. The scales were now weighted against shop and company unions, and labor leaders hurled themselves with alacrity into the task of organizing and taking over organizations. They even claimed to be doing the will of the government.

A circular distributed in Kentucky, for example, stated that NIRA "recommends that coal miners . . . organize in a union of their own choosing." In many places, the organizers went further: "The President wants you to join the union." They wanted their listeners to believe that they meant the President of the United States; if pressed, they admitted that they referred to the president of the United Mine Workers.¹¹

Strikes Continued

The mining fields were not the only scene of vigorous organizing activity. The Amalgamated Clothing Workers went on a rampage of

strikes, raids, and unionizing of the unorganized.¹² A popular tactic during this period was to call a strike at a non-union factory, set up a picket line, and demand recognition of the union. (Never mind whether the local workers wanted a union or not.) For example, in Rochester, New York, "On July 27, 1933, the Amalgamated struck the Keller-Heumann-Thompson factories for recognition. The conflict was bitter, accompanied by mass picketing, police use of tear gas, an injunction, the company's sudden recognition of the United Garment Workers, and the intervention of General Johnson."¹³

A labor board was set up to deal with problems that arose under Section 7(a), but it was hardly a match for the chaotic situation it confronted. "For approximately the first year it was the policy to avoid legal prosecution of violations; and even after cases were referred to the Department of Justice, there was little effective enforcement...."¹⁴ In fact, the NRA was a fiasco. It was based on the optimistic collectivist assumption that given the opportunity men would abandon the pursuit of self-interest in favor of collective efforts for the common good. They did not, of course, and the contentions aroused tended toward chaos. In any case, the Supreme Court brought the whole program to a halt in 1935.

Even before this occurred, legis-

lation was being prepared for a more comprehensive empowerment of unions. Senator Robert Wagner was its chief architect, and the act bears his name. It is also known as the National Labor Relations Act, and it was passed in 1935. It removed what remained of employer restraint on labor union organization. It accomplished this by setting forth five unfair labor practices, all directed against employers. It declares that employers are not:

(1) To interfere with, restrain, or coerce employees in the exercise of rights guaranteed in section 7. [That is, the right to organize, bargain collectively, and engage in concerted activities.]

(2) To dominate or interfere with the formation or administration of any labor organization or contribute financial support to it....

(3) By discrimination in regard to hire or tenure of employment or any term or condition of employment to encourage or discourage membership in any labor organization. *Provided*, that nothing in this Act . . . shall preclude an employer from making an agreement with a labor organization . . . to require as a condition of employment membership therein....

(4) To refuse to bargain collectively with the representatives of his employees....¹⁵

There is no doubt that the Act was phrased in legalese. There are even some attempts to give it the kind of precision we expect in a law. For example, some of the terms are de-

fined. Here is one instance: "The term 'labor organization' means any organization of any kind, or any agency or employee representation committee or plan, in which employees participate and which exists for the purpose, in whole or in part, of dealing with employers concerning grievances, labor disputes, wages, rates of pay, hours of employment, or conditions of work."¹⁶ True, it is not much of a definition—a gang of bank robbers could probably qualify as a "labor organization" provided they had some disgruntled bank employees among their number—but it does have the look of being a definition and help to give the color of law to the whole.

But the National Labor Relations Act is more of an intent than a law. It is an intent to empower labor unions to attain their ends. The actual rule making (law making?) was vested in the National Labor Relations Board, established by the Act. Regular court proceedings were all but averted by having the hearings held and the facts established before the NLRB. The courts could then enforce the decisions of the NLRB or overturn them when they came before them on appeal.

NLRA Summarized

The justification of the National Labor Relations Act can be summarized this way. Congress is empowered to make laws regulating com-

merce. Labor disputes often lead to disruptions in commerce. The cause of these is that employers have been recalcitrant in reaching agreements with their employees through collective bargaining. How it is all supposed to work is stated this way in the Act:

Experience has proved that protection by law of the right of employees to organize and bargain collectively safeguards commerce from injury, impairment, or interruption, and promotes the flow of commerce by removing certain recognized sources of industrial strife and unrest by encouraging practices fundamental to the friendly adjustment of industrial disputes arising out of differences as to wages, hours, or other working conditions, and by restoring equality of bargaining power between employers and employees.¹⁷

Industrial harmony, then, was supposed to be the fruit of the Act.

The most crucial point about the Act is this. It does not bring labor unions under the law. The theoretical justification assumes that employers are solely responsible for the troubles that take place in labor disputes. Therefore, they alone need to be restrained by law. Not a single specific restraint on labor unions is contained in the Act. No unfair labor practices by unions are prohibited. (That has been slightly modified in more recent legislation.) When the bill was being considered before the Senate, an amendment was pre-

sented to prohibit coercion or interference with or by any person. It was defeated by a vote of 21 to 50. In the House, there was an attempt to add an amendment to prohibit coercion from any source. It was rejected.¹⁸

Labor unions were not empowered directly to use coercion by the National Labor Relations Act. What it did do—and this is the crux of the matter of empowerment—was to enable unions to receive the *fruits* of coercion. Specifically, the NLRB was empowered to certify unions to negotiate with employers. When it does so, it gives legal standing to what follows and the stamp of official approval to whatever union action has preceded the certification.

Compulsory Bargaining

Two lines of coercion are drawn together in NLRB certification decisions to enable unions to receive the fruits of coercion. One line stems directly from government. The National Labor Relations Board requires that employers recognize and bargain with the majority union and that non-union workers accept it as bargaining agent. This is coercive both on employers and any workers who may not belong to the union. One writer describes the situation this way: "Not only must an employer recognize a labor organization as the representative of all employees in the appropriate unit, but

he must bargain collectively with the union for all the employees in the unit regardless of whether all are members of the union."¹⁹

The government coercion reaches its pressure peak in the requirement that the employer bargain in "good faith." When the Wagner Bill was considered by the Senate Education and Labor Committee, Senator Walsh denied there was to be any compulsion in the bargaining process. He said:

Let me emphasize again: When the employees have chosen their organization, when they have selected their representatives, all the bill proposes to do is to escort them to the door of their employer and say, "Here they are, the legal representatives of your employees." What happens behind those doors is not inquired into and the bill does not seek to inquire into it.²⁰

Whether this was a correct description of the bill or not, it has certainly been interpreted differently by the NLRB. Here is a summary of what is required by that agency:

Employers must do more than just meet with the representatives and merely go through the motions of bargaining. To satisfy the requirement of collective bargaining, an employer must bargain in "good faith." In defining the term, the Board held that an employer to bargain in good faith "must work toward a solution, satisfactory to both sides, of the various proposals and other affirmative conduct." In another case,

the Board declared that "... the obligation of the Act is to produce more than a series of empty discussions, bargaining must mean more than mere negotiations" The Board has considered counter-proposals so important an element of collective bargaining that it has found the failure to offer counter-proposals to be persuasive of the fact that the employer has not bargained in good faith.²¹

In short, an employer must make concessions or run the risk of being found guilty of an unfair labor practice. Since there are penalties for that, the employer is coerced to make offers by a government agency.

Intimidation by Unions

The other line of coercion comes from labor unions themselves. Labor unions are intimidatory by nature. Their weapon of intimidation is the use of numbers of people. Many of their tactics are aimed at frightening, cowing, and making timid any who would oppose them. The intimidation is palpable in such tactics as mass picketing; it is less dramatic in many other activities but nonetheless present. And intimidation is a mode of coercion. By ignoring the intimidatory character of concerted action, indeed, by approving the collective approach, and by according to unions the fruits of it, government empowers unions to use coercion.

That the National Labor Relations Board has played a central role

in the empowerment of unions is already clear, but a little explanation is in order. There are two main reasons why the NLRB has advanced unionism. One is that many members of the Board have been pro-union. For example, one student of the subject notes that all the early appointees "were active protagonists of organized labor."²² The other is that the laws under which it operated were heavily biased in favor of unions.²³

The courts, too, contributed significantly to the empowerment of unions. Sylvester Petro, writing in the late 1950s, provided this summary of the Supreme Court's role:

During the past twenty years—the period coinciding with the tremendous growth of trade unions in numbers, power, and corruption—the Supreme Court of the United States has provided a succession of privileges for aggressive, coercive union action. This succession began with a sharply contested series of decisions, releasing unions from the controls of the anti-trust laws. It continued with the Court's identification of a coercive economic weapon—picketing—with the freedom of speech which the Constitution protects. And today the Court provides a practical privilege for monopolistic trade-union practices by holding that no injunctive relief may be granted by state courts to employers and employees injured by those practices.²⁴

The courts, then, completed the pattern of excluding unions from the

application of laws of general force.

In sum, Congress, the NLRB, and the courts empowered unions in the 1930s. They did so by placing much of union activity beyond the reach of court relief, by placing government behind the union effort, and by enabling unions to reap the fruits of coercive activity. This was usually done with the blessing and often under the direction of the executive branch.

Programs to Relieve the Consequences of Unionization

There is another facet of government empowerment of unions that needs at least to be mentioned. It is government programs which facilitate unionization by relieving and diverting some of the worst consequences of unionization. The worst economic impact of unionization is unemployment. Of course, unions are not the only cause of unemployment, but the thrust of their effort is to exclude from the work force all who cannot be employed at inflated wages. So far as they succeed, they raise prices to the consumer and reduce the number who can be employed—cause unemployment. The antipathy of unions for many workers and the population generally would be transparent if many of their effects were not at least partially concealed and laid to other causes.

Government has come to the aid

of unions, then, by a whole complex of programs, such as, unemployment insurance, wages and hours legislation generally, compulsory school attendance for children, subsidies for higher education, Social Security to foster early retirement (all programs to reduce the numbers of workers available), the subsidizing of consumers, and so on. Government fueled inflation long made it appear that labor unions were getting much larger gains for their members than was actually the case. These and many other programs were adjuncts to the empowerment of unions.

The empowerment of labor unions was supposed to lead to industrial peace. It did not do so. It led, instead, to turmoil, violence, the preying of the strong upon the weak, and something approaching class warfare for a time. The surge of unionism in the 1930s brought unprecedented disorder—sometimes chaos—in industrial activity. Irving Bernstein, a most thorough chronicler of labor history, said, in his book on labor in the 1930s called *Turbulent Years*, "The passage of NIRA was followed immediately by a strike wave. . . .²⁵ More, "In 1934 labor erupted. There were 1856 work stoppages involving 1,470,000 workers. . . . Four were social upheavals. . . ."²⁶ Nor did the National Labor Relations Act alter the trend. In 1937, there were nearly 5 million

workers involved in work stoppages.²⁷

Some of the most violent and disruptive strikes in American history occurred in the 1930s. Here is a description of one such outbreak:

The decision of a local to shift from one union to the other automatically touched off a strike. . . . Under these conditions the coal fields of Illinois in 1933 supplied an arena for a shooting war between the factions. From August 1, 1932 to October 1, 1934, according to an incomplete list, 313 crimes were committed. A policeman was fatally shot in Springfield; at Peabody Mine No. 7 in Christian County two persons were killed and twelve were wounded; dynamite explosions wrecked the homes of two strikers in Kincaid; a Peabody dock boss was murdered in the same town; bombings damaged the plant of the Taylorville *Daily Breeze* which had editorialized in favor of ending a strike; houses, cars, union halls, and relief stations were dynamited; an explosion destroyed the exhaust fan at the Peabody Capitol Mine in Springfield while 350 men were underground; the coal-hauling Chicago and Illinois Midland Railroad was bombed sixteen times.²⁸

Violence in the 1930s

The turbulence reached new highs in the later 1930s with the surge to form industrial unions by the CIO. The violence and turmoil was exacerbated by the large number of radicals who flocked into the union movement. The situation was this:

Left-wing political of every shade and description . . . were active in many of these struggles. Communists, Socialists, Trotskyites, members of the Proletarian party and Revolutionary Workers League, New America supporters, Lovestonites, and even old line "wobblies" and Socialist Labor party members and syndicalists became involved, particularly in the centers of the new mass production industries.²⁹

The radicals were often trained or experienced in obstructive and destructive tactics and eager to initiate and prolong violence. Communists were especially in the forefront of the CIO organizational drive. "Various estimates have been made of the ultimate strength of the Communists within the CIO. At minimum they controlled unions containing about 25 per cent of CIO's total membership and at maximum they wielded powerful influence in unions having another 25 per cent."³⁰

What had happened was that labor relations reverted to a state of nature. It was, however, a highly modified state of nature. Organized labor was loosed to impose their own brand of private justice. They were enabled to use coercion to redress their own grievances. But unlike a pure state of nature, there was government. And government sided with the unions by restraining their opponents and enforcing the coercively arrived at agreements.

The situation was modified somewhat in the 1940s and 1950s. The

Taft-Hartley Act set forth as unfair labor practices some union tactics, required union officials to sign an oath that they were not Communists, placed restrictions on stranger picketing and secondary boycotts, and banned the closed shop. The Landrum-Griffin Act of 1959 attempted to institute greater union responsibility toward their membership. None of these acts, however, altered in any fundamental way the fact of government empowerment of unions. Unions still operate in a twilight zone between a state of nature and civilized society. ☉

—FOOTNOTES—

¹Harold W. Metz, *Labor Policy of the Federal Government* (Washington: The Brookings Institution, 1945), p. 7.

²*Ibid.*, p. 8.

³*Ibid.*, p. 16.

⁴Harry A. Millis and Emily Clark Brown, *From the Wagner Act to Taft-Hartley* (Chicago: University of Chicago Press, 1960), p. 16.

⁵Philip Ross, *The Government as a Source of Union Power* (Providence: Brown University Press, 1965), p. 18.

⁶Millis and Brown, *op. cit.*, p. 19.

⁷Quoted in *ibid.*, p. 20.

⁸Henry S. Commager, ed., *Documents of American History*, vol. II (New York: Appleton-Century-Crofts, 1962), p. 236.

⁹See Sylvester Petro, *Power Unlimited* (New York: Ronald Press, 1959), p. 249.

¹⁰Irving Bernstein, *Turbulent Years* (Boston: Houghton Mifflin, 1969), p. 34.

¹¹*Ibid.*, p. 41.

¹²*Ibid.*, p. 75

¹³*Ibid.*

¹⁴Murray Edelman, "New Deal Sensitivity to Labor Interests," *Labor and the New Deal* in Milton Derber Edwin Young, eds. (Madison: University of Wisconsin Press, 1957), p. 170.

¹⁵Commager, *op. cit.*, pp. 315-16.

¹⁶*Ibid.*, p. 316.

¹⁷*Ibid.*, p. 317.

¹⁸Millis and Brown, *op. cit.*, p. 27.

¹⁹Fred Witney, *Government and Collective Bargaining* (Philadelphia: J. B. Lippincott, 1951), p. 230.

²⁰R. W. Fleming, "The Significance of the Wagner Act," Derber and Young, *op. cit.*, p. 148.

²¹Witney, *op. cit.*, pp. 229-30.

²²Metz, *op. cit.*, p. 19.

²³See Edelman, *op. cit.*, p. 171.

²⁴Petro, *op. cit.*, p. 245.

²⁵Bernstein, *op. cit.*, p. 172.

²⁶*Ibid.*, p. 217.

²⁷See Fleming, *op. cit.*, p. 132.

²⁸Bernstein, *op. cit.*, p. 63.

²⁹Bernard Karsh and Phillips L. Garman, "The Impact of the Political Left," in Derber and Young, *op. cit.*, pp. 97-98.

³⁰*Ibid.*, pp. 107-108.

Union Power and Government Aid

IDEAS ON



LIBERTY

THERE is a definite relationship between union membership and union power. Growth of union membership and increase of union power come from the same source: special privileges and immunities granted by governments.

AGAINST ALL ENEMIES

Part III

OUR CONSTITUTION and the principles of freedom are being steadily eroded today. Too many Americans evidently disagree with Thomas Jefferson's basic political philosophy: "Every man wishes to pursue his occupation and to enjoy the fruits of his labors and the produce of his property in peace and safety and with the least possible expense. When these things are accomplished, all the objects for which government ought to be established are answered."

According to Jefferson and other Americans who fought for freedom, the purpose of government was to

assure the God-given rights of individuals to work freely, create, build, invent, succeed, fail, and plan their own lives . . . without needless government interference. Government should intervene to prevent, prosecute, and punish crime. Government was also responsible for organizing the defense of the nation from foreign aggressors. The two major roles of government were designed to allow free individuals to rise to the heights of individual potential consistent with their own abilities, energy, will power, and personal accountability.

The United States Constitution has worked very well in the past as a bulwark for personal liberty. Now, though, we are faced by a loss of individual rights and a growth of government power. Two views of the

In this three-part series, Robert Bearce of Houston, Texas identifies the basic principles of limited government as set forth in the Constitution of the United States. He shows how we have forsaken many of the basics, and points the way toward a restoration of freedom.

Constitution by two past Presidents illustrate a partial cause for our present difficulties.

President William Taft wrote that: "... the President can exercise no power which cannot be reasonably and fairly traced to some specific grant of power ... in the Constitution or in an act of Congress."

Taft's *strict* interpretation of the Constitution contrasts with President Theodore Roosevelt's *liberal* interpretation of the powers of the Presidency: "... My belief was that it was not only his (the President's) right but his duty to do anything that the needs of the nation demanded unless such action was forbidden by the Constitution or by the laws."

Over the years since President Theodore Roosevelt wrote about the Presidency, the "liberal" interpretation of the Constitution has gained an ever increasing acceptance by all three branches of the government—executive, legislative, and judicial. This "liberal" concept of government authority tramples upon the Tenth Amendment of the Bill of Rights: "The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people."

The problem is twofold: (1) "WE THE PEOPLE of the United States," as stated in the preamble, have deserted the Constitution, (2) The

people's elected and appointed officials have debased the Constitution. If we truly value what freedom we have left, and if we wish to regain what rights we have lost, we must understand the destructive mentality or philosophy that has gripped so many Americans.

The Santa Claus Complex

First, a greater number of Americans are accepting what has been called the "Santa Claus" complex. Some people might want to term it the Big Daddy or Great Uncle Sam complex. At any rate, when citizens look upon the federal government as Santa Claus, they will continue to expect supposedly "free" presents from the government.

While large numbers of businesses, special interest groups, professions, and average citizens are looking to the federal Santa Claus for goodies, their elected officials have an affliction called the "Robin Hood" complex. Actually, the Santa Claus mentality and the Robin Hood philosophy work together to assault the Constitution. In order to play Santa Claus and give to the citizenry federal subsidies, grants, and other aid, government officials must also assume the role of a benevolent Robin Hood.

They do this with a great deal of enthusiasm and sense of morality. Before they can distribute gifts to different segments of the populace,

they must first take money from other people. Thus, government plays Robin Hood, taking from the "rich" and giving to the "poor"—the "poor" classified as whomever the federal government so chooses.

The fact is that government cannot create wealth. It cannot give away anything it hasn't first confiscated from the "rich" (industries, businessmen, hard-working individuals) or the citizenry as a whole. Robin Hood does this through taxation. The only other way the federal government can pay for its handouts is simply to create money it cannot or will not bring into the Treasury through taxation. When it creates the new money from the federal printing presses, we suffer inflation.

Although the average citizen decries inflation and excessive taxation, he continues to vote for more government interference in the economic and social life of the United States. Legislators are quite willing to play the parts of Santa Claus and Robin Hood. To do so is the best way to get elected and reelected. They learn by experience and continue to promote the idea that government is motivated by compassion and humanitarianism.

To some extent that is true. A large number of public servants are probably motivated by a desire to do good. Although playing Santa Claus is mostly a matter of self-interest,

many government officials honestly believe they are doing what is best for the citizenry of the United States after they assume public office. They believe they can use the authority of government to devise and then carry out plans to bring "social justice," good housing, health care, and the like, to the people. Frankly, they feel that government has a moral obligation to manage our lives. Their goodness in our behalf, however, profanes the Constitution.

Instead of showing loyalty to the principles of the Constitution—limited government and personal liberty—they attempt to create the "good society" according to their own designs. Again, their intentions are good, but they still refuse to have faith in the individual. They really do not think individuals are capable of achieving dignity, economic stability, and justice on their own—within the framework provided by the Constitution.

Holding Officials Responsible

Those government leaders who scorn the principles of the Constitution should be held accountable. On the other hand, the question should be asked as to who put such Robin Hoods in office. The American people, of course, are the ones who vote for the politicians who head for Washington, D.C., to continue the task of planning and regulating our lives. A nation-wide survey reported

that 94 per cent of those surveyed believed that the main duty of a Congressman was "making sure his district gets its fair share of government money and projects."

The survey shows that Americans are quite willing to accept the idea that their elected officials are in the business of distributing monies from the federal Treasury. Apparently, few citizens think the responsibility of their Senators and Congressmen is to cut back on the growth of government.

We—legislators and average citizens—need to reexamine the Constitution and realize the extent to which we have degraded it. We should think about a proposal made by Nobel Prize-winning economist Milton Friedman. Considering the fact that people in government are trying to do good with other people's money, Dr. Friedman suggests that we need an eleventh amendment to the ten already in the Bill of Rights. The new amendment would ensure that every individual would have the right to do good—*with his or her own money*.

In reality, we already have the right to do good for others at our own expense, although it can be said that this right is being hindered due to oppressive taxation and government-sponsored inflation. We cannot very well help other people if we do not have the money to do so.

Regardless of stifling taxation, our

right to help others is being neglected or rejected as we place charity, human concern, and humanitarianism in the hands of the government.

Parental Guidance

For example, some Americans are concerned that advertising and some children's programming on TV is bad for the kiddies and the stability of the family. Advertisers, they say, take advantage of innocent young viewers. The youngsters are brainwashed and led astray to clamor for toys, candy, or other items that they do not need. The duped children are more or less forced by the commercials to demand the products seen on TV.

Thus, we have the tragic spectacle (as some Americans see it) of boys and girls strong-arming their helpless parents into buying the trivial products advertised on TV. If the parents should refuse, havoc arises in the family. Adults and children suffer emotional trauma. If the parents agree to the children's demands, then the families waste money on the supposedly useless products.

The answer for the above problems, as suggested by those who dislike the quality of children's programs and advertising, is either government regulation or "social conscience" on the part of business. "Social conscience" means that com-

panies that manufacture children's products should sponsor their programs without showing ads for toys, cereals, and other products. We could then have commercial-free children's TV . . . which would eventually mean government subsidy of children's programs at the taxpayers' expense.

Now then, if you ask the proponents of government intervention whether or not they allow their own kids to watch what they, the parents, say is bad children's TV, they might very well answer with an emphatic "No!" That being the case, we should ask such people why they feel so superior to their fellow Americans. In other words, why is it that they presumably have enough concern for their children to turn off the boobytube, but other parents apparently cannot make the same decision in behalf of their own children?

Other questions we might ask are these: If changes really need to be made in children's TV, why don't those who want the changes use their own money to establish a private foundation to bring about whatever improvements they feel are necessary? Why don't those concerned about little Johnny's appetite for candy launch a nationwide campaign—paid for out of their own pockets and through voluntary contributions—to inform parents that they are perfectly capable of doing

two things: (1) saying "No!" to their children, and (2) turning off the TV set or making certain that their children do so.

The fact is that we will always have our goodhearted, well-intentioned crusaders who want to bring about what they believe to be a better society. Their moral failure lies in the fact that they basically have faith only in their *own* intentions and the power of government to implement those good intentions for *all our good* . . . regardless of whether we agree or not.

Those who support more government regulations, "guidelines," and laws tend to believe that the ordinary citizen is not capable of making intelligent decisions on his own. This distrust of individual responsibility illustrates some of America's alienation from the Constitution. The principle of limited government authority is spurned. Individual freedom and the Bill of Rights are belittled.

The Bill of Rights

The Bill of Rights was meant to be a steadfast safeguard to individual liberty. These ten amendments were *prohibitions* against excessive government power. They upheld individual rights against government interference. Now, though, an increasing number of Americans are accepting and encouraging a different concept of human rights. They

would accept a new bill of rights that would not *restrict* government power, but instead authorize more government intrusion into our daily affairs.

As the federal government expands and becomes more intensive, we proceed further down the path toward servitude. Willingly or unknowingly, most Americans accept their fate. Our future was somewhat prophesied by James Madison: "There are more instances of the abridgment of the freedom of the people by gradual and silent encroachments of those in power than by violent and sudden usurpation."

Madison realized that freedom was threatened by the gradual, often deceptive growth of government power. Whenever government steps beyond its constitutional duties, society begins to deteriorate. When government tries to arrange and direct society in defiance of the Constitution, a type of class warfare begins. As government attempts to pay for its various programs, it must resort to increased redistribution of the wealth. Society and politics become a battle ground where everyone demands "his share" of the funds in the federal Treasury.

Along with the continual struggle by lobbyists, special interest groups, and other beneficiaries for a cut of the federal pie, there is a corresponding loss of integrity. When the government takes from some (or all)

to give to others, the redistribution of wealth hurts all segments of society—both the productive and the not so productive.

For example, a businessman finds himself in financial trouble due to his own incompetence or mismanagement. He looks to the federal government for help, and he receives it. A second economic crisis hits him, and he again finds himself rescued by government aid. Soon, he has lost his sense of self-responsibility. He has become dependent upon a paternalistic government. In this state of dependence, there is very little guilt about having his own failure subsidized by money taken from the productive elements of society.

Dependence and Servitude

Likewise, the productive people—whether they be corporations or individuals—slowly lose their sense of accountability, initiative, and self-reliance. They ask themselves why they should continue striving so hard, only to have the fruit of their labors taxed away for the benefit of others. Thus, there is a growing tendency for the thrifty, energetic, and hard-working people in society to work less and eventually become dependent upon government.

Government intervention is the first step towards dependence upon government. After dependence comes servitude.

If we are to escape the servitude of a socialistic type of government, we must act upon the advice of Patrick Henry: "No free government, or the blessings of liberty can be preserved to any people but by a firm adherence to justice, moderation, temperance, frugality and virtue, and by a frequent recurrence to fundamental principles."

For the United States in the 1980s, "fundamental principles" should be the Constitution. Although the work of the Founding Fathers in 1787 is far from perfect, the Constitution does reflect an honest, firm adherence to certain basic truths about freedom and the purpose of government. One of the worst mistakes we can make is to believe that the Constitution is not relevant for today. The opposite is true.

More than ever, we need to uphold the Constitution with the realization that it is based upon certain wise, unchanging principles—principles that should be understood and obeyed today as much as they were during Madison's day. The Constitution is not an outmoded document to be shrugged off as something that cannot or should not direct our political, economic, and moral life today.

Regardless of how durable the Constitution is, it cannot protect freedom unless "WE THE PEOPLE of the United States" heed George Washington when he said: "The preservation of the sacred fire of lib-

erty and the destiny of the republic—can model of government are justly considered, perhaps, as deeply, as finally, staked on the experiment intrusted to the hands of the American people."

Identifying Those Who Corrupt the Constitution

If we have an understanding of how the Constitution can protect our freedom from government encroachment, we must first identify those individuals and groups who are corrupting the Constitution. Are they federal bureaucrats who place their faith in larger and more powerful government? Yes, but who puts them in office in the first place?

"WE THE PEOPLE of the United States"!

Before we can think about the bad guys holding public office, we have to ask ourselves how unfaithful we have been to the Constitution. The average American's desire for urban renewal, aid to education, price supports, and other handouts is the root of oppressive government. When we stop asking for needless government intervention, the constitutional renegades in Congress will not be reelected.

As soon as we have our own houses in order regarding allegiance to the Constitution, we can turn our attention to those people in government who want to continue spending our tax money, regulating our lives, and

seducing other segments of society with their programs of government aid. Having a profound understanding of the Constitution, we can judge how well our elected and appointed officials are living up to their oath of office.

Sometimes it is possible to detect hostility toward the Constitution simply by knowing what government officials say in speeches, interviews, press conferences, or by the written word. More important, however, are their voting records and daily actions in office. Can your own Congressman and Senators answer a truthful "I do" to the oath of office?

Do you solemnly swear that you will support and defend the Constitution of the United States against all enemies, foreign and domestic; that you will bear true faith and allegiance to the same; that you take this obligation freely, without any mental reservation or purpose of eva-

sion; and that you will well and faithfully discharge the duties of the office on which you are about to enter: So help you God?

Politicians come and go. New Congresses are sworn in as our political process carries on year by year. New administrations take over, and new Cabinets are appointed. Regardless of who our elected and appointed officials are—whether they be defenders or betrayers of the Constitution—the tasks before us always remain the same. We are to comprehend the meaning of the Constitution and uphold it by accepting responsibility for planning our own lives. Once our own allegiance to the Constitution is firm and true, we can scrutinize our government officials with Thomas Jefferson's wisdom in mind:

"In questions of power let no more be heard of confidence in man, but bind him down from mischief by the chains of the Constitution." ☉

Thomas Babington Macaulay

OUR RULERS will best promote the improvement of the people by strictly confining themselves to their own legitimate duties—by leaving capital to find its most lucrative course, commodities their fair price, industry and intelligence their natural reward, idleness and folly their natural punishment—by maintaining peace, by defending property, by diminishing the price of law, and by observing strict economy in every department of the state. Let the government do this—the people will assuredly do the rest.

IDEAS ON



LIBERTY

Planning for Freedom

"Supply side economics" is the current rage. In essence, it is simply J. B. Say's old "law of markets" restated. What the supply-siders are saying is that production must come before consumption, which is a truism. But, looking at economics as a totality, the processes of production and consumption are a seamless web. The funds laid out for production—wages, raw material purchases, interest, dividends—constitute the buying power that eventually clears the market. The effort to whip up an "effective demand" by issuing paper tokens unrelated to production is supererogatory, and results in inflation as the extra "money" joins the chase for the given supply of goods.

There can, of course, be an overproduction of some things in relation to what consumers actually want at a given price. This means that the workings of Say's Law will be ragged as enterprisers correct for

their mistakes in judgment. But this does not change the fact that commodities are paid for ultimately by other commodities, often at changing ratios. Money plays an intermediary role. The important thing is to avoid public policies that keep enterprisers from bringing an expanding supply of goods into being in the cheapest possible way.

This is what the supply-siders are now saying in Washington as they look for tax policies that will offer the least discouragement to business. But it is an ancient wisdom. Ludwig von Mises was talking "supply" as long ago as 1950 when he published his remarkable essay, "Lord Keynes and Say's Law," in *The Freeman*. I remember reading the essay in a board of editors' meeting in great excitement. My wonder now is that this happened thirty years ago.

The essay subsequently went into a Mises collection, *Planning for*

Freedom, an expanded fourth edition of which is now available. Four new essays have been added to the original thirteen, and the book also includes other extra dividends. There are Murray Rothbard's study, "The Essential von Mises," which places its subject in the Austrian School tradition, and separate salutes to Mises by Henry Hazlitt, Gottfried Haberler and Albert Hunsold.

New Chapters by Mises

The four new essays, all of them vintage Mises, are "The Gold Problem," "Capital Supply and American Prosperity," "Liberty and its Antithesis," and "My Contributions to Economic Theory." In "The Gold Problem," printed in *The Freeman* in 1965, Mises made the accurate prediction that the American Treasury would continue to lose gold if deficit spending did not stop. Americans, of course, were forbidden to own gold in 1965, but foreigners could legally draw it out from what had once been its American haven.

In the essay on "Capital Supply and American Prosperity" Mises kept hammering at a thesis that has only recently caught the attention of a Congress that has finally been brought to admit that capital gains taxes are self-defeating. Long ago, from his vantage points in Vienna and Geneva, Mises could see that America was the most prosperous

nation in the world because "its per-head quota of capital invested" was higher than elsewhere.

Coming to this country to escape Hitler, Mises was appalled at the way we were deserting our own wisdom. His "Capital Supply" essay was written in 1952. It constituted a warning that if the federal government continued to prevent capital accumulation by its tax policies and its inflationary spending, our productivity would decline and our standard of living would suffer accordingly.

Planning for Freedom by Ludwig von Mises. Expanded fourth edition, 280 pages, paperback. Published by Libertarian Press, P. O. Box 218, South Holland, Illinois 60473. Also available from The Foundation for Economic Education, Inc., Irvington-on-Hudson, New York 10533. Price: \$6.00.

Mises did not make the mistake of attributing our traditional prosperity to the physical resources of the American continent. He said "capital is more plentiful in America than it is in other countries because up to now the institutions and laws of the United States put fewer obstacles in the way of big-scale capital accumulation than did those foreign

countries." Morality, too, had something to do with it. "The climate of opinion in which capitalism could thrive," said Mises, "was characterized by the moral approbation of the individual citizen's eagerness to provide for his own and his family's future. Thrift was appreciated as a virtue no less beneficial to the individual saver himself than to all other people."

In his "My Contributions to Economic Theory" Mises correctly cites his *Socialism*, which dates back to the early Nineteen Twenties. What Mises proved in that book was that "an economic system, where there is no private ownership of the means of production, could not find any criterion for determining the values of factors of production and therefore could not calculate." Socialism, in short, flies blind.

Mises was never impressed by economic models that depend on the manipulation of past statistics, which inevitably ignore the capacity of individuals to change ground in their future choices. "In the libertarian system," so Mises wrote in "Liberty and its Antithesis," "every individual is a moral person, that is, he is free to choose and to act and is responsible for his conduct . . . Where the authoritarian system is fully established, as was for instance the case in the empire of the Inca in pre-Columbian America, the subjects are merely in a zoological sense human;

virtually they are deprived of their specifically human faculty of choosing and acting and are not accountable for their conduct."

Beware Econometric Models

Whether he wrote in German or in English, Mises always had a magnificent verbal felicity. Like others of the Austrian School, Mises knew mathematics but was not impressed by any economic methodology that (to quote Murray Rothbard) "all but crowded out language or verbal logic from economic theory." Mises thought mathematical equations were only useful in describing a never-never land of "general equilibrium."

Rothbard, in his explanation of Mises' distrust of mathematics, says that "no one has ever discovered a single quantitative constant in human behavior, and no one is ever likely to, given the freedom of will inherent in every individual." The human development of high-speed computers has led to supposedly sophisticated econometric models. Alas for the usefulness of these models, the lack of confirmable constants to feed into them has made for a sorry record of econometric forecasting.

Relying on verbal logic and his analytical study of business-cycle theory, Mises correctly predicted the coming of the Great Depression when Irving Fisher, for example, was

proclaiming a "New Era" of indefinite prosperity based on the manipulation of governmental central banks. There is an odd contradiction involved here. Mises knew that bad mistakes would accompany a wild credit boom. This is a "constant" factor in a credit cycle. But, since the mistakes are individual and show up only in retrospect, they can't be "timed" for computer use. That is why the econometrist's supposed precision should give way to the Austrian School's sheer common sense. ☉

THE GOLD CLAUSE: WHAT IT IS AND HOW TO USE IT PROFITABLY

edited by Henry Mark Holzer

(Books In Focus, Inc., 160 E. 38 St., Suite
31B, New York, N.Y. 10016)

381 pages ■ \$19.95 cloth

*Reviewed by John A. Sparks, Associate
Professor of History and Director of the
Institute on Public Policy and Private En-
terprise at Grove City College in Penn-
sylvania*

LAW PROFESSOR Henry Mark Holzer has compiled an anthology of important articles about the legal standing of gold clauses in private and public contracts. A gold clause is the contractual requirement that a debt be repaid in a specified quantity of gold or in an amount of currency

equal to that quantity of gold. Gold clauses existed at least as far back as the latter middle ages, and though their formulation has differed from age to age, they have been used for one reason only—to protect contracting parties against debasement of coin or currency by the state.

The book points out the significant difference between the Legal Tender Cases (1871) and the Gold Clause Cases (1935). The 1871 Cases did not rule out the use of gold clauses in private contracts, although they did uphold the issuance of Civil War greenbacks as constitutional; gold clauses continued to appear in all long-term contracts and obligations, as well as in many shorter term agreements. The real damage done to sound money by the legal tender decisions was not apparent until 1935 when they were relied upon by the U.S. Supreme Court to uphold the Congressional resolution prohibiting gold clauses in contracts, private and public.

Readers interested in the Constitutional protections for hard money will gain much from reading chapter 5 which contains the *anti-gold clause* analysis of Angus D. MacLean who had the primary responsibility for the government's brief in the Gold Clause Cases, as well as Associate Justice James C. McReynolds' short, but penetrating dissent which includes his now famous exclamation: "The Constitu-

tion as many of us have understood it, the instrument that has meant so much to us, is gone."

Holzer's last chapters take up, in turn, the revival of gold ownership in 1974, and the relegalization of *gold clauses* in 1977. But, a troublesome question remains. Why, if gold clauses are now legal once again, are citizens not generally making use of them to avoid the ravages of inflation?

Holzer provides one legal answer to that question. Long-term loan contracts which require the borrower who repays in paper currency to repay *more* of the cheaper dollars, may violate state usury laws even where there has been a waiver of the defense of usury in advance. Holzer suggests a way that such a problem can be overcome by drafting a clause which states that "a given number of ounces of gold (either bullion or coins) of a certain fineness is being loaned and that exactly the same weight and fineness will be repaid."

In just forty-seven years, ignorance of gold clauses and the gold standard has become widespread. But, perhaps, the financial necessities of this Age of Inflation and the rebirth of knowledge about gold clauses, to which Professor Holzer has made such an important contribution, may revive these old contractual barriers to monetary tyranny. ●

FARM AND FOOD POLICY Issues of the 1980s

by Don Paarlberg

(University of Nebraska Press, 901 North 17th Street, Lincoln, Nebraska 68588) 1980
338 pages ■ \$16.50 cloth

Reviewed by Richard W. Wilcke, President of the Council for a Competitive Economy, Washington, D.C.

AMERICAN agriculture has always been an enigma for those advocating a free-market economy. Farmers and ranchers are steeped in a long tradition of supply and demand, respect for private property, and fierce independence. Yet the ever-present prejudices toward small, family-owned farms has rendered agriculturists helplessly susceptible to all kinds of institutionalist theories and perfect-competition models.

As a result, since World War I the public policy of American agriculture has remained continuously and increasingly interventionist even as farmers have tried to retain their independence. Through the USDA, the federal government underwrites most agricultural policy research, directs most agricultural economics, and pays much of the salary burden of land-grant university specialists and local extension agents.

Either by accident or by grand design, likely the latter, what has resulted has been a widespread and ef-

fective major network of avidly non-partisan and avowedly nonideological apologists and defenders of government's ubiquity. It should not be surprising that agricultural policy debates are narrow. Nor should it surprise anyone that outspoken champions of *laissez faire* are few and far between.

For some three or four decades, Don Paarlberg, professor emeritus of agricultural economics at Purdue University, has been a welcome and somewhat lonely exception to the rule. From his first writings while still getting his doctorate at Cornell to his latest book, he has been a believer in a market-oriented agricultural sector in the U.S. economy.

His *Farm and Food Policy* attempts to paint a broad picture of the policy options open to U.S. policymakers during the decade just getting started. In the most reasonable and conciliatory tone, Professor Paarlberg leads readers to logical, usually market-oriented, conclusions. From his Washington experience in the USDA and as an advisor to President Eisenhower, he retains an acute awareness of political pressures and the role of special-interest groups. The groups taking interest in farm and food policy are not limited to farmers.

While some students of economic freedom, this reviewer among them, might have preferred a more straightforward and less compro-

misng defense of the free market, Professor Paarlberg's book is a welcome addition to the shelves of books now dealing with food policy. Perhaps, by a balanced and comprehensive view, Professor Paarlberg has helped to inject more reason and less prejudice into farm policy debates. ●

THOSE GASOLINE LINES AND HOW THEY GOT THERE

by H. A. Merklein and William P. Murchison, Jr.

(The Fisher Institute, 6350 LBJ Freeway, Suite 183E, Dallas, Texas 75240)

129 pages ■ \$5.95 paperback

Reviewed by Brian Summers

STANDING in a gas line can be a frustrating experience. But because most Americans didn't understand what caused the long lines of 1973-74 and 1979, they directed their anger at the wrong people.

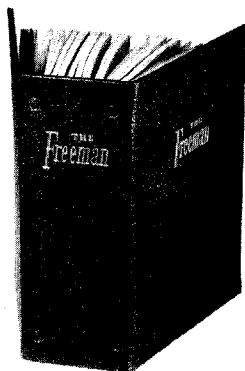
The blamed the oil companies. But oil companies don't earn profits by holding prices below market-clearing levels. And they don't make money by allocating gasoline to rural areas while supplies in the cities are drying up.

The federal government does these things. It took government intervention to disrupt the flow of gasoline and create the maddening lines.

Now that the Department of Energy has relaxed its controls over the pump price of gasoline, supply and demand are again in approximate balance, and the lines have disappeared. However, Merklein and Murchison show, our basic energy problems persist. The Department of Energy continues to discourage natural gas exploration by controlling the wellhead price. The same holds for crude oil. On top of this, Congress has imposed a "windfall

profits" tax (actually an excise tax) on the oil companies.

These misguided policies are a political response to the misdirected anger of the American people. When the public understands the causes of our energy problems, these policies will be changed. *Those Gasoline Lines and How They Got There*, a well written, carefully documented analysis of the energy crisis, is an excellent place to begin that understanding. ☉



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A MONTHLY JOURNAL OF IDEAS ON LIBERTY

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REGULATION

EVERY major industry in the world, including food, commodities, housing, transportation, medicine, energy, and money, is regulated at almost every level of government. Just listing the regulations pertaining to any single industry would take volumes.

In the field of finance, the government regulates (among other things) the amount of interest each type of financial company can pay on loans, the amount that can be charged for loans, the way interest must be disclosed to borrowers, where finance companies can open offices, what their advertisements can and cannot say, what types of securities can be issued, what must be and what cannot be said about securities, who can sell them, and how the sellers can be compensated for their sales.

In the field of medicine, the government regulates (among other things) who can practice medicine, what schools can teach medicine, what courses are to be taught, what types of medicine are acceptable, where doctors can practice, what prescriptions are allowed, what drugs can be sold, under what conditions drugs can be sold, who can sell them, what education is required for those who sell them, in many cases what can be charged for them, who can manufacture them, and what can be said about them in advertisements.

In the field of transportation, government determines (among other things) who can operate airlines, buses, taxicabs, and railroads, what equipment is acceptable, how often equipment must be serviced, the

timetable of service, where passengers can be taken, who can operate the equipment, how much can be charged, what attendants must tell passengers, how passengers must behave while being transported, and how much can be carried aboard the transporting vehicle.

In the transporting of goods, government regulates (among other things) the amount that can be shipped by different types of carriers, what routes carriers can take, how much each carrier can carry, what hours drivers and pilots can operate, what carriers can charge, who can operate transport equipment, how old operators must be, and what training and experience they must have.

Of course, food is perhaps the biggest industry of all, and certainly the most highly regulated. Take the case of a simple hamburger. A study by Colorado State University identified over 41,000 state and federal regulations that apply to this common sandwich. These regulations apply to everything from the grazing of beef cattle to the assembly of the burger at your local fast food outlet.

This is a small sample. Mountains of regulations suffocate every field of human endeavor, from medicine to manufacturing, from construction to energy. The government is out to protect us—from ourselves. How did politicians and bureaucrats

become so concerned about our well-being?

The Source of Regulation

On the surface, the government's regulation of business appears to be a genuine attempt at consumer protection. The regulations are justified on the grounds that they protect us from greed, ensure open competition in the marketplace, and protect our domestic economy. While there is a growing feeling that many government regulations are stifling business because of the inefficiency of the bureaucracy, still, *almost everyone is for them in principle*. But that is a part of every good sting. The victim must be totally convinced that he is benefiting even as he is being robbed.

The only reason individuals take action is because they believe they will get something they want by taking that action. People, in general, are not altruists. Yet it would seem that there must be some self-sacrificing individuals who are willing to devote their lives to designing regulations to protect us from greedy businessmen who would sell us shoddy or dangerous products. After all, how could a politician benefit from supporting business regulation? It must be that he has a genuine concern for the safety and well-being of the public. Otherwise, why would he work so hard to pass so many laws regulating business?

It's simple. Politicians who support business regulation are not doing so because of deep-seated concern for public safety—they are merely meeting the demands of lobbyists who are hired and paid by businessmen. With only a few exceptions, the entire body of government regulations applying to business in the world today was designed and created by *the very businessmen who are being regulated*. These are self-imposed restrictions. However, do not think for a moment that these businessmen are altruists. These regulations are not aimed at them; they are aimed at *you*. Business regulation is the cleverest of all methods ever devised for taking money from you without your knowledge.

Sound far-fetched? Of course it does. We have been programmed our entire lives to believe that the government acts in the interest of the individual. We believe it is one giant consumer protection agency. In fact, it is nothing of the kind. It is one giant agency programmed to protect the business interests of established firms at the expense of the individual consumer.

Confidence Games Designed to Curb Competition

In real life, there are three ways that a businessman can limit his competition and thus gain your business by default: first, he can get the government to prevent the com-

petitor from offering products at all; second, he can get the government to force the competitor to raise his price; and third, he can get the government to force his competitors' costs up, thus indirectly forcing up the price.

All three of these methods are widespread confidence games that have been around for centuries. By getting government to limit the introduction of competitive products into the marketplace, any businessman can set his own prices for the same products much higher and you will buy from him without suspecting that he has forced you to do so.

If you still question this analysis, examine the evidence. Take some time and research the records regarding which individuals lobbied for regulations, designed the regulations, and reported violations of the regulations. Time after time, you'll find that it was not wounded consumers who were responsible, but businesses already active in the market. Established airlines lobbied for creation of a Civil Aeronautics Board, volunteered to draft regulations governing airlines, and then screamed when deregulation was mentioned. Established banks lobbied for establishment of the Federal Reserve. Established trucking firms demanded regulation of interstate trucking; established shipping firms demanded regulation of ocean freight; established railroads de-

manded regulation of the rails. Established firms do not like competition. It threatens to take away their customers, and lower their profits. Free enterprise is a fine concept when a businessman wants to complain about government interference in his own affairs, but when competition threatens his markets, he is quick to point the political guns at his adversary.

When the entrenched firms succeed in getting the government to regulate their industry, you, the consumer, are the loser. You are not protected by these regulations; you are denied the chance to buy the product of someone who might have been willing to offer you a lower price or a different quality. You are deprived of your chance to set your own values on goods.

Conclusion: Intervention Lowers the Standard of Living

Price controls, wage controls, anti-trust laws, professional licensing laws, minimum wage laws, immigration laws, tariffs, and all other forms of personal and business regulation result from the attempt by one individual to limit your ability to spend your money with whomever you choose, or to sell your property at whatever price you choose.

These laws are justified on the grounds that people are somehow injured because the individual who owns goods or services is asking too

high a price for them. If you catch a fish, how is someone else injured if you set a price he thinks is too high? Why is someone else's opinion better than yours as to what price you should sell it for? Whose fish is it, anyway? Does it belong to you, who caught it, or another individual who wants it, or to all the other individuals who make up society?

When the majority of individuals in a society try to enforce their claim on the production of others through the legal process, they are guaranteeing that their society will have a lower standard of living than if they honor each person's right to enjoy and set his own value on the fruits of his labor. The standard of living of any nation is directly proportionate to the personal freedom enjoyed in that nation. The people of China and India are not poor because they are stupid; they are not poor because they lack natural resources; they are not poor because they lack modern industrial tools. They are poor because they have lived for decades under social systems in which the established, entrenched classes are able to use law and custom to control the production, price, and sale of all goods and services produced. By removing the ability of individuals to benefit from ingenuity and hard work, they have destroyed the incentive of individuals to produce and save. Without savings, there is no capital for the cre-

ation and improvement of the tools of production, and without tools there is only poverty.

Legalized plunder destroys the standard of living of any nation because it attempts to violate all of the economic laws that are an immutable part of human nature. Legalized plunder has strangled China, India, and most of the rest of the socialist or communist world. It is the reason for their abysmally low productivity, and the subsistence-level existence of their citizens.

By the same token, the people of the United States are not rich because of any special intelligence, natural resources, or work habits. We are rich because for the first 150 years after the founding of the nation individuals were allowed nearly total freedom to produce and control

the products of their labor. This freedom encouraged individuals to develop habits of hard work and thrift, and to apply their intelligence to the natural resources in order to create the wealth of this nation. As one person after another discovered that government is a willing agent that will plunder others on request, plunder has grown and the rewards of production have fallen. Thus, the freedom that created the nation withers, and so does your standard of living. ☉

This essay is a condensation of a chapter, reprinted by permission, from Mr. Pugsley's latest book, *The Alpha Strategy*. The book is available from The Common Sense Press, Inc., Costa Mesa, California 92627, \$13.95.

Regulation of American Business

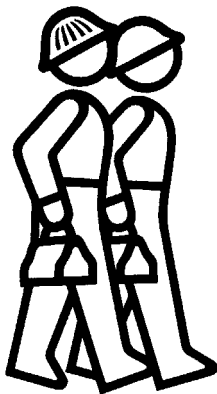
UNLESS the pronounced trend toward more and more regulation of more and more matters involved in the daily conduct of business can be halted, it is questionable whether American business can retain the necessary freedom of decision and action to meet the challenges which lie directly ahead. If we sit by and permit the increasing encirclement of business by bureaucratic regulation, we cannot in all common sense continue to expect the fruits of a vitally-needed expanding economy.

As a nation we are at this moment faced with tremendous responsibilities, both to our own people and to the entire free world beyond. They can never be met without the creative contributions of a dynamic economic sector, yet we stand in danger of witnessing American business being little by little painted into a corner so small that it leaves hardly enough room in which to turn around.

IDEAS ON



LIBERTY



Organizing Government Employees

UNIONIZATION of government employees is the ultimate in unionization. It is the embodiment of the ideal toward which unionism is bent. That ideal, or aim, has been obscured by the quasi-religious ideology within which unions operate. The bent of unionism is to monopolize the available labor supply in an industry and to eliminate all competing laborers. By so doing, it can raise the price of labor—in wages, working conditions, and fringe benefits. But labor unions are ever being thwarted, or at least restrained, in private industry.

They are restrained by the fact that most private businesses do not have a monopoly. There are compet-

itors, both domestic and foreign, in the making and sale of most products. Even if every current producer in an industry is organized within the United States, there would still be the problem of foreign competition. Moreover, if union demands go beyond a certain point there is nothing to keep others from going into business with non-union workers. True, a new business might itself be organized, but that could be a never-ending process. There is the problem, too, of the elasticity of demand for most goods, which means that if the good in one industry is priced very high because of labor costs customers will shift to other goods. For example, if coal gets too expensive, people may shift to gas, kerosene, electricity, or wood for heating. Much of this actually hap-

Dr. Carson has written and taught extensively, specializing in American intellectual history. He is a frequent contributor to *The Freeman*.

pened after World War II when the United Mine Workers drove the price of coal so high.

A Prime Target

Public utilities represent nearly as good a target for unionization as does government. They usually have a monopoly for providing their particular services in an area. But there are still economic and political restraints on what they can pay. The demand for most goods and services provided by public utilities is not inelastic. Substitutions can be and are made. For example, when the price of electricity rose precipitately a few years ago, many people shifted to gas and other fuels for heating. Most people do consider some residual amount of electricity a necessity, so that at some point far below current use the demand for electricity may be very nearly inelastic. There is yet another economic restraint. Public utilities are generally privately owned and operated in the hope of profit. That places some restraint on what unions can effectively demand. On top of this, government controls prices that can be charged, placing limits, at any particular time, on what can be paid to labor. Thus, public utilities approach the ideal for unionization but fall short of it.

By contrast, there is very little economic restraint upon government which would hinder unions in

attaining their goals. As one book puts it:

Government is a growth industry that receives little competition from other industries; in fact, it is usually the sole dispenser of the goods and services it offers the public. Therefore, government is not faced with the market competition that characterizes the private sector of the economy. Consumers have no choice in the purchase of most government products. Usually they are required by law to pay for government services through taxes, regardless of whether they use the services. Price increases are passed along in the form of higher taxes, without fear of losing customers.¹

Even when government offers services similar to those which are offered privately it rarely, if ever, competes on equal terms. The monopoly power is waiting in the wings, and the tax base is there to backstop its efforts. A good example is government activity in providing educational services. While use of the public schools is voluntary, school attendance is compulsory for children. But a private school has to compete on highly disadvantageous terms. Schools run by governments do not charge tuition but are financed with tax monies. Parents who do not send children to public school still have to pay the taxes, plus whatever it may cost to send them to private schools. Private colleges are usually at a great disadvantage in what they must charge

compared with state subsidized colleges. The tendency of government is to extend its monopoly character to whatever enterprise it enters.

Monopoly Leverage

The union thrust to organization of government employees is a move to get leverage over a tax-based monopoly. It is a move to control the labor supply to government and thus to achieve union ends restrained only by political power and the limits of productivity within a nation. The political activities of unions suggest, also, that they work to remove what restraint to their goals there is in political power.

It may well be that labor unions in moving to organize government employees are sawing off the limb on which they sit. There should be no doubt they have moved into dangerous territory when they set the stage for power contests with government, a point which will be elaborated later. They have already removed much of their ideological cover by organizing government employees.

Union ideology was abstracted largely from nineteenth century socialist theory. It borrowed from socialist theory not only the notion that laborers could not get their just reward in the market but also the class struggle thesis. This thesis is essential to the classic position of labor unions. That is, unions claim

to be acting for "labor," or, in other words, the working class. On this thesis, labor is engaged in a struggle with capital.² Virtually, all the general public sympathy for unions as well as their intellectual justification depends on the acceptance of this thesis. Remove it, and labor unions are exposed for what they are: organizations of some workers to exclude other workers, organizations seeking to benefit at the expense of others, and organized to use coercion to achieve their ends.

A Roundabout Way to the Class Struggle Concept

It is exceedingly difficult, if not impossible, to read the class struggle thesis into the organization of government employees. After all, government is not "capital." It is not a profit making organization, and it can hardly benefit financially by taking from the workers their "share" of the proceeds. To my knowledge, there is no economic theory, or even pseudo-economic theory, such as that of Karl Marx, which attempts to demonstrate that government profits by "exploiting" labor. As for such notions as the alienation of the worker from the product of his labor by government, there is hardly any way of conceiving what could be meant. Is the postman being "alienated" from the product of his labor when he delivers the mail? That will not compute,

as a space program robot used to say.

Of course, the class struggle thesis has long since been muted in the labor union vernacular. Most labor union leaders do not avow an explicit socialism, and, while they cannot slough off the class conflict entirely, they can and do smother it in euphemisms, such as collective bargaining, democracy, private sector, and public sector. They have kept the term "labor," but the adversary has become "management."

This last development was particularly important to unions in their move to organize government employees. Government is not "capital," or even analogous to capital, but it does have something analogous to management in private industry. That is, governments do have heads of departments, bureaus, agencies, and so on. These do direct the employment of personnel in a fashion similar to which managers in business do. While there are differences between the president of a company, say, and a superintendent of education, they are analogous at least in that they are in some fashion in charge of personnel. They are alike, too, in that they may become the focus of grievances which may arise from the people over whom they exercise control.

In any case, a major thrust to the unionization of government employees got under way in the 1960s.

There had been considerable organization already, but "During the 1960s the number of public employees who belonged to unions and associations more than doubled, increasing from a little over 1 million in 1960 to 2.2 million in 1968."³ The most dramatic increase occurred in the organization of teachers. Prior to 1960 very few teachers had belonged to unions. While many teachers belonged to professional associations these were not union-like at that time. As trade unions began to gain inroads in the teaching fields, the character of the older teacher associations began to change. All this is reflected in the great increase in teachers covered by collective bargaining agreements in the 1960s. "While virtually no teachers were covered by collective bargaining agreements as of the 1961-1962 school year, a survey by the National Education Association . . . during the 1966-67 school year found 1,531 separate collective bargaining agreements covering 609,034 teachers. By the 1970-1971 school year these figures had increased to 3,522 collective bargaining agreements covering 1,337,146 teachers. . . ."⁴ The thrust to unionization of government employees continued apace into the 1970s.

Increased unionization of public employees was accompanied by the use of union tactics, particularly the strike, against government. For ex-

ample, one writer describes city employee strikes in 1966 this way:

It was prophetic that the strike of 35,000 transit workers which paralyzed New York City twelve days began on New Year's Day, 1966. It marked the beginning of a year in which many strikes by public employees occurred across the nation. There were strikes by policemen in Detroit, firefighters in Atlanta, and teachers in New Orleans, Philadelphia, and Newark. Elsewhere, other city employees who worked on golf courses, in tax and public works departments, in sewer disposal plants, on ferry boats, and in public zoos went on strike.⁵

Government Empowers Unions

Three developments in government preceded and accompanied the unionization of government employees and set the stage for it.

Chronologically, the first major development was the government empowerment of labor unions. The United States government empowered unions to organize and use various tactics on private employers in the 1930s. The central piece of legislation by which this was accomplished was the Wagner or National Labor Relations Act passed in 1935. Thereafter, it became incumbent on employers in the private realm to recognize and treat with unions who had the support of a majority of their workers. Collective bargaining was made mandatory to the extent that it was an unfair labor practice not to bargain in "good faith" with such

a union. In short, the federal government imposed labor unions on many employers.

In and of itself this development gave no necessary opening for the unionization of government employees. Of course, unionists might have argued that what was sauce for the goose was also sauce for the gander, but the government gander was having none of this at the time. The distinction between government and private business had been well established. Moreover, as already pointed out, union ideology provided only a justification (or argument) for contesting with private capital.

The second development did provide an opening, however, within the framework of government empowerment of and encouragement to unionization. What happened resulted in the blurring of the distinction between private and public. (Indeed, the government empowerment of unions was a step in that direction.) It was a single development with at least two dimensions. One dimension was a rapid and sustained increase of government employees. The other was government provision of many services that had hitherto been provided privately or involved large governments much less directly.

Government employment has expanded greatly in the past half century. As one writer put it, "Government employment has been rising

in absolute terms and as a percentage of the total civilian labor force. Between 1940 and 1967 the number of government employees has more than tripled. . . ." In 1940, government employees constituted 6.5 per cent of the total employed. By 1968, the figure had risen to 15.6 per cent.⁶

Equally as or more important, governments were performing more and more services, many of which were similar in kind and character to those provided by private business. Probably subway, street railway, and city bus systems afford the most striking example of this development. Since World War II more and more of the public transportation systems have been taken over by city governments. In many instances, workers on these systems were already unionized. The unions would have to be suppressed or reorganized.

At the Federal level, the Tennessee Valley Authority shows the character of the problem. The TVA was almost from its inception engaged in producing and distributing electricity. In the course of time, it was using the various means of generation, and, in so doing, its employees were performing functions indistinguishable from those in the private power industry.

State governments, too, engage in undertakings which are similar to those of private industry. A goodly number of states own and operate

liquor stores. All states have a hand in the operation of school systems. The following are examples of other sorts of state activities:

The state of New York has long maintained a system of barge canals 525 miles in length, which it operates at public expense. . . . Harbor facilities at ocean ports—wharves, docks, warehouses and the like—are usually owned by state governments. At New Orleans a State Board of Port Commissioners . . . operates grain elevators, coffee terminals, banana conveyors, cranes, derricks, a belt-line railway, a canal, and a free trade zone. . . . Multipurpose projects including the generation and sale of hydroelectric power have been constructed by state governments in Nebraska, Oklahoma, Texas, and South Carolina. The people of Nebraska are served exclusively by public-owned electrical utilities."⁷

As one writer puts it, "More extensive examination of the various types of government activity would multiply the examples of the manner in which the functions which public employees perform parallel, supplement or compete with the activities of private undertakings."⁸

A History of Resistance to Unionization

Even so, governments resisted unionization for many years; indeed, some of them still resist it in certain of its aspects. President Roosevelt, who presided over the promotion of unionization of employees

in private industry, opposed its expansion into government. So did most states well into the 1960s. Aside from the fact that government is not capital, there is a well defined rationale for not permitting government employees to unionize or, at least, to use many of the union tactics. It has been stated this way:

When an American accepts employment on a public payroll he knowingly or unknowingly accepts certain special conditions which have been judged necessary by a combination of legislative, executive, and judicial decisions. Although the nature of his task, the content of his workday, and the extent of his responsibility may vary little or not at all from that of an employee in the private sector, the mere fact that his employment is *public* alters his working conditions. He is afforded certain special benefits or protections—civil service, tenure, assurance against arbitrary dismissal, nondiscriminatory selection in hiring, promoting and receiving training—and he must accept certain obligations and restrictions—rigid pay schedules, fixed qualification standards, employment investigations, security and classification limitations, and, in some cases, prohibitions against political activity and restrictions on his freedom to deny his service.⁹

The above was not written as an argument against the unionization of government employees, but it does state clearly the special status of those who work for government. It provided a basis, too, for opposition to unionization.

Major Change of Policy

The third major development was a major shift in government policy toward unionization. From opposition to it, the federal government moved toward active approval. In 1962, President John F. Kennedy issued an executive order which declared that it was the right of Federal employees to join unions.¹⁰ In 1968, the United States Court of Appeals for the Seventh Circuit held that it was the right of individuals under the First Amendment to form and join unions.¹¹ This and subsequent court rulings have generally taken from state and local governments the authority to prevent the unionization of employees.

Some union tactics are still proscribed by governments. For example, the Postal Reorganization Act of 1970 "prohibits strikes, outlaws any form of union security other than the voluntary checkoff of union dues, and requires fact-finding and, if necessary, binding arbitration of collective bargaining impasses."¹² Most states prohibit their employees to strike, but a few permit it for certain categories of workers.¹³

This is the background, then, to the thrust to organization by government employees. Although there are other questions that could be asked, some of them important, I would like to restrict my discussion largely to attempting to answer two questions. First, who are govern-

ment employees organized against? Second, what does the unionization of government employees portend?

Organized Against the People

On the surface, government employees who organize into unions are organized against the management within government. Or, to state it more bluntly, it could be held that such unions are organized against governments. One difficulty with this conception is that governments in the United States do not have an independent existence. They are agents or representatives of the people. Thus to be organized against government is to be organized against the people. So far as it goes, this way of conceiving the matter is valid.

But it is more complex than that. When unions succeed in getting an agreement they actually align the government with themselves, and both are in some measure pitted against others in the population. When the government is resisting union demands, it is performing its role of representing the whole populace. It is when the agreement has been reached that government is thereafter aligned with the union against the rest of the populace.

The explanation of these statements depends mainly on grasping that in certain essential features unions of government employees are like unions of private employees.

Most opponents of the unionization of government employees have focused upon differences between government and business as employers. There are differences, some of which have been noted and a most crucial one which will be taken up below, but most of the differences are of degree rather than of kind.

Unions are unions whether they are composed of government or private employees. Moreover, the impact of union tactics reaches out to affect the population generally in both cases. If unions receive higher wages from private employers, they are generally paid by consumers. (However, unless private businesses have a monopoly, or all are organized, there may be some amelioration for the consumer.) If unions receive higher wages from government, the difference is paid by taxpayers or consumers, or both.

The central point I wish to make, however, is this. Unions of private employees are not simply or most basically organized against employers. They are organized to exclude from employment those who would work for lower wages or other benefits. They are most basically organized against other would-be workers. Beyond that, they are organized against competing providers of services or goods, and consumers generally. When an employer enters into an agreement with a union, he tacitly, and, on some matters, explicitly,

agrees to act with the union against all the others. This is true whether the employer is private or governmental.

A Contest for Power

Most of the fears about the unionization of government employees have focused on what happens when government resists union demands. Indeed, it is a fearful prospect. What would happen when union coercive tactics are pitted against government power? It could easily become civil war on some scale. Or, government might be unable to perform its most essential functions, such as providing police and maintaining order. Governments also generally perform numerous other services, such as garbage collection, whose interruption would cause great inconvenience and dangers. There is the specter, too, of the dangers inherent in any organized challenge to governmental authority.

When governments moved to recognize unions of their employees, they also generally acted to allay these fears. They have placed restrictions on the activities of unions. The most general restriction has been the prohibition against strikes of public employees. The ineffectiveness of such prohibitions is now notorious. As one writer put it, it does no good "merely to outlaw strikes of government employees by legislation or to impose harsh penalties

which management may find difficult to invoke. . . ."¹⁴

This should not have come as any great surprise. Unions have long relied upon the strike as their major means of getting what they want. As Jack Barbash said some years ago: "The strike is the union's major sanction in bargaining with employers. Approximate bargaining equality can be achieved only if the union is in a position to exercise an effective choice between working or not working, and the strike is the collective act of refusing to work."¹⁵

Jimmy Hoffa stated the case for the necessity of the strike in less elegant terms in discussions with another union leader: "'You know how it is in the trade union movement, Sid,' he said, 'unless you can show the boss you have the strength to knock his brains in he won't yield.'"¹⁶ The union man to whom these words were addressed said himself that "in the final analysis the issue was settled by power—whether the union had the muscle to close down the operation and keep it closed, or whether the company could take a long strike without pain."¹⁷ While these latter remarks were made *vis à vis* strikes versus private employers, the evidence thus far suggests that unionists are intent on applying the practices to government as employer as well.

Rather than outlawing strikes, one student of the subject suggests

that "such unfavorable working conditions as might provoke strike action must be avoided and adequate machinery must be created to prevent and remove employment problems at their source."¹⁸ The most basic objection to this approach lies in what might well be involved ultimately if government set out to "remove employment problems at their source." The ultimate source of employment problems is that work is onerous, inconvenient, and time consuming. There is the problem, too, that compensation is never adequate to meet one's wants. It is quite doubtful, then, that any government would attempt to remove the employment problems at their source or that employees would press quite that far. (They do press in that direction by pushing for shorter hours and earlier retirement.) Even so, there are objections to be raised to the proposals. It seems to me that the author is suggesting that the government anticipate the demands and satisfy them in advance of any action. If it did so, it would, in theory, remove the occasion for the union, a move hardly calculated to please union leaders. More important, however, such solicitude for employees would make government servile to its employees.

More important still, it would make the populace in general servile to the requirements of government employees. This brings us to

the second point, namely, that once government enters into an agreement with a union, it is aligned with the union against the rest of the populace. It is aligned with the union by agreement to pay certain wages which will be collected either through taxation or monopoly charges. It is aligned with the union by conferring benefits which are a charge to the public purse. It is aligned with the union in denying access to jobs except under conditions which the union has approved. In short, during the term of the agreement, the union and the government have entered into a pact with one another at the expense of the general public.

A Possibility of Union Control of Government

What lies at the end of this trail is union control of government to its own ends. This is not a prediction of what will one day happen. Rather, it is a live possibility which can be surmised from what we do know. There are contingencies which might deflect unionism from this course, but they are contingencies only. Union goals and union tactics bend unionism strongly toward control of government policy.

Despite the claims of many unionists over the years that they believe in "pure and simple unionism," i.e., unionism with exclusively economic goals within the system that exists,

Dilution of Sovereignty

THE full, supreme, and undiluted power to govern denoted by the term sovereignty is at least as vital to the existence of secure and ordered society today as it has ever been. There is no incompatibility between governmental sovereignty and pluralism; on the contrary, pluralism properly understood as meaning a proliferation of active voluntary associations could no more survive dilution of governmental sovereignty than the personal freedom and security of single persons could. Not pluralism, then, but feudalism and anarchy are incompatible with governmental sovereignty. No sovereign government can survive the introduction of private associations endowed with similar powers of compulsion and coercion. Still less can sovereign government survive the internal dissipation of its power to govern which occurs when a competing private association, armed with coercive power, draws to itself from the duly authorized government the loyalties of the very persons through whom that government must perform its socially delegated functions.

SYLVESTER PETRO, *Sovereignty and Compulsory Public-Sector Bargaining*

union leaders have a long history of involvement in political affairs. They have lobbied, taken public positions on issues, sought to secure legislation and to influence elections. Nor have they restricted themselves to what are thought of as primary union concerns: they have ranged over the field from foreign policy to social legislation.

We have become accustomed to that much union involvement in politics. But what portends with the organization of government employees belongs in a different dimension. Union tactics provide the means of

bringing government to its knees when the crucial employees have been organized. If the police and military forces were organized, they would be in position to extract from those who governed what they—their leaders or a substantial number of their members—wanted. The threat alone of a strike, the establishment of picket lines, the refusal either to obey their superiors or to allow replacements to be hired, would ordinarily be sufficient to get much of what they wanted. It is to be remembered that when unions contend it is a contest of strength

with their adversaries. The strength of the government would be largely taken away in advance when the police struck.

A Transfer of Loyalties

Unionism as an ideology and a movement aims to wrest the loyalty of the employees away from the employers and vest it in the collective. It tends also to invoke obedience to the union leaders. This is so whether the union is composed of employees in private industry or in government. So far as the unions succeed in this effort they are apt to be disruptive in private industry but subversive of government. After all, government is entrusted with great power, power which it can only wield responsively and limitedly because of the loyalty of the employees.

The reality in the United States has usually been limited loyalty of most union members to the union and divided loyalties. It is this, finally, that restrains union leaders. The limited loyalty to unions that has existed has been, in part at least, due to conditions that prevailed before governments aligned themselves with unions. Government limited the compulsive power of unions; it gave to the union member a measure of independence. That condition still prevails to considerable extent. But it is threatened by the organization of government employees.

—FOOTNOTES—

¹Michael H. Moskow, J. Joseph Loewenberg, and Edward C. Koziana, *Collective Bargaining in Public Employment* (New York: Random House, 1970), p. 15.

²See Clarence B. Carson, "An Ideology for Unions," *The Freeman* (February, 1980), pp. 115-18.

³Lee C. Shaw, "The Development of State and Federal Laws," *Public Workers and Public Unions* (Englewood Cliffs, N.J.: Prentice-Hall, 1972), p. 20.

⁴Frederick R. Livingston, "Collective Bargaining and the School Board" in *ibid.*, p. 63.

⁵Robert E. Walsh, "The Question," *Sorry . . . No Government Today: Unions versus City Hall*, Robert E. Walsh, ed. (Boston: Beacon Press, 1969), p. 1.

⁶Moskow, *et. al.*, *op. cit.*, p. 10.

⁷Clair Wilcox, *Public Policies Toward Business* (Homewood, Ill.: Richard D. Irwin, 1960), pp. 805-07.

⁸Sterling D. Spero, *Government as Employer* (Carbondale, Ill.: Southern Illinois University Press, 1948, 1972, New Preface), p. 7.

⁹John W. Macy, Jr., "The Role of Bargaining in the Public Service," *Public Workers and Public Unions*, *op. cit.*, p. 7.

¹⁰Harvey L. Friedman, "The Role of the AFL-CIO in the Growth of Public Sector Employee Collective Bargaining," Walsh, *op. cit.*, p. 28.

¹¹Shaw, *op. cit.*, p. 21.

¹²*Ibid.*, pp. 24-25.

¹³See *ibid.*, pp. 33-34.

¹⁴William B. Vosloo, *Collective Bargaining in the United States Federal Civil Service* (Chicago: Public Personnel Association, 1966), p. 35.

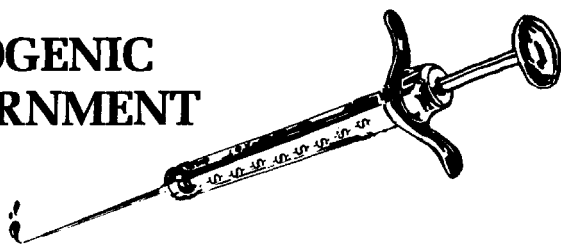
¹⁵Jack Barbash, *The Practice of Unionism* (New York: Harper & Bros., 1956), p. 213.

¹⁶Sidney Lens, *Unrepentant Radical* (Boston: Beacon Press, 1980), p. 148.

¹⁷*Ibid.*, p. 207.

¹⁸Vosloo, *op. cit.*, p. 35.

LATROGENIC GOVERNMENT



THIS past May, Mount St. Helens erupted in the Pacific Northwest. Almost simultaneously, at the other extremity of our contiguous states irate blacks erupted in violent demonstrations; 14 people perished and many buildings burned. Although the immediate cause was largely local in nature, the underlying conditions in Miami so closely resemble those in other urban cores that many people predicted more widespread death and devastation. Later events in Orlando and Chattanooga proved that these fears were not entirely unfounded.

That our cities are sick is surely no news to anyone who has seen their graffiti-smeared stores and garbage-strewn streets. The disease is chronic, the decay corrosive. The problems exceed the aesthetic: the 'demoralizing effects on the urban inhabitants defy denial.

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Two needs seem especially urgent. We must (1) increase job opportunities and (2) improve living conditions. To achieve these ends, many public leaders insist on getting additional federal financial assistance.

But these two particular problems have another, superior solution, one that will relieve the federal government from having to butter up to cities just when Americans perceive a greater need for more guns. It will also not place further inflationary stress on our sadly ailing economy.

Instead of spending more, the government could simply regulate less. In fact, certain regulations intrude catastrophically in both these urgent areas.

One lethal regulation is the legal minimum hourly wage. In January 1981 it rises to \$3.35. Any worker whose productivity is less than that will no longer be worth hiring. Many urban youths, lacking skills and experience, could not get jobs at the

previous minimum wage. Those willing to work for less are turned away. Why exacerbate this problem?

If business firms were permitted to pay less, they could provide energetic youths with an honest income and spare them from aimlessly roaming the streets. They could also offer something of even greater value than money—a sense of self-worth and an opportunity to gain useful skills and experience. Before long, the young workers' wages would likely rise and they would be eagerly sought out elsewhere.

There is another regulation, local in scope, which should also be repealed. That is rent control. Just as minimum wages prevent companies from providing jobs, so do maximum rents discourage people from offering living quarters.

Sure, rents may be "too high" for some people in some places. But if that means landlords are raking in lots of profit, then someone with entrepreneurial drive (sometimes known as greed) will come along and build more apartments. As a result, rents will fall. People will not only have access to more places to live, but also less rent to pay.

In fact, viewed in this light, government is not the solution to some of our most important problems. Rather, it seems clear that, more often than not, excessive government is actually the cause of them.

There is a medical term which ap-

plies here: "iatrogenic." It refers to sickness caused by the doctor. Last February, for example, the *Wall Street Journal* reported on a study which, the *Journal* said, showed that "mistakes by physicians are responsible for more than one-fourth of the incidences of the leading cause of illness and death among newborns."

iatrogenic—a medical term—
refers to sickness caused by the
doctor.

The term "iatrogenic" need not necessarily imply malign intent. Doctors may well prescribe medicine by mistake or provide advice which unexpectedly makes their patients worse. But in either case, the doctor's business is apt to expand.

Such behavior is not peculiar to medicine, of course. Business firms regularly strive to increase people's dependency on them. After all, that's the purpose of most advertising. Should we really be surprised, then, that government policies often turn out to increase our need for government? Just like physicians, preachers, and the producers of Pontiacs, Polaroids, and Poptarts, politicians would like to expand the market for their product.

We can observe the process at work in the field of energy. To please the public, politicians impose price controls on gas. But that causes shortages: at such low prices, there's not

enough to go around. How do we allocate the gas? We must establish a government agency to determine who gets it!

Likewise, excess profit taxes deprive oil companies of the funds and incentives to discover new supplies and develop novel sources. What do we do? That's right! Establish a massive federal funding program to finance energy research. Iatrogenic government rides again!

Perhaps it is in the realm of unemployment that the government's iatrogenic inclinations are the most devastating. The effect of the legal minimum wage has already been described. But that is only one of a number of government policies which have the effect of increasing unemployment statistics.

Another is unemployment compensation. Certainly this program provides important benevolent effects by enabling workers who lose their jobs, through no fault of their own, to make ends meet for themselves and their families. Yet this compensation is often so generous that it almost equals the workers' net take-home pay when they are actually employed. Thus, there is little or no incentive to take a new job, so search is prolonged, and the unemployment statistics paint a grim though somewhat misleading picture.

The government's taxes also con-

tribute to unemployment, beyond the fact that they may themselves be a serious disincentive to work. Recently there have been numerous reports about our large and growing "underground" or "subterranean" economy. To avoid the growing burden of federal income and social security taxes, more and more people are working for cash so their income will not be recorded or reported to the Internal Revenue Service. At the same time, however, in order to qualify for welfare benefits, these people may report themselves as unemployed. Once more, the unemployment statistics may be misconstrued.

All of these factors added together have increased the nation's reported unemployment rate to the extent that many economists now believe it is simply no longer possible to reduce the unemployment rate below 5.5 or 6 percent. Yet the government has a mandate, under the Employment Act of 1946 and the more recent Humphrey-Hawkins Act of 1978, to provide "full employment"—which is presumed to imply that only 3 or 4 percent of the labor force is without jobs!

In short, various acts of Congress have exacerbated chronic unemployment. At the same time, Congress has charged itself with healing the sick patient. What does Congress then prescribe? Massive

doses of government training programs (such as CETA) and even more substantial expenditures to provide jobs. As Paul Craig Roberts pointed out in the *Wall Street Journal*, "It is, after all, unemployment that provides the rationale for deficit spending—Congress's 'something for nothing' method of giving handouts." And quite likely an appreciative but unwitting electorate will gratefully return their benefactors to office at the next opportunity!

However, spending enormous amounts of money will not assure success. R. J. Reynolds has just proven that. It recently withdrew "Real" cigarettes from the market after having spent an unprecedented \$40 million to convince people of their worth.

But whereas corporate advertising at least has some prospect of success, government employment projects are almost surely doomed to be a failure at increasing the total number of jobs. Rather, they are simply apt to *appear* successful—after all, we can see the people employed by government—while actually there is almost certain to be a corresponding *reduction* of employment in the private sector which is hidden and unobserved. We should not forget that the money the government spends to provide jobs either comes directly from our pockets (via taxes or borrowing) so that we

have less money to buy goods and provide jobs, or else it results in an excessive expansion of the money supply which taxes us via inflation.

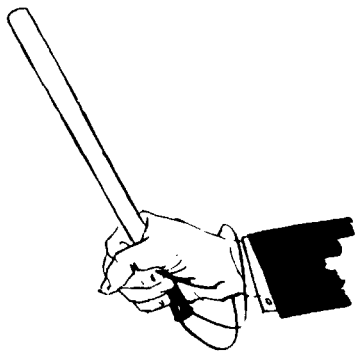
An exception to this rule is said to occur during a recession, when government spending may increase employment. But the recessions of both 1974 and 1980 were brought about by restrictive policies imposed by government in an effort to reduce inflation—which government itself had caused. Once again, "iatrogenic" is the appropriate inference.

Clearly, there is an important difference here between persuasion of the private sort and that applied by government. We are not compelled to buy what producers offer to sell. If you suspect your doctor is making you sick and lose your patience with him, then he will lose his patient!

Not so with government! It makes offers which we too often cannot refuse. Its growth can put cancer to shame. Only the stout resistance of taxpayers and voters can stem its relentless tide. Unless we hold back, it will end up by ravaging us all.

By comparison, the devastation in Miami or at Mount St. Helens will seem minuscule indeed. If this judgment seems harsh, just remember: in the United States, government has already (1) deprived some people of the right to earn a living and (2) denied others a decent place to live!

Individual Rights and the Police Power of States



DOES the legal system of the United States of America rest, as most people believe, mainly on the Constitution including the Bill of Rights? This is what we learn in high school and college. Few of us pursue a rigorous study of Constitutional law. So we leave school believing that the Constitution is the legal foundation of our system.

But this is only partly true. The Constitution was not developed enough initially to enable authorities to cope right off with the innumerable disputes that can arise in society. The country grew and complicated problems developed. The need for complex answers grew as

well. One ready source for obtaining them was English common law.

Common law, in simple terms, is the body of enforceable rules and regulations that grow out of local disputes. A body of common law, which all countries have, outlasts most formal constitutions. The latter come in frequent successions, based on the change of political ideology. Common law is mainly free of the extensive impact of ideologically motivated legal development. Common law is the common sense of the law. It tends to withstand grand theoretical changes, just as common sense physics, which most of us know and use in everyday life, does not fluctuate with the grand changes of technical physical theory.

But there is an extremely dangerous kicker here. Common sense in

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science sometimes is no more than common prejudice. Common sense isn't immune to myth and misunderstanding. We form our ideas of the world by relying on ordinary experiences as well as on folk myths, so-called old wives' tales. The influence of myth on common sense is powerful and that's why common sense needs to be kept in check by good, updated theory. Even those of us who worry little about the technical ins and outs of the sciences, medicine, and technology can make use of a good dose of up-to-date information in these fields. The interplay between common sense and good theory will presumably steer us on a reasonably reliable course.

In law the story isn't very different. Common law is not simply pure, innocent common sense. Sometimes it embodies extensive injustice. Various social systems leave their imprint on the common law. A systematically conceived constitution is supposed to eradicate the injustices from the common law whenever possible. In the United States the Constitution is supposed to keep a check on the common law by letting the Supreme Court pass rulings now and then. This helps purge the land of leftover injustices from days gone by. It tries to keep our system of justice less contaminated.

Whether the goal is actually accomplished depends on whether the constitutional system introduced

into a country is itself sound and just. If the Founding Fathers did a good job of forging the Constitution, and if the justices of the Supreme Court—and the various lower courts which rule by reference to the Constitution—interpret the document intelligently and with good will, the system can make very good use of the common law.

Resort to Common Law

Throughout the last decades, the courts have come to rely heavily on certain features of the common law which stand in direct opposition to our Constitutional tradition. In a recent case, the United States Supreme Court flatly rejected one important element of the Bill of Rights in favor of a feature of the common law, namely, the police power. The case involved a couple in Tiburon, a beautiful small city north of San Francisco, and their plans to build on land they purchased. The city government enacted an ordinance to restrict the use of the land so as to preserve open space. The court said that the municipality did not violate the property owner's rights in doing so. In writing for a unanimous court, Justice Lewis Powell said: "The ordinances substantially advance the legitimate governmental goal of discouraging premature and unnecessary conversion of open space land to urban uses and are proper exercises of the city's police power to pro-

tect its residents from the ill effects of urbanization." (*Agins et ux. v. City of Tiburon*).

Where does this legitimacy come from? Not the U.S. Constitution but the common law. The Bill of Rights does not legitimate such governmental paternalism but requires, in the Fifth Amendment, that if private property is taken, just compensation must be made. The same amendment states that no one may "be deprived of life, liberty, or property, without due process of law," something that means far more than having some city officials decide that one should not have the free use of one's private property. Due process of law requires the *demonstration* that such use would violate someone's rights—injure others.

The Feudal Tradition

In contrast, the concept of the police power—according to Ernst Freund, "the power of promoting the public welfare by restraining and regulating the use of liberty and property"—is taken from English feudal and later common law. It derives from the tradition wherein the king (or the Star Chamber) is regarded as responsible for "the morals, hygiene, and general well-being of the realm" inasmuch as the king, not individual citizens, own the realm. Feudal society recognizes no private property—all property belongs to the state, to the govern-

ment, that is, to the Monarch. And thus, it is the sovereign king who must carry out the management of the realm which he owns and governs. The citizens must comply as subjects.

Having partially accepted the validity of the idea of the police power from as long ago as the early 1800s, the various courts of our country have in fact tried to mix feudal with republican constitutional law. But these two are opposites, if not outright contradictories. In feudal systems the king is sovereign, the citizens mere subjects. But, in a (constitutional) republic citizens are sovereign, government their servant. In feudal systems, due process of law means doing what the king commands, with some checks from his court, more or less severe, depending upon the incursions of citizenship sovereignty within the system. In a republic, due process of law means not intervening with the actions of citizens unless it is demonstrated that some wrong was done to someone or some considerable danger exists which would require the intervention.

Recent Interpretations

In our day the idea of individual sovereignty is no longer widely embraced. The Bill of Rights is gradually being abandoned by political theorists and justices of the U.S. Supreme Court alike, in favor of the

virtual absolute sovereignty of municipalities, counties, states, and the federal government. Citizens who bought land in good faith, have their land taken from them for public use, without having been convicted of any wrongdoing. The only due process invoked here is that of the feudal tradition.

Many people believe that the ecological and environmental consciousness of our times marks a progressive turn in our country's history; we leave the old behind and introduce the new, the yet unheard of, so as to cope with new problems. What our legislators, city councils, and now our Supreme Court have actually done is to turn back the clock to an entirely different—some would have thought best forgotten—period of human history, namely, feudalism.

Instead of relying on the principle that a person is innocent until proven guilty, thus immune from having his liberty infringed without such proof—including the liberty to do with his property as he desires and to resist the desires of others—the current idea is that property is managed by the state, the true sovereign, and individuals must go for permission in order to make use of it.

Even if the gradual revitalization of the police power of various governments meant the emergence of socialism, it would not amount to

progress toward some new era. Socialism in practice is but a form of feudalism, with the elite less attached to tradition and custom yet still insistent on central management of the realm. The mixture of constitutional and feudal law, however, is taking our system toward fascism.

It is in fascism that control of the means of production is wrested from individuals and corporations, while title remains with the nominal owners. The burdens of shouldering the responsibility involved in ownership stay with these persons and organizations, while determination of use and disposal of the fruits of production is assumed by the state. Socialists and feudalists are more honest than this—they reject private property outright. Fascists perpetrate a grand fraud by pretending that citizens are sovereign in law respecting their labor and capital.

Individual Rights Violated

Clearly there is an urgent need for coping with the spillover effects of the use of property, including the use of land in urbanization. The legal system of a human community needs to cope with the widespread possibility and reality of such spillovers. But it is wrong to believe that government regulation and usurpation of private property is the means to do this.

Not only does that approach vio-

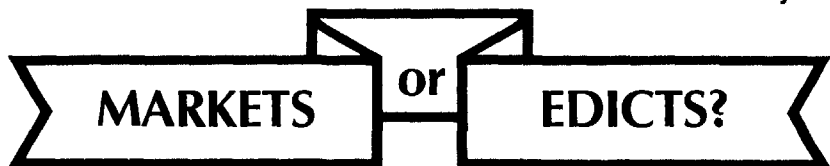
late individual rights, which is grossly unjust by itself, but it is a deadend. Professor Garrett Hardin reminded us recently, in "The Tragedy of the Commons" (*Science*, 162 (1968), pp. 1243-48), of what Aristotle demonstrated in his *Politics* (Book II, Chapter 3), namely, that "What is common to the greatest number gets the least amount of care. Men pay most attention to what is their own: they care less for what is common." This points up the usefulness of the private property system. But there is more. Numerous specialists in decision-theory, including, first of all, Professor Kenneth J. Arrow in his book *Social Choice and Individual Values* (Yale University Press, 1963, 2nd edition), have determined that it is *impossible* to have both a democratic respect for everyone's interest and rational collective planning. Not only does the system of private property respect the rights of individuals to the fruits of their labor and good judgments; not only is this system a very useful device for managing scarce resources in society; but the alternative of public control seems to be *inherently* irrational as well. The police power of the feudal age is, therefore, plainly wrong for us.

Why did the police power have a long and vital career? Because feu-

dal rule did not pretend to be democratic—namely, respectful toward *all* the individuals in the realm. The futility of incorporating the police power into republican constitutional law comes from no one really wishing to give up the idea of government as servant of the people. Once that idea has been abandoned, the plain truth is that decisions made at the top will not be made *for the rest of the people* but for those at the top.

In Defense of Property

The only alternative left to this dismal prospect of an outright dictatorship is the expansion of the private property system. It would expand the power not of the police, as it were, but of individuals, but only within the relatively narrow realm of each or the large but *voluntarily* pooled realm of many (as in the domain of corporate commerce). While this alternative may appear to be muddy and confusing, it is, as F. A. Hayek has argued in his "The Use of Knowledge in Society" and "The Results of Human Action but not of Human Design," far more rational and intelligent than any centrally organized management of the commons, proposed so vigorously by today's followers of Platonic idealism who place their faith in the state. 



MARKETS or EDICTS?

THE so-called energy crisis in the United States is entwined with such other issues as inflation, balance of payments, national security, foreign policy and the maintenance of individual freedom. And resolving these other issues is critically tied to the solution of the energy problem. Shall we forfeit another large measure of freedom, for instance, in the hope for gasoline on Sunday at a price we would prefer to that set by the market?

Unfortunately, it appears the die has been cast. As we have done so often in the past through our elected leaders, we have chosen the route of legislation, of regulation, of decisions "made on high," of throwing money at the problem, apparently altogether unaware of the dismal record of this process in the last fifty years or so. It is a process which has never demonstrated its usefulness; lacking basis in sound principle, it has no chance of truly solving the so-called energy crisis. Our situation demonstrates once again the

utter futility of such a course. If there is no real shortage of energy-producing fuels, we are far along toward being regulated into one.

I am not as critical of our leaders as I am of the rest of us for creating the climate attractive to those who would apply political measures to problems much better solved by the market. We create such leadership by retreating from responsibility in a mad rush for security. In other words, we are continuing the course which indicates a lack of faith in free men. Free men made this country great, and they did so through their own decision making. Once again, we must make our own decisions. So dramatic are the results of that process that I have come to see it as a law of the Cosmos. Individual freedom invariably is the condition in the society which shows real progress.

Individual freedom may be defined as the unassailable, God-given right for each individual to act as he wishes so long as he does not interfere with the equal rights of others to act as they wish. Note that in this

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definition no one is given license to interfere with his neighbor under the guise of freedom.

A couple of decades or so ago, when the welfare state was still debatable, its proponents would say to an advocate of freedom, "Yes, but you can't eat freedom." Today, the same idea would be stated, "Yes, but you can't put freedom in the gas tank." Such an argument tends to be convincing until one realizes, from a careful study of history, that it is only in those nations where freedom has had a large measure of acceptance that people have eaten well. Turning the same idea to gasoline—a part of the energy problem—it can be shown that an exorbitant price per gallon of gasoline in Russia would be unlikely to stir up a revolution because so few Russians own cars. And if you have paid attention to the pictures coming out of China, why are all those people on bicycles?

Only through a change in attitudes at the grass roots in America is it likely that any substantial change in policy will occur. Time may yet remain to reverse our present course before the next big crisis—whatever that may be—comes to lop away another portion of our remaining freedom.

I have served recently in a lecture series on the so-called energy crisis. More than half of those who preceded me spoke disparagingly of regulation. One speaker said he be-

lieved our problem started with the 1954 decision by the Supreme Court which permitted the regulation of the price of natural gas delivered through interstate pipelines. Although I think our problem started much earlier than that (I like the year 1913) I am willing to start with 1954.

As soon as the regulated price of natural gas was below the price a free market would have set, two things—at least two things—began to happen. First, more and more gas was consumed than would have been the case with unregulated prices. Second, fewer and fewer people were interested in risking their money to find more gas. Whatever else one might say for price fixing, it is a sure formula for a shortage.

I do not know to what extent our tax laws, our depreciation allowances, our control of prices, and the like led to imported oil, but I do know that at least we had oil. The Saudis and the other OPEC nations cannot use all their oil—they must trade it for things they don't have. Speaking from a purely selfish standpoint, it makes more sense for us to use their oil than our own. For years we bought their low-priced oil for dollars which were depreciating in value in response to our domestic inflationary process. It is no surprise that OPEC suppliers should react, albeit over-react perhaps, to our policies of inflation.

We responded by continuing price controls on our own petroleum products, by reducing the depletion allowance, and by following a phased relaxation of price controls on petroleum with what is euphemistically called, "a windfall profits tax." In addition, it is now reported that seven states are planning to enact taxes specifically on petroleum production. These only can do harm. We have enacted laws making it more difficult to drill, have discouraged the building of refineries wherever and whenever they have been proposed and, in general, have treated these prospective producers as if they were scabs and scoundrels. None of these seem like the things we should be doing to increase production.

The process which made this country great and rich and powerful is not a deep mystery. It started with a spiritual idea—that men should be free to exercise their own powers of decision so long as they did not interfere with the equal rights of others. Our Constitution and Bill of Rights were a guarantee of such liberty. With such freedom to try, men set about producing and building as never before on the face of the earth. Innovation and invention were everywhere apparent. In the market place, if a product became much higher in price because of short supply, then substitutes—usually better methods and products—were

found to take its place. And in those times government was largely restricted to keeping the peace.

Then, we set about making true the dire prophecy of Alexis de Tocqueville that democracy would fail in America. In effect, he said that when politicians found ways to promise things to some voters at the expense of others, this great and noble experiment would fail. The politicians have found a way; we have been going the route of transfer payments and our future does not look as rosy as it once did. But it does not have to end that way. So long as we can still express our opinions, there is the opportunity to restore freedom and accept individual responsibility for our lives.

For whatever reason, we do seem to face an energy shortage. It has come about by edicts, unnatural processes which interfere with the free flow of energy—in this case, human energy. We must again embrace the time-tested process: follow the natural law of individual freedom, and these other things shall be added. So let us remove controls, cut taxes which inhibit enterprise, stop inflation, reduce regulation. When such restrictions are lifted or greatly eased, then prices will ration scarce resources, profits will direct investments and losses will eliminate the inefficient producers. The free market must replace edicts. This is the formula for abundance. ●

SWEDEN'S WELFARE STATE: *A Paradise Lost*



THE SWEDISH WELFARE STATE was initiated in 1932 and has long been heralded the model of the middle way. Seldom has there been so unique an opportunity to judge whether a vast socio-economic experiment, developed uninterruptedly for five decades under optimum conditions, will work or not.

Whether it is correct to call Sweden a socialist country depends on the definition we use. If socialism means government ownership of the means of production, then Sweden is not socialist. Perhaps not more than a fourth of the means of production is in government hands, although that now includes all wharfs, most communications, transport,

forests and mines. I prefer to call Sweden a Social Welfare State. The creators of the Swedish Welfare State in the 1930s were Marxists of sorts, but they allowed a pragmatic attitude of gradualism to modify the radical ideological demands of state ownership. But if socialism means control over the results of production, there is no doubt that Sweden is a socialist nation; and the prime means of government control over the results of production is through taxes—now the highest in the world for the 8.3 million Swedish people.

Noted among the founders of the Swedish Welfare State are Gunnar and Alva Myrdal. In a book on Swedish Population Policy written in 1932 they stated: "The Scandinavian countries, and particularly Sweden, by historical accident, are given the most advantageous set of prerequisites for a bold experiment in Social Democracy [social welfare

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state]. If it cannot successfully be developed in Scandinavia, given by historical chance quite exceptionally advantageous conditions, it would probably not work out anywhere else." These conditions include an unbroken peace for 150 years, a nation completely unscarred by two world wars, and with an industry intact which could be transformed from arms manufacturing to manufacturing the goods desperately needed by Sweden's war-torn neighbors. It is a tightly knit, highly industrialized, remarkably homogeneous country rich in raw materials, including hydroelectric power, huge forests and rich sources of iron ore in the north.

From the 1930s through the 1960s Sweden developed a new social welfare state, sometimes called the Mixed Economy, containing both elements of private ownership and government control. That involved retention of the basic manufacturing in private hands, but accompanied by a taxation policy which was to bring about a redistribution and equalization of income. This was to be accomplished through a vast social welfare machine to insure every Swede against practically every exigency. The private and municipal insurance programs were the first to be integrated into a central compulsory system even before the Second World War. In the 1950s came the integration of nearly all pension

plans into a compulsory government administered system.

Taxes

To finance the elaborate womb to tomb or cradle to grave welfare system requires a lot of money. And the Swedish government has only the revenue collected through taxes and "social fees." Today no less than 64 per cent of the Gross National Product goes to the public sector to finance the system. From 50 to 60 per cent of the salary of a typical industrial worker is taken in taxes. But in addition to this basic income tax, there is an additional 22.5 per cent in value-added tax (VAT)—a form of sales or excise tax on all goods and services, including foodstuffs.

The Swedish Confederation of Employers has given us a concrete example of how the subsidy-taxation distribution system works. Let us say that a man with four children and a wife not working, earns \$4,600; add to this the social subsidies to which he is entitled, and he has an after tax actual income of \$14,000. But let us say that another man with the same sized family earned initially \$23,000; after taxes, and with little likelihood of subsidies, his income also would be \$14,000. Presumably the higher earner is also the harder worker, but what is the incentive in keeping that up? Of course this has a tre-

mendous effect on productivity. It is no longer worthwhile to work. The difference, for example, in working full time and working half time is a mere \$2,000 for the year, and a lot of people are choosing more leisure instead. Professional people such as doctors, dentists and lawyers seldom work more than five months a year.

The situation for the private entrepreneur is especially difficult. What is not generally recognized is that the employers' compulsory contribution toward employee benefits is nothing but another form of payroll tax. This averages 40 per cent on top of the salary which, of course, means that the "government bite" of the total wage is even higher than the 50 to 60 per cent indicated. Many small entrepreneurs, operating on a tight profit margin, cannot afford this additional burden, and face the options of going out of business, dismissing employees, or cutting back to a one-man operation.

Underground Economy

It is said that the only expanding sector of the Swedish economy today is that of the underground economy—the secret sector. The burden of reporting and paying a 22.5 per cent sales tax has made it almost common practice in Sweden to ask if a transaction is to be "with or without receipt." It has been estimated that as much as a third of the work

by painters, carpenters, mechanics and the like is performed in the secret sector—untaxed. There does not appear to be any way in which government representatives can determine and prosecute this growing practice. Despite tremendous manpower resources (at least one third of all in Sweden are working for some form of government) they do not have enough people to prevent the secret sector from expanding.

Sweden is becoming a barter trade society. And this barter trade takes many forms. As a genealogist I searched the ancestry of my dentist, while he fixed my teeth. A plumber friend of mine could decorate his home with oil paintings in a deal with an artist acquaintance. And so on.

The malaise in the Swedish economy is in no small part due to the taxation policy which rewards indolence and encourages illegality. Even Gunnar Myrdal calls for new tax legislation: "Swedish honesty has been a source of pride for me and my generation. Today, however, I have an uneasy feeling that, due to bad tax laws, we are more and more becoming a nation of cheats."

The Absent Worker

There are many other ways in which the employed demonstrate their unwillingness to continue sharing the tax burdens of financing the elaborate welfare state sys-

tem. With an illness insurance system paying 90 per cent of wage compensation, absenteeism is spreading like some contagious disease through the Swedish employment sector. On any given day 10 per cent of Sweden's labor force is absent. On Mondays and Fridays absenteeism may reach 20 per cent. At times the Volvo car manufacturing plant or the Kockum Wharf in Malmö have recorded the absence of 25 per cent of the working force, and this has also occurred in some hospitals. How can an economy stand such loss of productivity? How can an export-dependent economy compete in international markets against new industrial nations such as those of Asia whose workers perform efficiently?

With each liberalization of the illness insurance system in Sweden, the increased "absence due to illness" has jumped—by as much as four million working days in a year. The employers' association desperately urges legislation which would restore the three-day waiting period before the insurance program takes effect. This would remove the temptation for leaves of short duration which often require no doctor's statement.

Absences are not due to illness alone. There are at least 12 different reasons for "excused absences" with pay from the Swedish places of employment. In a recent experiment, I

tried to phone ten persons at their places of work and found only two of them available and in their offices. When I asked why they were absent, I was given an indication of the range of "excused absences." One man was taking advantage of the law which encourages the man to leave his place of employment to take care of a child (freeing the mother, presumably to enable her to go to *her* employment). Another one was said to be home caring for a sick child. Another one was taking a course in the Swedish language. Still another one was taking a union-administered course in how to be "a worker's representative" on a company board. Still another was absent in order to take care of a document at a government agency. And so on. These are not cases of absence without pay. Either the employer has to pay in full or the employee gets compensated from one agency or the other of government.

The Public Sector

To provide the funds for such an elaborate system requires an immense bureaucracy, and the one-third of Sweden's work force which some call the non-productive sector must be paid. Today 64 per cent of the total GNP goes to support the public sector's increasing demands. And they will keep on growing because there is a cumulative effect to these demands. The share of the

GNP going into the public sector increased by 20 per cent between 1950 and 1980. When the first non-socialist government since 1932 came into power in 1976, some of the groundswell support from the right thought that some alterations would be made in the social welfare system. No such thing has happened. And the cost-indexing of various forms of subsidies will cause the problem to grow as the inflation continues.

The idea of the welfare state gains support from many quarters. The state-owned radio and television monopoly, for example, is required by law to devote 40 per cent of its programming to "informative" programs and these often take the form of propaganda for and about various social welfare measures. Advertisements in newspapers and on vehicles proclaim: "Did you know that you don't have to be married to get a housing allowance?" "If you're 18 years old you may still qualify." The result is an increased degree of utilization, and a peculiar interpretation which defines Sweden's high living standard by the increase in the number of persons living "on the dole."

The Budget Deficits

Sweden's national budget reveals the increasing burdens of the public sector on the national exchequer. And the budget also reveals, through its deficits, the inability of Sweden

to finance these increases. The deficits grew from 649 million crowns in 1960 to 50.2 billion crowns in 1980. Much of the budget today consists of transfer payments, currently about 40 per cent. These consist of revenue-sharing to local governments, transfer payments to families, and subsidies to ailing industries, the last of which amounted to 7 per cent of the budget in 1978. In view of the failure by Swedish industry to compete for the reasons mentioned above, many enterprises are failing, especially in shipping and in the textile and shoe industries.

Inasmuch as the labor unions are still very strong (and Sweden has more of its labor force unionized than any other country) there are always pressures for the government to bail out ailing industries in order to maintain employment. This is done by various forms of subsidies, all of which are also subject to some misuse. The government has thus become increasingly involved in producing items which cannot be sold, and for which there is no market either at home or abroad.

The Real Face of Unemployment

It is necessary to turn to the unemployment situation to understand the current Swedish economic problems. Full employment has always been high among the goals of Swedish planners. But the government has been forced to take exten-

sive measures of intervention in the labor market. For years government spokesmen have maintained the fiction that Swedish unemployment is among the world's lowest. Such statistics can only be maintained if the real extent of unemployment or under-employment is hidden.

Dr. Sven Rydenfelt has exposed the myth of full employment in a number of articles in Sweden and abroad. He points out that there is an official figure of 2 per cent unemployment, or 94,000 of a work force of 4.1 million (half Sweden's population). However, WPA types of "make work" employed 3 per cent in education or public work schemes. Investigations reveal that 25 per cent of the college students in Sweden are there simply because they cannot get work, or a further 2 per cent. Then there is an additional 90,000 who have asked for "early retirement" because they want to provide work to someone else, another 2 per cent. Finally, there is the 2 per cent employed in industries which are not economically viable, but which continue to hire workers only because of government subsidies. Dr. Rydenfelt concludes: "If these items are added we find a total of 11 per cent unemployed, a share which better reflects the realities of the Swedish labor market than the official reports." While the work force in private manufacturing was reduced by 100,000 in the five-year period

1975-1980, it is significant that employment in the public sector rose by 250,000 during that same period.

Conclusions: A Welfare Society in Trouble

The Swedish Welfare State faces deep problems today. Many Swedes were jolted into some awareness of the depth of the crises during the General Strike in May 1980. Curt Nicolin, chairman of the board of the Swedish Employers' Association, said in 1979: "It is high time we comprehend that we are under severe threat . . . we, like sleepwalkers, have moved straight into an economic crisis so serious that we must count upon social unrest and the loss of freedom for most of us." Certainly the strike and lockout, and the further extension of the conflict by the Longshoremen's Union, are part of this social unrest. But there are many other indications, which are apparent for those who study the moral effects of the present crises in Sweden's welfare state.

In the economic sense, it is important to realize the limitations in the nature of the welfare state itself. Feeding upon itself, it is slated for extinction. The German Marxist Jürgen Habermas defined the dilemma in these words: "The division of labor between the state and the private sector that forms the basis for the Swedish model, requires that a continually increasing share of the

national product be transferred to the public sector. Technical and economic changes must be accompanied by enormous public investments in order to insure the stability of the society. There is a point where a dislocation in the social structure caused by the free play of the market forces, becomes so great that the people are no longer willing to pay the price of the necessary remedies. The demand for security remains, but the desire of each person to contribute to the cost of this security diminishes. The welfare society then faces a crisis of confidence."

Those who seek to find the causes of the Swedish welfare-state *malaise* too often treat the symptoms not the cause. In some cases they prescribe medicines, like ineffectual nostrums, that long ago proved wrong. While they seek in international economic developments the *bête noire* behind the failure of the "Swedish Model" they are unable to question the Swedish welfare state itself, or any other welfare state. It is, of course, no longer just an "economic

problem." The interdependence of economic and moral crises are well documented, not the least in the case of Sweden. At a time like this, it is worthwhile to recall the wisdom of a man who still speaks with a voice of authority to a living generation, Wilhelm Roepke:

"The desire for security, while in itself natural and legitimate, can become an obsession which ultimately must be paid for by the loss of freedom and human dignity—whether people realize it or not. In the end, it is clear that whoever is prepared to pay this price is left neither with freedom and dignity nor with security, for there can be no security without freedom and protection from arbitrary power. To this exorbitant price must be added another . . . namely, the steady diminution of the value of money. Surely, every single one of us must then realize that security is one of those things which recede further and further away the more unreasonably and violently we desire it." (*A Humane Economy*, p. 172) ●

Clarence Manion

WITHOUT the wide diversification of talents, taste, abilities, and ambitions that now and always exist among men, Society could neither feed nor clothe itself. It is consequently a wise provision of Providence that causes the perpetuation of endless variety in the desires and capabilities of human beings. Sparked with personal liberty and the natural personal incentive to own property and advance economically, this conglomeration of inequality synchronizes into a great engine for the sustenance and progress of mankind.

IDEAS ON



LIBERTY

HIT or RUN

It doesn't happen often but on rare occasions one may obtain a bit of pertinent information from a newscast. Last evening was one of those occasions. I was watching the late news, hoping to get the baseball scores, when this person came on (she was not one of the regular news team). She was protesting vigorously the Supreme Court's decision to the effect that the general public was not responsible for every woman that happened to turn up pregnant and, therefore, could not be forced to pay for an abortion if the woman elected to have one. (May I say here, before anyone prepares to take sides, that this piece is not about abortion per se. I hope to leave that can of worms for someone smart enough to pinpoint the precise point in time that an individual's inalienable right to life becomes effective.)

The person on the newscast stated emphatically that the court's decision stripped women of their constitutional right to have an abortion, if they wanted one. I didn't even know that the Constitution had ever

granted to individuals the privilege of having an abortion at public expense. I did know, of course, that the court had ruled, sometime in the not too distant past, that it was a woman's prerogative to abort a child she didn't want, but I had not even suspected that the legal right to do something carried with it an obligation on the general public to pick up the tab. I wonder what John Marshall and the free men who worked so diligently to hammer out that old document would have said about that.

My curiosity being aroused, I followed reaction to the court's decision in the papers for a couple of days. Consensus seemed to be that the court's ruling would cost taxpayers quite a bit of money in the long run since many children that might have been aborted would have to be fed, sheltered, clothed, educated, and provided medical attention at public expense—all in accord with their constitutional rights, of course. I wonder, quite often, where one could obtain a specimen of this new constitution. Never having been privileged to see a copy I don't know ex-

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actly what it says, but hearing people quote from it so often, I can tell that it is not the same document old man Daniel Carroll and John Rutledge put their signatures on.

When I talk with members of Congress about this new interpretation of the Constitution they tell me, when they attempt to answer at all, that the legality of all these things flows from the Preamble that states the document was drafted, in part, to insure domestic tranquility and promote the general welfare. When one takes time to consider that anything the government gives to one person must first be taken from another, no firm ground remains from which a defense can be mounted for the proposition that any program of wealth redistribution is good for the general welfare. Certainly those on the receiving end would be something more, or less, than human if they failed to fight, tooth and nail, to hold their position at the public trough. But despite apparent consensus to the contrary of our top-heavy bureaucracy, the people who work to produce the wealth those freeloaders are fighting for are, too, a part of the general public.

In the matter of domestic tranquility, quite frankly, I had always thought that if the powers that be could keep people of different persuasions from coming to blows, or get them separated before too much damage was done when they did get

together, that this item was being properly attended.

As best I can tell from looking, listening, and reading, a great many Americans have been conned into believing that anything an individual is at liberty to do is a right guaranteed to them by the Constitution of these United States. More than this it seems to be generally assumed that the public is bound by that same document to pay, on demand, for the implementation of these rights.

That our liberty flows from the Constitution is a fallacy, of course, since the concept of inalienable rights referred to in the Preamble to the Declaration of Independence was accepted by the American people as a fact long before the break with England. After they gained independence the people soon realized that a few of these rights would have to be vested in a central government strong enough to keep the peace at home and, hopefully, protect the nation from foreign invasion. Actually most of those inalienable rights so zealously guarded by the people had been vested in their respective state governments for some time. Therefore, it was really the states, much more than individuals, that contributed enough of their sovereignty to enable the federal government to function.

Liberty, as referred to by the founding fathers, presupposes a re-

sponsible, self-sufficient body politic. This fact is obvious since freedom will not emerge, nor can it for long abide, in a less desirable social atmosphere. The only real reason for laws in a society of free men is the sad fact that each generation is known to produce a few individuals that are irresponsible and must be ejected from their neighbor's storehouse from time to time. When this breed becomes a majority, or when government gives them a key, there is no longer a free society.

The people of these United States have been bartering their liberty for the proverbial bowl of pottage for so long that there are very few rights left and the pottage is getting real thin. Now the cities and states are also coming to heel. Since revenue sharing was introduced, most city governments have added personnel and expanded service beyond the capacity of their tax base and from time to time must go, hat in hand, to the federal government for a handout. Many congressmen keep their seats by bragging about the huge amount of other people's money they have been able to channel into their district and promising even greater spoils in the future.

We read with agony of people in other lands who are forced to submit to programs of re-education so that their thinking will be in accord with a new ruler. But we largely fail to grasp the sad fact that Americans

who were educated in the free market era must re-educate themselves for survival under other terms and conditions.

Thinking about the programs, schemes, and plots government has advanced to help people, cities and states on one hand and all the rules, regulations, restrictions and taxes it has invoked to confuse and impede on the other, I often recall my grandfather's philosophy of life. Reared during the Civil War period, the old gent was largely uneducated and a little on the rough side, but he held firmly to one cliché that I have come to appreciate more and more with the passage of time. "Son," he would say, "when a body comes around wanting to do you a big favor, for no good reason, or give you something for nothing, hit him just as hard as you can. If you see you can't knock him down, run just as far and as fast as you can. There be no other way to hold your own with that kind."

Reared with an educated, verbose, generation myself, I have often found Granddad's philosophy very difficult to advance or even defend. But I do know this—he and his generation passed the torch of freedom to their progeny burning no less brightly than when they received it from their forefathers. More than anything and everything else, I wish that my grandchildren could say as much for me and my generation. ☉



ideas...

(noble and otherwise)

SINCE the dawn of recorded history, man has conjectured as to the identity of the most valuable commodity on Earth. In recent years gold, silver, platinum, raw land, improved land, oil, race horses and a host of other esoteric materials have vied conspicuously for the title of "most valuable." But none of these items is even a close second. The most potent, valuable and elusive commodity on Earth is a good idea. Ideas move men and nations, change the flow of history, and always spring from the inspired mind of one man or one woman.

Although men create ideas, they understand them quite poorly and have little comprehension of their true value. Few, for instance, are

able to conceptualize that *all* existing major industries, institutions, organizations and edifices began as a single idea. Nations, both great and small, owe their existence and development to a complex fabric of interacting ideas. Wherever there are men, there are ideas—and where there are noble men, there are noble ideas.

In order to understand ideas, we must begin with the dictionary definition:

1. a thought; mental conception or image; notion
2. an opinion or belief;
3. a plan, scheme, intention;
4. a hazy perception, vague impression, inkling

(Webster's *New World Dictionary*, 1965)

What these definitions supply is the commonly accepted usage of the word. As we shall discover in this

analysis, however, these concepts fall far short of defining an idea. It is a bit like believing that an acorn is an oak tree. Ideas have life cycles and merely begin as hazy perceptions, mental conceptions or notions. Very often they go no further but, in those cases in which ideas move on, we can discover their true value. The search resembles the process of ore mining: tons of dirt must be sifted in order to turn up a few ounces or pounds of the metal desired.

An apt analogy for an idea is a plant. Its seed is borne upon the cosmic wind, is sown within the mind of man and either finds nourishment there or withers and dies. If it is nurtured, it takes root and begins to proliferate. Proliferation involves penetrating the thoughts and minds of others, growing there and eventually becoming a part of accepted reality. To this point, then, we have looked at these steps in the life cycle of an idea: implantation, germination, proliferation and, finally, growth. These steps are both sequential and simultaneous.

One of the most poetic demonstrations of the process under consideration involves the idea of human flight. Originally, a presumptuous daydream mocked in ancient mythology, it found root in countless generations of souls who met ridicule and frustration as they tried vainly to implement their dream. Eventually, fixed-wing gliding flight was

discovered by a single anonymous individual and spread horizontally. Then a pair of bicycle mechanics married that idea to two others: the propeller and the internal combustion engine—and the airplane was born.

The process of horizontal proliferation continued and the airplane became part of accepted reality. Simultaneously, vertical growth occurred as more complex and powerful airplanes were built and more men became involved in flying them. Other idea marriages were conceived and implemented: airplanes for mail delivery, group travel, bombing, surveillance, and the like. And an industry was born and grew before our very eyes. So it was also with oil, automobiles, radio, television, newspapers, computers.

Industrial Development Depends upon Free Will

What too few realize is that this entire process is dependent upon a sensitive variable called free will. If any one idea or ideology becomes so dominant in a social order that it *refuses to allow* implementation, germination or proliferation of other ideologies, the result is stasis and dissolution. In the Nazi Third Reich, post-1917 Russia, and revolutionary Red China, the dominant political party took on the role of the arbiter of the appropriateness of cultural ideas. The consequence of such con-

trol by a dominant ideology is always predictable.

So, we see that in the latter stages of development, an idea can become very powerful and suppress other ideologies. This is a type of malignant degeneration, much like cancer in the body, and can occur no matter how noble the idea at its inception. In a forest of giant redwoods, no other seedling has a chance.

What seems to be remarkably consistent in the degenerative stages of ideologies is that their proponents gain control of the apparatus of government, then use this mechanism to suppress competing ideas. Is there a way to prevent this process of idea growth and development from going too far? Can an ideal medium for competing concepts be preserved? Or are we all destined to live through one era of malignant degeneration after another?

It is quite possible that this was precisely the set of problems that those who framed the Constitution and the Bill of Rights were working on. They were indeed men of wisdom and prudence and it would be folly to discard their valuable contribution to civilization. Yet that is evidently what is going on in this era of governmentalism. We are now living in an epoch of malignant degeneration of a once noble idea. That idea was that the mechanism of government could be used to halt pov-

erty and to improve the lot of the common man.

An Idea Gone Sour

Who knows how this idea was born? Perhaps it came out of some individual's translation of the intent of our own Constitution. It certainly was stated plainly by Marx as the intent of his Communist Revolution proposals. But has poverty ended in the USSR or her satellite nations? Is Cuba sailing into economic bliss under Castro? Has our own "war on poverty" succeeded?

The answers to these questions are obvious. Both Soviet Russia and socialist/capitalist America are choking to death on an idea gone sour—that government in and of itself can improve the lot of man. It cannot. Not by force of arms or with countless billions of dollars. The lot of man will improve only when and if new ideas are allowed to compete freely in the marketplace of mind for growing space. The sweat-stained bicycle mechanic must be free to divert his money and energy toward his impossible dream before man can fly. There is no other way.

That such a teeming marketplace of competing ideas existed on the American continent from 1750 to 1950 is the true secret of our explosive development in all areas during that time span. Individual initiative, private property, free enterprise—all of these are positive

expressions that describe a missing negative force.

That negative force can be created and perpetuated by any ideology grown so mighty that it prohibits by coercive tactics the implantation, germination or proliferation of other ideas. It pre-empts the marketplace much in the manner of out-of-control weeds in a garden—and the garden dies, taking the weeds with it. Well, today's ideology of government-as-benefactor-to-mankind is the out-of-control weed. It masquerades under many titles: liberalism, environmentalism, humanism. But they share a common variable: coercive restriction of others in the name of a cause.

"From each according to his ability, to each according to his need" is an idea that appears to have skipped across cultural lines and permeated Russian, Asian and American societies. It is at the heart of a collectivist philosophy which conceptualizes a mechanistic, scientific universe and seems far from a noble idea. Yet it is running wild, encouraging statism and socialism, and stifling individuality and creativity. The mass man in the enmassed society is the product of today's dominant ideology which appeals to popularity with the crowd and to the longing to crush that with which one disagrees. Socialism and statism worship government as the embodiment of force.

Together with this obvious en-

thronement of the government apparatus itself is a pronounced tendency on the part of modern man to imbue bigness itself with magical qualities. So we see the marriage of diverse overgrown ideas to produce not growth and development but stasis and corruption. What chance has liberty and self-realization in such a repressive environment? More a chance, possibly, than even the most optimistic viewer can appreciate.

Associates in the field of behavioral analysis have assured me that the United States government would continue to debase the dollar until it became worthless. That pattern was in tune with historical precedent, they said; those in power abuse that power until it destroys them. Why, then, is our nation now in a recession? Can it be that an invisible hand independent of governments is at work? Will the dollar once again become a valuable currency?

Signs of Regeneration

The idea churning away in my own mind is that thinking Americans will join a silent revolution to save our nation and our currency before they are destroyed by our blind leaders. That is what the tax revolt is about. That is why conservatives are winning seat after seat in local and national elections. A new idea is taking root *despite* gov-

ernment efforts to snuff it out. That idea is that the individual does matter, that truth and honesty are virtues of worth, that love, sacrifice and concern can produce social orders that move toward greatness.

Freedom is the essence of a noble idea. In the case of manned flight discussed earlier, what if the railroad and trucking industries had used government coercion to halt aircraft development? Most would agree that such would have been a reprehensive, counterproductive use of power. Well, that's where the government apparatus is today in more fields than can be conceptualized. Entrepreneurs, who are the most fertile soil upon which new ideas can be sown, are hamstrung by countless regulations emanating from our overgrown government bureaucracies. These regulations are conceived and enforced to "protect the public." What they most often protect us from is progressive enrichment of our lives.

A Powerful Idea

Pessimists believe that big government and big industry will always retain their control and dominance over our lives. They may be correct. On the other hand, freedom does not always lose. In a recent book entitled, *World in the Grip of an Idea* (Arlington House, 1979), Clarence B. Carson talked of a teacher he admired: "Jesus showed

us the true might of a lifestyle based on God's laws, in this he was man incarnate. Of the things of this 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. 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 became an itinerant preacher and gathered about him for support only twelve men of uncertain loyalty.

"In all those things which a man is supposed to have in order to make an impact he had none. 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 then condemned by a throng of accusers . . .

"He had flung no challenges, broken no laws, formed no revolutionary party. But he had taught a way of life which undermined the way of the world. Organizations had to show their power; numbers (the throngs) had to intimidate else they must yield; force must be triumphant. It was not . . . Where there were once but twelve disciples, there are now millions."

The idea of Christianity has had its rough times since initially conceived. It has been twisted, corrupted, perverted and distorted—but it still prevails, for at its core is

a message of love and freedom. It is not necessary to be a Christian, though, to understand that a government which represses the Christian religion may also be repressing other ideas of value. The advocacy of atheism is as much a state-endorsed religion today as was the advocacy of sectarian Christianity in the early colonies. Neither practice is consistent with freedom.

The Stifling of New Ideas Is a Suicidal Practice

Our nation will recover from its nosedive into international oblivion when it discovers that stifling new ideas is suicidal. The world is slipping into the maw of socialism/communism because our leaders have adopted tactics indistinguishable from those of the Soviets. Who is to blame for this disaster? We are. Each and every one of us. We took freedom so lightly that we forgot to guard it. We lost ourselves in an era

of hedonistic abandonment and left government to the petty and envious. It is time for a change.

Men of foresight and intelligence who are scrambling for gold, silver and land to protect themselves and their families from an impending social crisis at least recognize the desperation of our times. Material assets are but insurance against disaster—the most reasonable course is to prevent the disaster if possible. It may be.

Sophisticated intellectuals who today are making snide remarks about the next "stone age" may not be around to even witness that unpleasant evolutionary possibility. Our nation is now in an era of transition which will shake many major institutions to their very foundations. The idea of freedom is again blowing in the wind, germinating in fertile minds, proliferating horizontally and growing vertically. It is a noble idea. ●

Albert Schweitzer

THE RENEWAL of civilization has nothing to do with movements which bear the character of experiences of the crowd; these are never anything but reactions to extended happenings. But civilization can only revive when there shall come into being in a number of individuals a new tone of mind independent of the one prevalent among the crowd and in opposition to it, a tone of mind which will gradually win influence over the collective one, and in the end determine its character. It is only an ethical movement which can rescue us from the slough of barbarism, and the ethical comes into existence only in individuals.

IDEAS ON



LIBERTY

Winners and Losers

CRITICS of the free market are hard to please. While they may applaud the opportunities offered and praise entrepreneurial effort, they frown upon the person who gains success. Charges of monopoly, price gouging, and selfishness are leveled. Envy of the competitor who succeeds in the market leads to calls for higher taxation and confiscation of profits. Many critics assume that the successful businessman must have cheated in order to gain his reward.

Conversely, we find persons equally critical of the leveling force of the market which drives out of business those who cannot compete. This may have been the experience of the critics themselves, or they know friends who have failed in business. And such a somber lesson always raises cries about the cruelty of capitalism and calls for government subsidies for failing ventures.

In the final analysis, market critics are satisfied with neither the opportunities for success nor the possibilities for failure. Instead, some type of equilibrium is sought, where all will be secure, where none can fail. They ask, "Why must some profit and others fail?" They call for a system where opportunities for great wealth may no longer exist, but at least the possibilities for failure will be eliminated.

It would be nice to live in a world where no one fails. But a close analysis reveals what a dull and impossible situation this alternative offers. If the chances for success and failure are destroyed, the end of progress and prosperity is inevitable. An examination of the market process reveals the necessity for profit and loss in a healthy society.

The incentive for profit and opportunities for success encourage improvements in life. This chance at wealth is a strong attraction which carries with it the possibility of loss.

One is not available without the other. In order to allow the maximum degree of consumer satisfaction and productivity, people must be free to succeed or fail. Protecting us from ourselves will only inhibit the satisfaction of all concerned.

Let's look at the profit incentive for a moment. The prospect for wealth encourages new people to enter the market with new products and new ideas. These entrepreneurs consider the risks, often using all their savings, and borrowed capital as well, to begin an enterprise of their own. Yet, they are willing to take these chances for the opportunity of bettering themselves.

Even though the vast majority of new ventures fail, the incentive for profit still causes an increasing number of people to compete in the market. These businessmen offer new products, new services, new competition for the consumer's patronage. The only way they can succeed is by offering the consumer a product for which he will willingly trade other valuable resources.

The possibility for profit is the reason that people like Henry Ford, Cyrus McCormick, and Chester Carlson risked their own capital to test new ideas in the market. Without the profit motive, the world might not have known the automobile, the grain reaper, or the inexpensive photocopier. Taking away the prospect for profit may soothe

someone's sense of envy, but it retards the development of new products and diminishes consumer satisfaction.

Another key feature of the profit system is that it keeps producers on their toes. Entrepreneurs are constantly seeking new fields in which they can maximize their profits. If they see a line of business where profits are high, this is a key for them to enter with a competing product. In this manner, the market encourages new competitors, which tends to lower prices and to discourage monopolies.

Our market critics often grant that a "reasonable" profit is all right, but that "excessive" earnings should be taxed away and used to help the less fortunate. In this argument, they fail to see the real purpose of profits. If a producer knows that his earnings will be taxed away when they exceed a certain level, he will not strive to be more productive.

It should be clear that the profit system is of benefit to everyone. Producers are given the chance to realize earnings, new goods are developed, new jobs are created, and the consumer gains a product suited to his needs. Without this incentive, why should anyone wish to risk his time, labor and talent to enter business?

But what about the other side of the coin? Surely, something should be done to prevent the thousands of

business failures each year. Think of the poor man who fails and is obliged to sell out to a more successful competitor.

It is important to realize that the market economy must be a profit *and* loss system in order to function effectively. The market insures that those who meet the consumers' needs will succeed. Competitors who do not meet these needs will not be able to continue in business very long. This prospect of failure is a stern reminder that efficiency and productivity are required. If failure is not allowed, businessmen can become lackadaisical with the knowledge that they will not have to face the consequences of their unproductivity.

The fact is that businesses fail for many reasons—undercapitalization, poor management, inadequate planning, just to name a few. The market allows a means for the unsuccessful competitor to liquidate his business and to cut his losses. History records many stories about people who failed in one area but were able to realize success in other fields. The market afforded these individuals a means of selling their stock and moving on to try their hand at more productive ventures.

But why should someone benefit at the cost of the poor businessman who must sell out? In a market economy, a person will trade only if he believes it is in his best interest.

Thus, the man who goes out of business has the choice of continuing his present line or selling his assets. If he chooses the latter, it is because he deems it to be in his best interest. The buyer of his property is the one person offering him the most attractive deal.

The market provides signals for a person to know when to expand or to contract or to go into another field. If a business is consistently losing money, this is a sign either to revamp the organization or to sell the business. A person who ignores these signals does so at his own risk; the person who buys such a business when it is offered for sale is actually helping the loser cut his losses in retiring from this segment of the market.

The alternative to allowing business failure in the market is subsidy. We are all familiar with such subsidies that have become a part of the American scene over the years. They require that people who are productive and have met customers' needs—plus consumers themselves—must give part of what they have earned to support the less productive businessman. In this way, the inevitable collapse of the subsidized business is delayed, and the market process is circumvented. Ultimately, everyone pays for this inefficiency with higher prices and a distortion of the signals that the market issues.

Whenever government steps in to protect individuals from failure, it hampers the working of the market process. Instead of allowing the entrepreneur to see that he must change his practices to meet consumer needs, subsidies allow him to dwell in a dream world, where failure never comes.

In essence, what happens when government enters the market is a distortion of reality and the creation of a vicious cycle. To insure that no one fails, others must be ordered to sacrifice the fruits of their labor. To keep the productive from earning their rewards, the incentive to create and develop new products—with new jobs—is removed.

If our critics are concerned about the plight of the small businessman, they can best help by removing government regulations which place an oppressive burden on any small entrepreneur. A variety of laws, from building codes to zoning regulations, retard the ability of businessmen to face the requirements of the market.

The producer who risks his capital and goes out to borrow from others to realize the goal of owning his own business deserves better than the present state of affairs. He generates a product, for which people are voluntarily willing to exchange their own goods; he offers this at a competitive price; he employs workers at a wage for which they are

willing to trade their labor; and he adds to the overall wealth of his community. In exchange, he is forced to collect sales taxes, keep various records for the government, observe licensing requirements, and pay taxes of differing degrees on his earnings.

The profits earned are the seeds from which progress grows. Profits encourage efficiency of production and the expansion of industry. Consumer needs are met as buyers are allowed to purchase the goods they wish in free exchange. Jobs are created, which help to meet the needs of workers. All of this is possible only through the workings of the free market. Winston Churchill once observed, "Private industry runs at a profit and uses the profits to expand producing capacity. Government industry runs at a loss, and taxes the substance of the people to pay for its inefficiency."

In reality, our critics who seek equilibrium must understand that such a state of affairs is both impossible and undesirable. Human nature dictates that we constantly strive. The chance for profit must be available as an incentive for men to reach higher. Likewise, the market records a loss for lack of productivity and it affords the least painful way for people to move from one business to another. If profits are not possible, we all lose; if failure is not allowed, none of us can win. ●

THE NEW CLASS?

THE late Richard Weaver, who wrote a book to prove that "ideas have consequences," knew that the efficacy of a concept often has nothing to do with its truth.

To pick a most horrendous illustration, there is the Marxist theory of the class war. The so-called dialectic of the class struggle is responsible for the Russian Revolution, but if it hadn't been for Lenin's professional mechanics of the arts of incitement and propaganda ("agit-prop") the idea that the Russian proletariat was bound to take over would never have become more than a slogan exploited by a minority in a St. Petersburg parliament.

Marx never intended to apply his theory to backward agrarian societies anyway. He elaborated it for the industrial countries of the West. So what happened? Instead of coming to a revolutionary confrontation of grasping capitalists and maddened workers, the "struggle" took an entirely different turn. As Eduard

Bernstein predicted in Germany, workers became rich enough to constitute a lower middle class. To use John F. Kennedy's figure, the rising tide of affluence lifted all the boats. The whole western society became bourgeois; Labor Day became the great middle class holiday, and May Day was more or less forgotten.

Now, to fill the gap caused by the failure of the Marxian idea of the "final conflict" between factory owners and workers, we have the theory of the so-called New Class. In our rush to build what Daniel Bell calls "post-industrial society" we have exalted a whole new tribe of symbol-manipulators—foundation employees, research associates, teachers, government regulatory bureaucrats, social workers, publicists, communications experts and "public interest" lawyers. The symbol-manipulators have status and make good salaries. Their productive "property," as distinguished from a farm, a set of tools or a shop, con-

sists of their brains. In many ways they certainly affect our culture and our politics.

But taken as a group, do the symbol-manipulators manifest the coherence of a class? B. Bruce-Briggs, a former city planner and foundation executive, has addressed himself to this question by inviting twelve theorists, some of whom would describe themselves as neo-conservatives, to provide tentative answers to the question. The book he has edited is called *The New Class?* (Transaction Books, New Brunswick, New Jersey, 229 pp., \$16.95), and the presence of the interrogation mark in the title is quite calculated.

Going to the census figures, Mr. Bruce-Briggs discovers plenty of evidence that proprietorship has been in decay and the role of salaried managers and professionals has been increasing. Meanwhile we have had the growth of the health industry and the swelling of "number workers" (scientists, engineers and computer programmers). If we add the "ballooning of academia, teachers and college students" and "the appearance of well-paid federal officials" to the managers, number workers and health industry employees, we have a sizable group.

Mr. Bruce-Briggs says that "one deviant in a community is a troublemaker, ten are a clique, a hundred a club, a thousand a pressure group."

But what does it take to make a "critical mass"?

Twelve Contributors

The twelve contributors to the book are sufficiently unified to indicate there can be small explosions of "critical mass" size, but none of them seems willing to consider that we are in danger of a New Class takeover. Sociologist Daniel Bell thinks the New Class is a "muddled concept." Historian Andrew Hacker says of the new symbol-manipulators that they have larger vocabularies and greater verbal facility than their fathers, but "when all is said and done they remain workers beholden to the organizations employing them." As "upper-level employees" they "do not constitute a class by themselves." They are "bit players who do not even choose their own lines."

Nathan Glazer, considering the legal profession, makes a good case for the class consciousness of the public service lawyer. And twenty thousand lawyers work for the federal government. But when you consider that there are two sides to every legal case, you are compelled to admit that lawyers live by fighting each other, which means there can't be much lawyer class solidarity, either "new" or old.

For a moment in the Nineteen Sixties, when the campuses were erupting, Seymour Martin Lipset thought there might be some Marx-

ist class consciousness developing among the professoriate. But he notes that, despite their distaste for the existing order, "the leaders of the American intelligentsia do not know what they want for a new society." Jeane J. Kirkpatrick, a resident scholar at the American Enterprise Institute, thinks the New Class of symbol-pushers has "second-level stratum" importance in government. But they have not often achieved "apex" positions, and she is glad of it. "As surely as a monopoly of power or wealth is dangerous to the rest of us," she says, "a new-class monopoly on meaning and purpose is incompatible with the common weal."

Michael Harrington, a self-proclaimed democratic socialist, thinks Irving Kristol's hope for a "neo-conservative" response from the New Class in favor of a free market is deluded. He worries lest the New Class should succumb to Fascism. Kevin Phillips likes the New Class tendency toward a "neo-populist insurgency," but he fears it will provoke a reaction of "nationalistic, majoritarian, work-and-productivity-minded" people toward a "strongman."

The "modernism" of the New Class, deriving from secular up-bringsings that have de-emphasized religious values, bothers Peter Berger, who considers that disillusion with "repressive secularism" could

lead to "fanatical retrenchments." Everett Carl Ladd, Jr., acting director of the Roper Public Opinion Research Center, is Olympian, as befits a pollster. He doesn't claim any proof of a class conflict between the intelligentsia and the "embourgeoised working class," but he sees some differences emerging "at the level of activism." This, he says, is to be expected.

Adversary Cultures

The best papers in Bruce-Briggs' book are by authors who have limited their aims. Aaron Wildavsky, former dean of the Graduate School of Public Policy at Berkeley, explores the interest the New Class has in preserving a no-or-little-growth status quo for their own elite cadres. Norman Podhoretz, the editor of *Commentary*, describes the developing battle between the "adversary culture" and the neo-conservatives who have revolted against the New Politics liberalism of the McGovern years. Since both the "adversaries" and the neo-conservatives are, roughly speaking, "new class" in their symbol-manipulating capacities, what Mr. Podhoretz has to say points to a serious schism in New Class ranks. It would be relevant to conclude from this that the fight for America's soul transcends class limits.

Finally, Robert Bartley, editor of *The Wall Street Journal*, investi-

gates the sources of the anti-business clamor of recent years. Bartley is specificity itself as he explores the ramifications of the so-called public interest groups that owe their existence to "Mr. Public Citizen—Ralph Nader, Inc." Nader has been "the prime mover behind some thirty-five books and reports," and is credited with the passage of much anti-business legislation.

"Predictably," says Mr. Bartley, "Nader has inspired a host of imitators, founding not only his conglomerate but an entire industry." So we have the New Class isolated and personified in one towering figure. Mr. Bartley does not challenge Nader's sincerity, but he thinks that "Ralph Nader and Friends are sometimes wrong" and that the "public interest" might often be better served by "more careful attention to a balance between benefits and costs." Amen. ●

MAN IS MORAL CHOICE

by Albert H. Hobbs

(Arlington House, Westport, Connecticut 06880)

445 pages ■ \$12.95

Reviewed by Tommy W. Rogers

IT is the mystique of the contemporary social and behavioral sciences that man does not have a nature; he is infinitely malleable under environmental pressures ideologically

manipulated. Scant attention is paid to the self-determining qualities of human beings, the demonstrated capacity of men and women to choose, and by an act of will surmount environmental handicaps. Human beings are material for the planner, as the matter is viewed by the ideology known today as liberalism. Dr. Hobbs, a university professor of sociology and a historian of ideas, traces liberal thought back to its unsubstantiated assumptions and prejudices. He has an expert knowledge of the relevant literature and uses a devastating logic to expose the fallacies.

Hobbs, acknowledging an intellectual debt to Edmund Burke's reaction to the French Revolution, posits "philosophical conservatism" as an alternative to rationalistic-scientism/romanticism. The underlying motif in Hobbs' philosophy is his belief in capacity for moral choice, which is rooted in the neocortex—that part of our brain which has no analogue in animals. Since stimuli—whether of external or internal initiation—can be facilitated or inhibited on the neocortical levels of the brain, human beings are able to exert self-determining choice over their attitudes and behavior. "When we realize that the initiating factor cannot be incorporated into what we know to be right, we can and should inhibit it so that it does not become a cause of our behavior.

To refuse to choose is also choice. If we do not actively inhibit impulses which conflict with what we know to be right, our refusal to do so constitutes immorality."

Morality, Hobbs asserts, entails a set of circumstances which requires judgment. Those sheltered by their environment or their estate or otherwise insulated from temptation do not earn moral credit for abstention which would require sacrifice on the part of others. Advocates of the "new morality" would lead us to believe that when we have fully adopted their socio-political programs of economic redistribution, socialized medicine, subsidized housing, and universal education, the ills to which the spirit is heir—alcoholism, so-called "mental" illnesses, family disruption, and other indices of disorganization—will be resolved. Their socio-political programs allegedly will elicit the innate goodness of man by eliminating the things which cause badness—social and economic competition and guilt due to out-

moded notions of personal morality perpetuated by bigots. Conservatives, by contrast, convinced that the formulas of "social science" provide an escape from personal responsibility but not a solution to our problems and that the socio-political programs which constitute the "new morality" are no substitute for morality, insist that morality involves men, not measures; persons, not programs.

Hobbs recognizes that people will find it difficult to reject the seeming certitude of science and the superficial clarity of rationalism which offers them Utopia Tomorrow for their society and Painless Panaceas for their conscience today. The conservative conception of man may lack the sentimental appeal of romanticism and seems prosaic compared to the visionary utopian promises of rationalism. But the choice is ours, and when the choice is a hard one there is often an extraordinary strength in ordinary people to respond. ☉

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