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Anyone wishing to communicate with authors may send first-class mail in care of THE FREEMAN for forwarding.
Every once in a while, I see a car bearing a bumper sticker, "Buy American." From what I gather, it is a popular sticker in Michigan, especially in cities like Detroit and Pontiac. Whenever there is an economic recession, and the sales of American automobiles begin to slide, we can count on a television report on the ailing auto industry, complete with interviews with unemployed auto workers, who have "Buy American" stickers on their cars and even on their homes' front doors.

"Americans have to pull together," we are told. "They ought to help each other. If they don't stop buying those foreign imports, they're going to kill the U.S. economy." In other words, "What's good for General Motors is good for America."

But Americans have this distressing tendency—one shared by buyers in every nation in the world—to buy what they regard as bargains, irrespective of "Made in U.S.A." stickers. When Americans "buy American," they have in mind something very specific: "Buying what this American chooses to buy." They are only slightly concerned with buying what another American chooses to manufacture.

Does this indicate a lack of patriotism? Did all those people who bought Volkswagens in the 1950s deal the national interest a body blow? After all, they could have bought De Sotos, or Studebakers, or Packards. Why, they could even have bought Hudsons. But they didn't.

Are we willing to modify ex-GM President Charles Wilson’s famous

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phrase? Are we willing to declare, retroactively, that "What's good for Hudson is good for America"? Would anyone buy that bumper sticker?

For over two decades, foreign auto manufacturers sold products that saved on gasoline. Americans in the 1950s didn't pay much attention to them. The gas-guzzler was a national institution, a 75-miles-per-hour, 15-miles-per-gallon temple to the promise of unlimited growth and 5 per cent GNP increases, compounded annually, forever. Now some people argue that the gas-guzzler is innately evil, a destroyer of energy supplies. But Americans don't need stern lectures from Volvo-driving sociology professors to teach them about the evils of the gas-guzzler. They get this lesson clearly enough every time they drive up to a gas pump.

Consumers Change Their Minds

What wiped out Detroit's profits overnight was an overnight shift in car-buying preferences on the part of American consumers. The presence of foreign imports allowed them to exercise their preferences. The buyers had been unable to make up their minds about whether to give up the long-preferred gas-guzzler. The gasoline lines and high prices of 1979 convinced them. They didn't need federally mandated mileage standards; they didn't need editorials in the Washington Post about the necessity of national conservation (by means of federally financed rapid transit systems); all they needed was a quick look at their monthly charges from their oil companies.

So they changed their minds, almost overnight. This is what freedom is all about. Foreign auto manufacturers were there to sell the products people now demanded. Americans had a choice. In fact, they had several choices. First, keep the gas-guzzler, or buy another one, and wind up subsidizing OPEC. Second, buy a foreign import, thereby profiting Japanese or German companies, but reducing the subsidies to OPEC. Third, get on a waiting list for an American small car, few of which were available. Fourth, drive less and ride on the municipal bus line. (Choice number four is hypothetical, which I added only to make my model elegant. I believe that hardly anyone not employed by a university or a newspaper took the fourth choice very seriously.)

Millions of Americans decided to start sending dollars to Japan in order to cease sending them to OPEC nations, by way of Texaco, Exxon, and so forth (minus 20 per cent for handling). They made that choice because they calculated that they would serve their own self-interest better by reallocating their budgets away from Detroit and Saudi Arabia, and toward Japan or Germany, keeping whatever money that was
left over to spend on something else. That, basically, is "the American way." Americans want extra money left for something else. That is also the Japanese way, the German way, the Swedish way, and the Lower Slobbovian way. Consumers want money left over after they have made any given purchase.

**Twisting their Arms**

It would appear that several automobile brands are threatened with the fate of Hudson. I will be a gentleman, and refrain from mentioning any names. I will simply lump them all under the category, "Son of Hudson."

Workers and management at Son of Hudson Motors are concerned. They find their share of the market declining, their unit costs of production rising, and their pension hopes fading. They look for an answer. The main reason is that the public is buying fewer cars, or different brands of cars. But everyone knows that Americans always buy a new car every three years, or 60,000 miles, whichever comes first. (This practice, by the way, constitutes the single-most important form of voluntary wealth redistribution in American life, given the life expectancy of a car at 110,000 miles, and the depreciation well over 60 per cent after the third year.)

What is the obvious way to revive the sagging fortunes of Son of Hudson Motors? Twisting some arms. Of course, no one connected with the company would think of actually going down to the local Toyota agency and twisting the arms of potential buyers. Those kinds of tactics are reserved for non-union auto workers, and the union has a limited number of professionals in this highly specialized field. Besides, management would regard this as unспорting (at least in the early stages of the recession). No, there is a better way, a more cost-effective way, a more traditional way. Manufacturers call it "the American way." Get the government to restrict sales of imports.

"Get your hands on a Toyota, and you'll never let go!" The employees at Son of Hudson Motors apparently believe in this catchy jingle. What needs to be done, therefore, is to make sure that fewer American consumers get an opportunity to get their hands on a Toyota. So they get a cost-effective, historically acceptable squad of goons to go out there and twist a few arms. But nobody calls it a goon squad. They call it Congress.

Picture this scene. Joe Lunchbucket goes down to his friendly Toyota agency to check out the new models. As he goes up to look at the price sticker on one car whose style pleases him, a giant of a man steps up next to him. "You interested in this car, Mac?" Joe gulps. "Why, yes.
Are you the salesman?" Howls of laughter greet him. He looks at the price. "That price ain't no good here, Mac. It costs 20 per cent more." Joe, startled, wants to know why. "These unpatriotic cars cost more, that's why." Joe wants to know who gets the 20 per cent. "Funny you should ask, Mac. I do. It's all part of a program to save America. I'm here to help you to save America. You want to save America, don't you? What's good for Son of Hudson is good for America."

Of course, this is all exaggerated. Nothing like this happens. There really isn't some giant hulk of a guy in the showroom. There is only a mild-mannered customs official at the dock. This is more cost-effective. But your arm is just as sore, isn't it? If you want to get your hands on a Toyota, you will have to put up with a sore arm. The soreness is supposed to be just slightly more painful than the pain from buying a new Son of Hudson and paying that extra levy to OPEC. You will have a sore arm in either case, but Congress wants the comparative soreness factor to favor Son of Hudson. This is the American way, political-style.

The genius of the system is that the victim never recognizes the assailant. Worse, by believing the traditional version of the American way, the consumer convinces himself that goon squads are necessary, so long as they only work the docks and carry official identification when they extract their "protection money." That really is what we call it. Protection.

Another Variation: Export Controls

If the problem facing Son of Hudson is foreign competition, there is another way to accomplish the same end. Americans have to buy foreign currencies when they make a purchase of a foreign product. They may not understand this, but specialized currency traders do. They buy a foreign currency with dollars, and then they sell these foreign currency units to American firms that want to import foreign-produced products.

What if Americans couldn't buy foreign currencies? Wouldn't that solve the problem for Son of Hudson? Wouldn't that stop the devastating flow of foreign goods to these shores? Of course it would. So here is my plan.

First, you get Congress to impose massive export restrictions on domestic producers. Make it illegal, or at least very expensive, to ship goods and services out of the country. That way, foreign buyers will start buying goods that are \textit{not} "Made in U.S.A." Just get the price of U.S. goods high enough, and foreigners will buy elsewhere, right? And if they refuse to buy American goods, there will be zero demand (or at least far less demand) for American
dollars on the international currency markets. After all, if they can't buy our goods and services, why would they want to buy our money? Anyone can see this.

Now, if foreigners stop offering to buy dollars with their foreign currencies, then Americans will be unable to buy foreign currencies with dollars. And if they can't buy foreign currencies, they can't buy foreign goods. And best of all, nobody blames Son of Hudson Motors for its advocacy of a "selfish, short-sighted policy of protectionism."

This probably seems like a peculiar way to make the case of saving Son of Hudson Motors from the onslaught of foreign competition. In fact, it sounds downright crazy. That, however, is my point. What sounds plausible from one perspective—the argument favoring tariffs—sounds nutty from another perspective, namely, the prohibition of American exports. But the argument is the same, for the economic consequences are the same.

What if you were a concerned American citizen who had come to me in search of an answer to a problem, "How to save Son of Hudson from bankruptcy?" First, as a defender of tariffs, I might have offered you the typical arguments: unfair competition, dumping, low foreign wages, and so forth. My solution: restrict imports.

Not willing to leave you with any doubts, assume that I then proceeded to give you my alternative solution: the prohibition of American exports. At that point, I began to create doubts in your mind. Maybe I was overstating this thing. You had come to me in search of an intellectual justification for "buying American," and now I was sounding slightly off my rocker. But my argument is logical. Let me explain:

"You see, if foreigners can't buy American products, then Americans can't buy foreign products. You do see this, don't you? All the government has to do to protect Son of Hudson Motors is to prohibit the export of American grain, American chemicals, American computers, and American technology in general. That would do it. Instead of putting a bunch of customs agents on the docks to keep out foreign-made products, all it has to do is to put them on the docks to keep in American-made products."

"Now look here, I want to help. You're looking at me rather strangely. Sure, it sounds a bit crazy. After all, isn't the whole idea to get people to 'buy American'? Now I come along and tell you that the best way to get Americans to buy American is to keep foreigners from buying American. You say that wasn't what you had in mind.

"What do you mean, that wasn't what you had in mind? Why didn't you say so in the first place? You
wanted to know how to save Son of Hudson Motors from bankruptcy at the hands of foreigners. That's exactly what I'm showing you. But now you start complaining about my alternative plan. You didn't come here to ruin the American farmer, you say. You didn't come here to wipe out the international market for American technology, you tell me. All you wanted to know was how to save Son of Hudson.

"Look, let's only answer one problem at a time. You keep trying to change the subject. You keep wanting to get foreigners to buy American grain, chemicals, computers, and so forth, but you don't want Americans to buy foreign cars. You want Americans to buy American. But you also want foreigners to buy American. Look, friend, make up your mind. You can't have it both ways. Congress can save a failing automobile company from foreign competition if we are willing to accept the destruction of our export markets. Congress can force Americans to 'buy American,' but only by forcing foreigners to 'buy foreign.' But if you want foreigners to have the economic ability to buy American products, then you have to allow Americans to buy foreign products. Either you want trade or you don't. It takes two to tango, my friend. Just who is it that you want to 'buy American'?

"Yes, yes, I know. You want everybody to buy American. Americans should buy American, and foreigners should buy American. Everyone should buy only American. Tell me, what do you mean by the word, 'buy'? I thought 'to buy' meant 'to exchange.' I thought it meant, 'I get something of his, if he gets something of mine.' Now you're telling me everyone should buy American products. Then tell me, please, just what is it that I get from the foreigner when he gets my property? If I'm supposed to sell him my grain, or computers, or whatever, what do I get in return? I'm not running an international charity, buddy. I'm not in this for amusement. If some foreigner wants to buy anything in my shop, he darned well better have something to give me. If I have to 'buy American' by law, and he wants to 'buy American,' too, he can do his shopping in somebody else's store. Some American seller may be stupid enough to 'sell' him something for nothing, but not me. I wasn't born yesterday, you know."

**Born Yesterday**

Defenders of the tariff idea really have yet to come up with an economic definition of the verb, "to buy." They call the government to come to the aid of a particular American industry by imposing tariffs, quotas, or other import restrictions, and simultaneously they call for Congress to enact export subsidies, loan guar-
guarantees for exporters, and similar coercive wealth redistribution schemes. Amazing, isn't it? Congress passes a tariff, and the next thing you know, American exporters are going bankrupt. So Congress passes export subsidies, and the next thing you know, prices for everything start going up. So Congress passes price controls, and the next thing you know, everything starts getting scarce. So Congress passes a rationing scheme, and the next thing you know, the world economy collapses. What's a Congress to do?

What Congress should do is to allow voluntary exchange. I buy, he sells. I sell, he buys. In fact, every time I buy, he is buying. I buy his goods and give him money; he is really buying future goods. He is "buying money," but only because he expects to buy goods from someone who will be willing to accept the money later on. I sell him goods, and I "buy his money," but only because I want to buy goods later on.

When we ask people to "buy American," what do we really mean? If we ask Americans to buy American-made products, and only American-made products, then we are telling American producers to sell to American buyers, and only to American buyers. If people who want all Americans to "buy American" are not willing to admit that they are calling for American producers to sell only to Americans, then they had better drop their slogan. Conversely, if they want foreigners to have the option of "buying American" from American sellers, then they have to allow Americans the option of "buying foreign" from foreign sellers.

"To buy" is "to sell." It is the same transaction. It is an exchange. The person who suggests that Americans should buy only from Americans is suggesting the absolute abolition of international exchange. He is advocating the destruction of the international division of labor. He is advocating the abolition of international economic specialization. He is advocating international economic disintegration, given the key position of American trade, American capital markets, and American technology. He is advocating economic collapse. He is advocating a return to barbarism.

We can save Son of Hudson, but only at the expense of some other American manufacturer. The more "freedom from foreign sellers" we give to one industry, the more "freedom from foreign buyers" we impose on another. The time has come to think through the economic, political, and moral implications of the slogan, "buy American." If we are upset by the implications, we had better abandon the slogan.
A New Year's prayer of faith and hope for friends of freedom.

RALPH BRADFORD

The Basic Law

1

We men of Earth have searched to find
A moral principle or guide—
A basic Law for humankind,
To light our steps, and to provide
Direction for our earthly course,
Derived from some celestial Source.

2

And this has led, along the road
That spans the dim, unfolding ages,
To many a prayer and creed and code,
And volumes of unnumbered pages,
As we have hopefully explored
The mystic purpose of the Lord.
3
The Lord! Thus man has named the Power,
The Savior, God, and Judge Supreme—
Concepts of majesty that tower
Above the substance of his dream—
A Lord to listen and to lead,
And satisfy his constant need.

4
So men in new and ancient lands,
Destined with sin and fear to cope,
Have lifted heavenward their hands,
To grasp the faded hem of hope,
Beseeching light, and strength to pray:
Help us, O Lord, to find the Way!

5
For man has never been content,
As centuries have come and gone,
To think that nothing more was meant
By his creation than the spawn
Of yet another form of life
To kindle Earth’s eternal strife.

6
He hopes and prays for love and peace
Among the nations; and he gropes
For understanding and release
From tribal hatreds; and he hopes
That men will follow, more and more,
The path of peace, away from war.
And all the while his mind is torn
With speculation, hope and doubt.
Why am I here? Why was I born?
What is my being all about?
Is man on earth by God’s decree?
What does existence mean to me?

Thus questioning, he probes the night
For evidence of God’s desire,
Seeking amid the stellar light
The secret and eternal fire
Which hopeful men have ever seen
Lighting the stars and worlds between.

What is the lesson he can draw?
What moral do the stars declare
The while we study them in awe,
With hopeful eye and heart at prayer?
For grace and strength and love we yearn—
What is there yet for us to learn?

Our mighty Earth is but a speck
Against the vastness of the sky;
Our blazing sun is but a fleck
Of flame that will explode and die—
And every planet, sun and moon
Will fade and vanish, late or soon!
Thus speaks the counsel of despair,
The pain that evermore assails
The hopeful heart. But man will dare;
His search for comfort never fails.
His questing eye is heavenward cast;
His courage, like his hope, will last.

And somewhere in the aisles of space,
Or in the temple of his heart,
He hears the whispered word of grace
Which love and hope—and fear—impart:
Be still, my son; your troubling cease;
Love God and man . . . . and be at peace!

Ralph Bradford, of Ocala, Florida, is well known as a writer, poet, speaker, and business organization consultant.
Reprints of this poem are available from The Foundation for Economic Education, Inc., Irvington-on-Hudson, N.Y. 10533 at 20 copies for $1.00.
Despite the repetition of phrases like "the American economic miracle" and "American prosperity," there are still very few Americans, college-age or otherwise, who can give a satisfactory answer to the question asked me some years ago by a Korean friend: "How is it that 4 million people, located between the Atlantic coastline and the Mississippi River, starting with very little in 1789, ended up with more than enough for 76 million people by 1900?"

What happened in the United States during the period from 1800 to 1900 which made it the most prosperous of nations? One can begin to answer that question in what appears to be an unlikely way—by talking about a working girl, Lucy Larcom and a teamster-clerk, George Scranton.

Lucy Larcom and George Scranton—The Savers

Lucy Larcom was born in Beverly, Massachusetts in 1824, the ninth child in a poor, but religious family. Her father died when she was eleven. Her mother moved the family to Lowell where the girls worked in the textile mill there. Her name is not one emblazoned on the pages of American history, but in her life and habits can be found the origins of American economic well-being. She earned, what most earned at the
factory, perhaps $3.00 a week. But, she and her mother and sisters saved.

It was not easy. The process of saving—postponing present consumption, refusing to spend all of one’s earnings for current needs—is painful in the first stage of economic growth. Especially when total income is low—$3.00 per week—the temptation is to consume all and save nothing.

But Lucy Larcom and her family refused to devote all current income to current needs. Her family’s acts of abstinence brought into existence a store of money capital in the form of savings. It is known, for example, that workers’ savings at that one Lowell, Massachusetts plant totaled about $100,000 at one point in time for which there are records. Lucy Larcom’s savings and those of tens of thousands of others like her, created a fund of capital which was the prerequisite for economic betterment. Individual savers accounted for over half of the nation’s total savings pool. They saved, and by so doing, began to create a legacy of prosperity.

Not only individual income-earners saved, but businessmen saved. George Scranton was a Pennsylvania teamster and clerk. For years during the 1830s he saved his money. His saving habit placed limits on his present consumption, but he soon invested his money in capital goods. First he bought an iron-making furnace. After a few years of iron-making, he purchased coal lands in
Pennsylvania, where eventually a city would grow up bearing his name. He plowed back business income into further capital goods, that is, into machinery, equipment and tools. His business was a source of further savings. Those savings increased the size of the American capital pool.

**Opportunities for Investors**

Money capital came from another source. To be sure, workers and businessmen saved. But, in the 1830s, as had happened earlier in England, the great aristocratic merchant trading families, the Cabots, Darbys, and Beekmans, moved their money capital out of trade and into manufacturing. Instead of being just importers or exporters of already produced goods, they invested in the production of goods themselves.

American wage earners, businessmen and traders contributed to the capital pool. In addition, foreign savings found their way into our economy. Foreign investors with money capital were eager to find opportunities here. Often they bought government bonds that were issued by the state or federal government; but foreign capital was ventured in private projects also, especially in the American West. There, during the latter part of the nineteenth century (1880-1900) British investment reached noteworthy levels. The *Laramie Weekly Sentinel* of June 9, 1883 acknowledged: "English capital has done much toward developing the Western country, and there is much to commend in the enterprise which brings millions of dollars to put into the land, ditches, and cattle along the foothills."

By 1883 twenty-one major British cattle companies owned western lands. One of them, the Prairie Cattle Company, ranged 100,000 cattle over 1,000,000 acres, constituting a capital investment of two and a half million dollars. Likewise, Scottish investment in cattle in 1884 has been estimated to have been twenty-five million dollars.

Saving became a national pastime. So much saving occurred during this period that the number of banks increased greatly. Banks are, after all, "brokers," persons who bring buyers and sellers together. Banks bring buyers and sellers of savings together. They bring the Lucy Larcoms, the sellers of savings, together with the buyers of savings. For example, banks grew from 28 in 1800 to over 800 by 1850. Savings brokers placed portions of this fund of capital into the hands of those who purchased capital goods.

American savings overflowed national boundaries. By the 1870s private American capital was traveling abroad to China where it financed the construction of the Hankow-Canton Railway. Millions more went to Germany and Sweden for invest-
ment there. Twenty-five million was sunk into Russia to aid the construction of railroads in that country.\(^5\)

It is no accident that economic historians say that the period between 1850 and 1900 was a period of probably the highest savings rate in American history. It was the "Age of Saving," the "Era of Thrift."

**Capital Goods**

Savings lying idle bring no benefits. But American money capital was converted into capital goods. Why are more capital goods beneficial?

Adam Smith in his *Wealth of Nations* tells how he came across a primitive pin-making workshop employing ten men. He found the workers using limited, crude capital goods—tools—to heat, shape, point and pack the pins. With even those crude tools, observed Smith, ten men could make 48,000 pins a day. Imagine the surprise of Adam Smith if he could have been transported 100 years ahead to an American plant in 1850. There, ten employees, each with four capital machines, could produce a total of 6,000,000 pins a day!\(^6\)

Why use capital goods in production? Because they increase what a worker can produce! We commonly call this an "increase in productivity." It comes about because the laborer is given better tools with which to do the job. It is the difference between the amount of dirt one can move with an ordinary shovel on the one hand, and the amount of dirt one can move with a bulldozer on the other. All sorts of capital goods industries expanded during this period. The increase in the use of tools can be seen by one example from the lumber industry. There, the demand for the basic tool of lumbering—the ax—was so great that over 40,000 axes were required each month to cut the timber that helped to build homes, factories, churches and schools across the land.\(^7\)

Throughout the United States these machine-equipped workers were producing more than anyone had ever imagined could be provided. But producing more of what? Some commentators have said that capitalism during this period produced only huge factories and large fortunes. However, the tremendous growth of the nineteenth century occurred because producers were motivated, energized and activated by the demands of millions of consumers. The Age of Capital Goods was and is at the same time the Age of Consumer Goods. Production, then, was directed at consumption.

**A House Tour**

If one were to walk through a typical frame house in a larger midwestern city around 1880, the benefits that were being brought to
consumers by capitalism would become apparent. The attractive factory-made furniture of maple and oak that would be there could be bought by a middle income family for the first time in American history because the use of capital goods—the mechanical power circular saw, and the turning lathe—made inexpensive furniture available for many.

More capital meant larger numbers of consumer goods. The wallpaper in the parlor would not be something imported or hand-drawn, but the pattern would appear even and distinct. Three decades ago the walls would have been bare. But in 1880 householders could choose from many patterns economically priced because the use of the cylinder press, a capital good, had greatly lowered the cost of wallpaper beginning nearly twenty years previously. The carpet under foot would have been purchased for about 59¢ a yard. Textile machinery placed floor coverings within the reach of many.8

Even the newspaper on the hall table could properly be regarded as a product of capitalism. General circulation papers began to appear about 1840 and by 1900 they had total subscribers in the millions. What had made such papers popular? For the first time many ordinary workers had the leisure time to read. And they had time for entertainment. Home amateur musician-ship sprang up in the late 1800s and blossomed in the early 20th century. Sears Catalogue featured what it called the “Beckwith Family Favorite,” a piano for the parlor costing $89. Once again, capital goods lowered the cost of musical instruments and families had increased leisure in which to enjoy new entertainments.

Other forms of entertainment illustrate the amounts of free time that began to be available to the American worker. Organized baseball took hold in the 1850s and Rugby football began to have followers after the Civil War. Hearst’s New York Journal was the first newspaper to have a “sports section” and that occurred in 1895. Moreover, a new American institution began to be embraced by workers—clerks and mill hands alike—the summer vacation.9

Not only did the living rooms and parlors give evidence of American economic progress, but, in fact, the birth of a new room was made possible by capital intensive production—the bathroom. It is fair to say that before the 1840s the “bathroom,” as a separate room, did not exist. The kitchen was the most frequent site of infrequently taken baths. The first stationary tub with plumbing appeared in the early 1840s. However, by the Civil War, Albany, New York, a town of 62,000, had only nineteen such tubs.10 By
1880, however, the stationary wooden tub with copper or zinc lining was commonly found in homes. Over the last decades of the nineteenth century and on into the early twentieth century, the outdoor privy came "inside," thanks to great advances in the production of sewer pipes and systems. Mass-manufactured tubs, toilets and sinks came to be housed together in an entirely new place, the bathroom. Capital production would later make Americans into "two bathroom" citizens.

In the wardrobe could be found yet further evidence of the significant changes produced by nineteenth century capital accumulation. Textile manufacturing, as it had done in England, provided lower cost clothing to all Americans. By the end of the nineteenth century "dress ceased to be a very good indicator of differences in scales of living." Textile plants made clothes of the wealthy and the modest income recipients almost indistinguishable. Few could discern the difference between ready-made pants of the factory worker and tailor-made slacks of the professional.

The capital equipment that made goods production cheaper and prices lower also raised workers' wages! From 1860 to 1890 the real wages of workers increased by about 50 per cent, perhaps more. Workers were simply able to produce more and therefore warrant their higher pay. Why, then, do we have so much? Because those who went before us saved and invested in capital goods, which were used to produce consumer goods. It is not too much to say that such a century of saving, investment and production should be regarded as a kind of bequest from those of another era to the present generations. It is a devise from one generation to all who follow—a legacy of prosperity.

—FOOTNOTES—


3Handlin, p. 476.


5Krooss, p. 214.


8Krooss, p. 40.


10Krooss, p. 41.

11Krooss, p. 40.
EVERY PERSON pursues his individual goals in the context of some society. The norms, customs, habits and fashions of that society seem at times to hinder him, but at the same time they are a sustaining presence. Likewise the laws of his nation. Man is said to be a political animal, in the sense that society is his native habitat. But he's also a political animal in one further respect; people create governments in their own image. This is obvious in a democratic system.

It is self-evident that the politicians elected to public office are men who embody the consensus. The successful candidates are those who most persuasively promise what voters believe government should deliver; politicians operate on that slippery spectrum bounded, on the one hand, by what voters expect and demand of government, and by what they will put up with from government, on the other. A nation tends to get the government it deserves, in the sense that pressure groups will eventually organize to make wrongful demands upon government, unless the nation's "aristocracy of virtue and talent"—men with the ability to teach what expectations and demands are legitimate—are heeded.

When educators, philosophers, and men of letters fail to properly nourish the intellect, the conscience and the imagination of significant segments of a society, they betray a sa-
cred trust as teachers of mankind, and in the wake of their defection a secular religiousness becomes the popular faith. Leviathan—the omnipotent State—is the god of this faith. Men serve Leviathan in the confident expectation that he will provide his votaries with ease, comfort, security, and prosperity. The modern world does indeed provide more of these things for more people than earlier periods, but it also exacts a toll in the form of perpetual warfare, social unrest, hardening of the arteries, softening of the brain, and a troubled spirit.

We Are the Enemy

When we attempt to assess the modern malaise we are tempted to say: "An enemy hath done this thing." But the truth of the matter is that we have done it to ourselves—the actively guilty, the passively guilty, the ignorant, the stupid, and all the innocent bystanders—we are all in this thing together.

Every society has its characteristic pecking order, and ours is no exception. Certain men, certain ideas, certain life styles are at the top of the pecking order; the masses admire and seek to emulate these men, ideas and life styles. If these ideas and styles are not life enhancing, there is frustration and thwarting at the deep levels of human nature and a whole society is sidetracked. The Remnant who keep the faith are superfluous; society has no use for their services. Such a society will necessarily get Leviathan—a government which matches its warped and ill-favored nature. Edmund Burke puts the matter plainly in a letter to constituents in Bristol:

Believe me, it is a great truth, that there never was, for any long time, a corrupt representative of a virtuous people; or a mean, sluggish, careless people that ever had a good government of any form.

Civilizations rise and fall, nations come and go. Why this occurs is the subject of learned speculation and debate. There is little unanimity among scholars, who disagree among themselves even as to the yardsticks by which decline and progress might be measured. But even though the overall movement of a civilization is difficult to detect, there are two trends in the modern world in all progressive countries, where the facts are clear; the first has to do with politics, the second with economics.

The thrust of eighteenth century Whiggery and of Classical Liberalism was to pry various sectors of life out from under the yoke of the State, to free them from political controls. The aim was to shrink government to a limited, constabulary function. The twentieth century has reversed this trend, with a vengeance. The theory of the free society has come under increasing attack, and totali-
tarian governments have emerged in nation after nation.

As Classical Liberalism expanded the voluntary sector of society the economic controls of the Mercantilist era were removed from business, industry, and agriculture. Adam Smith demonstrated that—within the framework of the Rule of Law, which Liberalism supplied—the economic order was subtly regulated by the buying habits of consumers; and the free economy began to emerge within western nations. Freedom in economic transactions was never fully achieved in any nation, but we made greater progress in that direction in the United States than elsewhere, and we paid lip service to the ideal of the market economy. But ideals change.

I am a believer in the free society and in the free economy. The free society is to my taste because I like its variety, I like the diversity it encourages, I like the spontaneity it permits. I also like the free economy. I like it because it is more productive than any alternative; people eat better, have more things, are more secure in their possessions. Freedom works, and therefore I resist the collectivizing trends of the twentieth century which would transform people into creatures of the State. But my belief in freedom is grounded, ultimately, on my reading of the nature of the human person.

Man, I believe, is a created being; there is a sacred essence in him. Man is on this planet in consequence of a mighty plan—of whose outlines we may gain faint intimations—and his life is used to further a vast purpose—of which we are given an occasional clue. If man is indeed a created being, and the members of a society act upon their belief that such is their nature, they will begin to frame political theories consonant with their convictions. They will erect political structures designed to safeguard the sacred essence in each person; the law will attempt to maximize each person's opportunity to realize his earthly goals.

Believing that God wills men to be free, such a society will regard
any trespass on the true liberty of even the lowliest individual to be a thwarting of some intent of the Creator. The deep conviction that each human being is a person and not a thing will generate ideas of equal, inherent rights; and this central dogma will exert pressure on personal attitude and conduct, on government and law, on every level of the free society, to bring all into harmony with the key belief that man is a created being.

But suppose man is not a created being. Suppose the human being is not a person, but a thing. If the universe is simply brute fact, mindless and meaningless; reducible in the final analysis to mass and motion—then man is a thing just like any other item in the catalogue of the planet's inhabitants.

The Materialistic Concept of Human Beings

Suppose we assume—as do many of our contemporaries—that man is the chance product of the random movement of material particles. Man's haphazard appearance on a fifth rate planet is, then, a fluke; he just happened to occur, as the accidental by-product of physical and chemical forces. He's merely a part of nature, like every other species on the planet. Except that the human species is more foolish than the rest, loves to be bamboozled, and, has such a gift for make-believe that its continued existence is problematic!

When we confront a strange object we try to size it up, so we'll know better how to deal with it. If it's a person we get onto a person-to-person basis; but if it's a thing we treat it like a thing. We make a crucial decision here, and the way we decide depends upon our basic philosophy, our understanding of the fundamental nature of the universe.

If we have embraced some variety of Materialism as our philosophy then we must eventually come to the logical conclusion that human beings are things, and once we conclude this we'll begin to treat people as things. People then come to be regarded as units of the State, as objects to be manipulated, as pawns in a political game to be used up in some national plan, as guinea pigs for experiments in genetic engineering, as robots programmed for utopia. Shades of 1984!

I am prepared to argue that we get the free society only after the consensus has firm convictions about the sacredness of persons, and that we get the free economy only after we have the free society. Now, when we reflect on the nature of persons we involve ourselves in some pretty deep philosophical and theological questions, and some of our contemporaries are impatient with such speculation. They believe that the intellectual opponents of the free
market can be devastated by straightforward economic arguments, and once we have the free market everybody will be doing his own thing and we’ll get the free society as a matter of course. Things are not this simple; if they were, freedom in human affairs would be the rule; voluntary transactions and unhampered exchange would then mark the economic life of all nations. The reverse is true: freedom has always been in jeopardy, and the liberties which expanded during the Classical Liberal Era are now contracting everywhere.

The Conditions of Freedom

There is a deep-rooted urge in each person to be unhampered in the pursuit of his own life goals, but this individual instinct for freedom has only rarely in history been institutionalized as the free society. Likewise, each person has a deeply rooted desire to conserve his energy and improve his material well-being; trade and barter are as old as mankind. But despite the economizing urge the free economy seldom appears on this planet.

The free society and the free economy did emerge in the eighteenth century and freedom expanded during the nineteenth. An excellent literature came into being to expound and defend political and economic freedom, despite which freedom retreated during the twentieth century because there was a leak at the philosophical level, where we deal with the nature of personhood and the meaning of life.

The economizing spirit is concerned to save energy and resources; it strives ceaselessly to diminish inputs and maximize outputs. Which is to say that economics is the drive to get more for less. Now, unless this more-for-less impulse is counterbalanced by non-economic forces it develops into a something-for-nothing mentality. And when the something-for-nothing mentality takes over the free economy dies of auto-intoxication.

The advice to “do your own thing” has been repeated so often as to be an incantation, and if freedom could be had by casting a spell then the free society would be a shoo-in. But the free society cannot be sustained by magic, and lacking a philosophy of personhood, the advice to “do your own thing” is an invitation to disaster. The weak doing their thing are at the mercy of the strong doing theirs, and the unscrupulous have the upper hand over the rest.

I belong to a bicycle club and have two friends with whom I ride. Joe is a weightlifter, a powerful man, and a “square.” Fred is a middle-aged retiree with strong affinities for the youthful life styles of today. We three were in a resort town for a bike rally, and in addition to cyclists there were many young people whose sar-
torial and tonsorial disarray proclaimed their devotion to individual liberty. The three of us stopped for refreshments at a soft drink stand and watched the passers-by. A pair of especially unkempt and unwashed young men strolled by, and Joe—the muscular "square"—muttered, half under his breath, "I'd like to wring their necks!" Fred, a gentle and sympathetic soul, said, "But, Joe, they're only doing their thing." To which my obvious retort was, "Yes, Fred, but Joe's thing is wringing hippies' necks!"

The Rule of Law

Classical Liberalism was built around the idea of the Rule of Law, equal justice for all, and thus it erected certain guidelines and standards, whose observation maximized each man's liberty in society. And it framed these rules because each person is a sacrosanct individual, free in virtue of his very nature. When convictions about the sacredness and mystery of personhood are energized, then men will seek to erect institutional safeguards around each individual, and we move toward the free society. But if the prevailing philosophy has a faulty doctrine of personhood, then people lose that sense of their true humanness which would lead them to strive for an ordered liberty, and we lapse into the closed society.

Modern thought, the ideology which has prevailed during the past two centuries, has many facets and some undeniable strengths. But it has one glaring defect, it has no adequate doctrine of personhood. This ideology is reductionist in tendency, whenever it contemplates the Self. It reduces men to animals and animals to machines. It defines thought as subvocal activity, dismisses reason as rationalization, explains mind as a mere reflex of activity among the brain cells, and invokes the conditioned reflex to account for every variety of behavior.

I am painting with a broad brush in order to highlight a drift or tendency in modern thought, "a mean, sluggish, careless" streak in the realm of ideas. When a thinker uses a finely tuned instrument—his mind—to reach the conclusion that thought cannot be trusted, we have evidence of corruption in philosophy. Let me illustrate.

Philosopher Kings

There are philosophers of considerable and deserved reputation who have dreamed up world views in which human beings figure as creatures of a lesser stature than persons. Be it noted, however, that the philosopher guilty of devaluing personhood generously exempts himself from the strictures he applies to others! Given his blind spot, he concludes that it is only other people, the mass of mankind, who
fall within the scheme of manipulable objects; the philosopher who regards us as unpersons finds another category for himself. He's the philosopher king!

Bertrand Russell, in a celebrated essay entitled "A Free Man's Worship," declares that "Man is the product of causes which had no prevision of the end they were achieving; his origin, his growth, his hopes and fears, his loves, and his beliefs, are but the outcome of accidental collocations of atoms." In short, we are—along with our beliefs—merely the end result of a chance arrangement of material particles.

It follows, on Lord Russell's own showing, that his opinion that such is the case is itself only a reflex of an "accidental collocation of atoms." What point is there in publishing this opinion unless its author regards it as being closer to the truth than alternative views? But can the designation true or false be applied to an "accidental collocation of atoms" or any product thereof? By the internal showing of Russell's statement, his own beliefs are below the idea level; they are subreason. Furthermore, the publishing of these words bespeaks a wish on the author's part to persuade other people of the validity of his position. But why bother to offer enlightenment to creatures whose beliefs are nothing but the chance result of blind forces?

Bertrand Russell was immensely gifted as a philosopher and mathematician, but his philosophy is deficient in its attempts to account for self-hood; it has no adequate place for persons. And if Russell is deficient here, how much more deficient are the lesser men who instruct us in the meaning of life!

Philosophical Entrapment

The widespread irrationalism of the present day represents the dead end of a philosophy which developed a world view wherein was no proper niche for the creator of that world view—the philosopher himself! It takes a brilliant and ingenious mind to arrive at such a paradoxical conclusion which so blatantly denied the obvious. Any fool knows that white is white and black, black; so does the wise man. But in between the fool and the wise man are those who are able to argue with perverse brilliance that white is a kind of black.

C. A. Campbell, emeritus professor of philosophy at Glasgow University, makes a sound observation: "As history amply testifies, it is from powerful, original and ingenious thinkers that the queerest aberrations of philosophic theory often emanate. Indeed it may be said to require a thinker exceptionally endowed in these respects if the more paradoxical type of theory is to be expounded in a way which will make
it seem tenable even to its author—let alone to the general philosophic public."

To be a man is to search for meaning. Philosophy begins in wonder, and we can't help wondering what life is all about, and how human life fits into the total scheme of things. We try to decipher the mysteries of the universe, hoping to obtain a few clues to help us play our roles in life with zest and joy. We wonder if human values and ideals find reinforcement in the nature of things, and if the values that concern us most deeply—love and honor, truth, beauty and goodness—are realities. Or are they merely illusions we cling to for comfort in an otherwise cheerless existence?

We consult the philosophers, and all too many of them are mired in the cults of unreason, meaninglessness, and absurdity. Man is a cosmic accident, they assure us; the universe is a moral and aesthetic blank, completely alien to us. We cannot trust our own thought processes, they say, as they simultaneously downgrade mind and insist that we accept their theories! Well, they can't have it both ways! Of course, if matter is the ultimate reality, mind is discredited. But if this discredited instrument is all we have to rely on, how can we put any confidence in its findings? If untrustworthy reason tells us that we cannot trust reason, then we have no logical ground for accepting the conclusion that reason is untrustworthy!

Well, I don't trust the reasoning of people who champion the irrational, and I do know that our reasoning powers may be—like anything else—misused. But when human thought is guided by the rules of logic, undertaken in good faith, and tested by experience and tradition, it is an instrument capable of expanding the domain of truth. Reason is not infallible, but it is infinitely more to be trusted than nonreason!

A Religious World View

Deep down within us we know with solid assurance that we really do belong on this planet; that we are the key component of the total richness. We know this, but we need reminding—as in these words from the gifted and unorthodox thinker, Anthony M. Ludovici:

The profound and cultivated man of wanton spirits, whose sense of self is the outcome of healthy impulses springing from the abundant energy and serenity of his being, not only affirms his own self and the universe with every breath he takes, but, by the intimate knowledge he acquires of life through the intensity of his own vitality, he feels deeply at one with everything else that lives. The intensity of his feeling of life helps him to perceive, behind the external differences of living phenomena, that quality and power which unites him to them. The luxuriant profli...
of nature finds a reflection in his soul, but it also finds an answering note in his feelings. Profound enough not to be deceived by surfaces, he feels the dark mystery behind himself and the rest of life, and what is more important, guesses at the truth that he himself cannot, any more than the daisy or the antelope, stand alone, or dispense with the power which is enveloped in that dark mystery. (Man: An Indictment, p. 204)

These are the authentic accents of a religious world view, and a citizenry in whom this vision lives will invest each person with a sacredness, a protected private domain, a body of rights and immunities. The law, then, is established to secure these prerogatives of the person, and government is limited to those functions which maximize liberty and justice for all. This is Jefferson's "Equal and exact justice to all men, of whatever state or persuasion." This is the free society, and it is not an autonomous social order, suspended in midair, it is based necessarily on a religious foundation.

**Freedom in the Market when Options Are Open**

Even less autonomous is the free market. Freedom of action in the economic sphere does not beget itself, but a society which maximizes liberty for all persons equally has freedom in economic transactions as well. The free economy, in other words, is simply the label attached to human behavior in the marketplace when our options are open, as they should be.

"The heavens themselves, the planets and this centre observe degree, priority and place." Shakespeare was right; there is an overarching Order and Pattern built into the nature of things. Everything has its rightful place in that Order, and each thing after its own kind manifests its peculiar nature—except man.

Man does not simply and naturally manifest his own nature; he is open-ended! Unlike the other orders of creation, man is not infallibly guided by instinct—he is free. Not being locked into a behavior pattern, he has to establish contact with his deeper self, and then properly interpret and carry out its mandates. Only then may he learn to express his true being by conforming himself and all his works to the universal Pattern.

Plato, in the *Laws*, refers to an ancient saying that God, who holds in his hands beginning, end and middle of all that is, moves through the cycle of nature, straight to His end. And Plato adds:

Justice always follows Him and punishes those who fall short of the divine law. To that Law, he who would be happy holds fast and follows it in all humility and order; but he who is lifted up with pride or money or honour or beauty, who has a soul hot with folly and youth and
insolence, and thinks that he has no need of a guide or ruler, but is able of himself to be the guide of others, he, I say, is deserted of God; and being thus deserted he takes to himself others who are like him, and jumps about, throwing all things into confusion, and many think he is a great man. But in a short time he pays the penalty of justice and is utterly destroyed and his family and state with him. (*Laws*, IV, 716)

We are the architects of our own Leviathan. Whenever a people goes slack, whenever the mean, sluggish, and careless are moved up to the top of the pecking order, then we get an unlovely society to match our own ill nature. But this need not be. The way we express our nature is not fixed in one mode only; we are free to change the pattern of our lives. There is a right way, a way that is good for man, a way that meets the needs and demands of human nature and the human condition, a way that fulfills the law of our being. Walking in that way, men and women find their proper happiness in a free and prosperous commonwealth.

The Case for Economic Freedom

The doctrine of man held in general in nineteenth-century America argued that each man was ultimately responsible for what happened to him, for his own salvation, both in the here and now and in the hereafter. Thus, whether a man prospered or failed in economic life was each man's individual responsibility: each man had a right to the rewards for success and, in the same sense, deserved the punishment that came with failure. It followed as well that it is explicitly immoral to use the power of government to take from one man to give to another, to legalize Robin Hood. This doctrine of man found its economic counterpart in the system of free enterprise and, hence, the system of free enterprise was accepted and respected by many who had no real understanding of its actual operating characteristics.

As this doctrine of man was replaced by one which made of man a helpless victim of his subconscious and his environment—responsible for neither his successes nor his failures—the free enterprise system came to be rejected by many who still had no real understanding of its actual operating characteristics.

BENJAMIN A. ROGGE (1920–1980)
Myths die hard.

Everybody knows that the words, "Alas! poor Yorick! I knew him well," are taken from Shakespeare’s Hamlet. Everybody knows that Sherlock Holmes was given to muttering, "Elementary, my dear Watson!" Everybody knows that Cinderella wore glass slippers to the handsome prince’s ball.

Unfortunately everybody is wrong. The relevant lines in Hamlet read, "Alas! poor Yorick! I knew him, Horatio . . ." Sherlock Holmes’ famous dictum doesn’t occur even once in the fifty-six short stories and four novels Sir Arthur Conan Doyle penned about his celebrated detective. The seventeenth-century French text of Cinderella asserts that the good lady’s slippers were vair (ermine) not verre (glass); Charles Perrault, who translated the tale into English in 1697, was responsible for a mistranslation which condemned generations of readers to bewilderment and poor Cinderella to a thoroughly uncomfortable evening’s dancing.

But try convincing a “true believer” of his error about Hamlet, Sherlock Holmes or Cinderella. Argument is an exercise in frustration, indeed futility. The “true believer” just knows, and that is that!

Similarly with business. Everybody just knows that business exists to “rip off” consumers, that business profits are evidence of exploitation, and that men and women engaged in business are a shady lot.

- Ralph Nader visited Australia recently. His public addresses were well received. His audiences listened with an intensity and responded with a fervor an “old-time religion” preacher would envy. The words “business,” “corporation,” “businessman,” and “business executive” were clearly “bad” words, and
the audience recognized them as such, booing and hissing on cue. His suggestion that many executives of "big businesses" should be imprisoned for defrauding the public received rapturous applause.

- A recent Harris poll in the U.S.A. revealed that public confidence in the "essential honesty" of business had dropped some thirty per cent over ten years, most significantly among the young. Australian young people share this attitude. Career guidance programs in secondary schools frequently include materials enabling students to "clarify" their values when making a career choice. They are asked to rank a number of career areas in terms of these careers' "moral worth," usefulness to the community, and prestige enjoyed (or prestige the students believe them to enjoy). Out of sixteen career areas listed, business ranks, on the average, fourteenth.

- A recent interview by *T.V. Guide* with Mike Wallace, star interviewer and investigative journalist of the *Sixty Minutes* program, included the question, "Do you handle someone who may have something to hide differently from a Baryshnikov or a Horowitz?" Mr. Wallace replied, "Of course ... In both cases the interviewer 'role-plays.' With the businessman he may play prosecutor, or if the individual responds better to lulling, then the interviewer goes that way." (*T.V. Guide*, November 24, 1979) The shift is significant. Mike Wallace simply assumed that a person who has "something to hide" is a "businessman."

No government ever lost office for underestimating community sympathy for business; no newspaper ever suffered a massive decline in readership for criticizing business; no clergyman ever emptied his church by denouncing business. Business is, apparently, fair game for attack. "Until proved innocent assume business has something to hide."

**Why Pick on Business?**

Yet it is all very odd. Are businessmen striving for advancement more ruthless than academics plotting their next promotion?

Is the world of art conspicuously free of the confidence tricksters allegedly crowding the world of business?

It is not enough, however, sadly to observe that individuals who are deceitful, lazy, negligent or fraudulent in the practice of their profession are universal, and leave it at that. It is necessary to ask why dishonesty—indeed, crime—is widely perceived as an alien intruder in most professions, but an expected inhabitant of the world of business.

Answers are plentiful. "Marx's rhetoric about 'exploitation' has fil-
tered down to common parlance." "Frustration welcomes a scapegoat and many sources of frustration—rising prices, a declining job-market, even the failure of a family's washing machine—can conveniently and with some semblance of rationality, be attributed to the shadowy villain 'business'." "The masses are woefully ignorant of economic reality, hence misperceive the nature of business."

Maybe. But such answers merely delay the significant question. What is there about business that gives Marx's rhetoric any degree of plausibility? What feature of business makes it a popular scapegoat? Why should a misperception of economic reality invariably result in business being cast as a "villain"?

The answer is the same to each question. Whereas most professions are perceived primarily in terms of a service rendered and only secondarily in terms of financial gain achieved, business is perceived primarily—perhaps totally—in terms of gain.

The Heart of the Problem

For centuries significant professions have "justified" themselves essentially by reference to the way they enhance the lives of those served by these professions; that human beings acquire for themselves what they need to enjoy the "good life" by laboring at these professions has been politely downplayed. The doctor, according to this fiction, labors primarily to further the art of healing; the teacher battles to defeat the ogre of ignorance; the opera singer exhausts herself in the service of her art. The beneficiaries are those healed, instructed, or inspired. To be sure, the doctor, the teacher, and the opera singer gain financially by exercising their skills, but the initial answer to the question as to what these people do relates to their professions and those benefited, not the professionals' reward. Ask what the businessman "does," however, and the answer is invariably, "he makes money."

Wisely, some businessmen have attempted to correct this strange contrast. They are wise to do so because public attitudes control, within limits, politicians' actions. That an economic proposal is damaging to business is widely heard as a point in favor of such a proposal; the politician who attacks business invariably receives a more enthusiastic hearing than the politician who defends business. Irving Kristol is correct to observe that at the moment corporations have no constituencies, no one ready to defend them and come to their aid when they are attacked.

Bluntly, the gap between the public's perception of business activities and the activities of other professions must be closed, or business en-
terprise may find itself being closed. Lewis Powell, Associate Justice of the U.S. Supreme Court and author of the well-known Powell Memorandum, was right to observe that "business and the enterprise system are in deep trouble, and the hour is late."

Yet frequently businessmen, seeking to defend their profession, do so by pointing to external consequences of their activities. They point to revenues gained by government through company taxes; they point to the jobs private businesses create; they even point to charitable programs supported by business! And this "defense" is madness! It increases, rather than diminishes the seeming "gap" between business and other professions. Doctors "justify" themselves by reference to what they do, not by reference to the taxes they pay or the nurses, drug company salesmen, and debt collectors they employ! Teachers refer to their teaching, not the chalk they consume and the text-book market they create! Opera singers refer to their music, not the theater ushers and program sellers whom they keep in a job! Business must be "justified" by what the business professional does.

What Does the Businessman Do?

Before specifying what it is that the businessman does, it must be acknowledged that the businessman exchanges his skills and time for money—more precisely, for the goods and services for which the money can be exchanged. Similarly with the doctor who forgoes leisure and exchanges his time for his patient’s fee, and the patient who forgoes some other goods and services that fee could have procured in favor of the doctor’s time and skills. The situations are parallel. And as is the case with any voluntary exchange, each party gains what he values most. After all, in the absence of coercion two parties only make an exchange because each believes he will benefit by so doing.

Yet, what skills does the businessman exercise?

They vary. Consider the businessman as an entrepreneur. He is an expert at perceiving information gaps in a complex society and acting to close those gaps. He observes, say, that apples are available in a particular locality for thirty cents a pound. The person growing those apples wishes to exchange them for thirty cents, preferring what that money can purchase to the apples. He observes further that people in a distant locality are willing to pay seventy-five cents for one pound of apples, preferring what that money can purchase to the apples. He observes further that people in a distant locality are willing to pay seventy-five cents for one pound of apples, preferring to forgo other goods that sum of money could purchase. Neither party is aware of the other’s existence. The entrepreneur observes the information gap, and locates a further party who is pre-
pared to exchange his time and the use of his truck to transport apples from the producing locality to the consuming locality for, say, five cents per pound. The parties are brought together and all, including the entrepreneur, benefit. Each has made the exchange he wished to make. Each has parted with what he values less for what he values more. The entrepreneur has exchanged his skills of noting and closing information gaps for the goods and services his "profit" can purchase.

And his role is vital. In a complex society information gaps are inevitable. The noting and closing of these gaps is essential if people are to make the exchanges they wish to make. The entrepreneur's initially large profit will, of course, tend to decline, for large profits signal to other apple growers, transport drivers, or "co-ordinators" what they can do to achieve lesser but real profits. Fairly rapidly the market price of apples in the consumer district will drop and remain constant. The gap has closed and a state of equilibrium obtains. But the entrepreneur is by now off to close yet a further information gap he has noted—this time, perhaps, a gap between a consumer need and the capacity of a new but undeveloped product or process to meet that need.

What about the producer? Again he co-ordinates: he co-ordinates countless separate and distinct skills to manufacture one particular product. And to do that he must deal in time. In a sense his peculiar trait is a preference for future as against present goods. By forgoing present consumption, he has accumulated capital, enough capital to enable him to exchange money here and now for labor here and now. The seller of labor thus acquires his desired present good. The producer, however, is prepared to wait until the object being produced is completed, brought to the attention of purchasers, and sold before receiving his reward. He has exchanged his skills as a co-ordinator, and his capacity to wait for a future good, for the "profit"—the payment—he at last receives.

The businessman is also an anticipator. He must anticipate what consumers will want in the future, then efficiently co-ordinate the suppliers of raw products, of labor, of advertising space or time, and of transport so that the needs of consumers are met when they arise, more efficiently and more cheaply than competitive producers could meet them.

The information-gap perceiver and bridger. The skill co-ordinator. The anticipator. And the risk-taker, for the businessman usually has to exchange a present and certain good for materials leading only to a possible future good for himself.

Are these tasks contemptible? To
be sure the picture presented is grossly simplified; the complex reality of business life involves more skills than this simple sketch has noted. And more than professionals, the businessman’s success depends on his enabling other people to achieve what they want. He can only make “huge profits” if he satisfies and keeps satisfying the actual needs of real people more cheaply or more pleasingly than do others. He does not enjoy the coerced custom guaranteed the teacher. The numbers of competitors entering his profession are not as tightly controlled as are those entering medicine. His customers are just as fickle as—perhaps more fickle than—those of the adored opera singer. He is hardly to be condemned.

The Death Wish of Business

Yet, there may be in the behavior of the businessman one tragic and fatal failing. He acts quickly to close information gaps between the seller and eater of apples, but he does little to close the information chasm between his own profession and a critical public. He daily exchanges present certain goods for future possible goods, but he chooses “business-as-usual” today at the expense of the possible non-existence of a free market in the future. He draws upon the expertise of those able to inform the public as to the excellence of his products, but he either will not or cannot employ such experts to sell himself and what he does to a grossly uninformed community.

That is his failing, and possibly his fatal failing. Popular myths about Hamlet, Sherlock Holmes, and Cinderella’s slippers are harmless. Contemporary myths about business could be lethal.

Like all myths, these myths “die hard.” Yet, attacked intelligently enough and determinedly enough, die they will. That they are attacked is important. For if they do not die, business enterprises will, and all of us—including thankless consumers—will be the poorer.

Eternal Vigilance

Our most formidable fortress of defense in time of stress still remains the Constitution of the United States. But it is only as good as our understanding and defense of the purpose for which it was drafted. Eternal vigilance and personal responsibility are still the price of human liberty.
ONE hears a lot of talk about freedom. This is especially true when the subject is public policy. But the closer one listens, the more one finds that people aren’t talking about freedom at all. They are talking about power.

We had best define our terms. Freedom is the absence of coercive intervention in peaceful activities. In the words of F. A. Hayek, freedom is “the state in which a man is not subject to coercion by the arbitrary will of another or others.” Or, as Milton Friedman phrases it: “Political freedom means the absence of coercion of a man by his fellow men.”

Power, on the other hand, is the ability to act. It is the capability of doing something—peacefully or otherwise. If freedom refers to what a person may do, power refers to what he can do.

Most people, unfortunately, fail to distinguish between freedom and power. As a result, many coercive programs have been proposed and enacted in the name of freedom. In fact, some of these programs are nothing more than governmental transfers of power.

Freedom from Want

For example, many people propose that the government should guarantee “freedom from want.” By this they mean that everyone should have

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sufficient wealth to meet his basic needs.

"Freedom from want" has a strong emotional appeal. It is frequently used as a rallying cry by those favoring national health insurance, public housing, food stamps, and other welfare programs. But before this concept is embraced any further, there are several questions that should be asked.

Does everyone deserve freedom from want? Do the lazy, the antisocial, and the criminal elements in society deserve, as a matter of right, relief from poverty?

How is "freedom from want" supposed to be guaranteed? Do the means involve coercion—benefiting some by reducing the freedom of others? Will the means achieve their stated purpose—or will they create still more poverty?

Before answering any of these questions, we must ask a more basic question: What does "freedom from want" have to do with freedom?

Referring to our definitions, we see that "freedom from want" is not "the state in which a man is not subject to coercion by the arbitrary will of another or others." "Freedom from want" is the ability to purchase certain items. This is purchasing power—the power (ability) to buy goods and services.

Whether someone has this power may depend on his freedom. But, contrary to popular opinion, a person's freedom doesn't depend on his wealth. We will examine these relationships later. For now we merely point out that freedom and purchasing power are not the same thing.

**Freedom from Exploitation**

"Freedom from exploitation" also has a strong emotional appeal. This little phrase has been instrumental in passing many laws—particularly raises in the minimum wage.

But raising the minimum wage does not give workers more freedom. In fact, it reduces their freedom to bid for jobs. For instance, teenagers may no longer offer to carry groceries for $3.00 an hour when the minimum wage is $3.35. They will remain unemployed while customers carry their own packages.

If minimum wage laws cost unskilled workers their jobs, why are they backed by labor unions? The answer might be a well-meaning but misguided concern for the poor. But we should bear in mind an often overlooked fact: With low-productivity workers legally excluded from the market, minimum wage laws give high-productivity workers greater bargaining power. They don't have to worry about competition from cheaper, less productive labor.

Minimum wage laws clearly reduce employers' freedom to hire unskilled workers. But the freedom to hire isn't the power to exploit. When a worker freely agrees to a wage
rate, he does so because, at the particular moment, that is his best option. From his point of view, he is better off accepting the wage than doing anything else. He is only being exploited when he is being coerced—as when union leaders exploit his forced exclusion from the labor market.

Rent Controls

Fear of exploitation has also been instrumental in passing rent controls. These regulations are supposed to protect tenants from “exploitation” by ensuring their “freedom from excessive rent increases.”

Again we must ask: What does this have to do with freedom?

A rent increase isn’t a coercive threat. It is a landlord’s revised offer to do business—to trade continued use of an apartment for a revised price. As in any other market transaction, consumers (in this case, tenants) are free to accept the trade or walk away from it. Rent increases do not threaten freedom.

But rent increases do threaten tenants’ power (ability) to keep apartments. Rent controls are designed to protect this power. These controls give current tenants the power to keep apartments that prospective tenants would gladly pay more to rent.

Of course, this reduces landlords’ freedom. And, by preventing prospective tenants from bidding for apartments, controls reduce their freedom as well.

Rent controls also reduce landlords’ power to charge “high” rents. But, as we have seen, this power isn’t coercive. And it isn’t arbitrary. It is determined by the supply of rental housing and tenants’ demand. In these terms, the only “excessive” rent is a rent that no tenant will freely pay—one that exceeds the supply and demand conditions set by the market.

Minimum wages and rent controls are just two forms of price control. All such controls reduce freedom by abrogating prices peacefully agreed upon in the market. And all create conditions so bad that further moves from freedom are quickly proposed. All this, of course, in the name of freedom!

In 1979, for instance, the Department of Energy held pump prices of gasoline below market-clearing levels. With demand exceeding supply, shortages and long lines soon developed. To eliminate these lines, it was proposed that rationing be imposed so that every driver would be “free” to buy a fixed quantity of gas at controlled prices.

But this isn’t freedom. It is the power to (hopefully) obtain a given amount of gas by preventing other drivers from buying more than the legal limit. Rationing restricts consumers’ freedom by denying them
the right to bid for goods and services.

Any government intervention in the economy reduces someone's freedom—what he may do. The effect of intervention on his power—what he can do—is more complicated. More on this later.

Let us now consider some freedoms commonly viewed as noneconomic—freedom to associate, freedom of speech, and freedom of the press. These cherished freedoms, we shall see, are frequently used as slogans to distract attention from coercive activities.

**Freedom to Associate**

Freedom to associate is the right to interact peacefully with other consenting individuals. This, to be sure, is a form of freedom—the absence of coercive intervention in peaceful activities. But "freedom to associate" is also used to justify activities that are anything but peaceful.

For instance, in the United States, union workers have the freedom to associate. No one may legally intervene in their peaceful activities. But under Federal law and various National Labor Relations Board and Supreme Court rulings, the government rarely intervenes when union workers prevent nonunion workers from associating with employers. Thus, in practice, "freedom to associate" degenerates into the raw power to exclude nonunion workers—even when the union workers have quit and gone on strike.

Minorities also want "freedom to associate." They wish to interact with other people without suffering from racial discrimination. This is an understandable desire.

But we should bear in mind that discrimination isn't coercion. When the government steps in with affirmative action, it isn't protecting minorities from coercive intervention in peaceful activities. And it probably isn't reducing the prejudices of those with whom minorities wish to associate. What affirmative action does is give minorities the power to deal with personnel managers, college deans, landlords, and others on more favorable terms. Affirmative action coerces these people—thus reducing their freedom.

Affirmative action may restrict businessmen's freedom, but what about their power? Without affirmative action, can't businessmen arbitrarily discriminate against minority workers?

Not if they want to earn profits. Profits are not earned by arbitrarily hiring, promoting, and firing employees. They are not earned by letting prejudice get in the way of sound business practice. They are not earned by employing anyone but the best person for the job to be done. The much maligned profit mo-
tive, regulated by nothing more than free market competition, is the worker’s best protection against arbitrary discrimination.

Freedom of Speech

Even freedom of speech and freedom of the press are sometimes used as covers for power. These freedoms guarantee the right to use one’s property to promote ideas. But some people aren’t satisfied with this. They demand (and often get) the power to use other people’s property—shopping centers, colleges, radio and television stations—as a forum.

Such people perhaps don’t realize that having a bigger forum—having more property—doesn’t give anyone more freedom. It may, of course, give the owner more power (ability) to set forth his ideas. But it doesn’t make his ideas more compelling, or necessarily win them greater approval.

In a free society, the wealthiest person may not interfere with the freedoms of speech and press of the poorest individual. Nor, in a free market, may anyone interfere with an individual’s peaceful efforts to acquire property. He is free to build a bigger forum.

These few examples illustrate the current confusion between freedom and power. Other examples abound. One has only to be a careful listener and reader to pick them up.

With these examples in mind, let us consider the following questions: What is the relationship between a person’s freedom and his power (ability) to act? Does this relationship vary over time? How does government intervention affect this relationship?

These questions call for a careful look at the meaning of freedom—the absence of coercive intervention in peaceful activities. Most studies, unfortunately, simply point out that the fewer the coercive interventions, the more freedom people possess. Other things being equal, this is true. But what about the range of activities a person may peacefully pursue? A more complete analysis of freedom should incorporate both concepts.

The Range of Options

Thus, our questions are perhaps best approached by considering a person’s options—the alternatives he faces. Viewed in these terms, the more options a person may peacefully pursue without coercive intervention, the greater his freedom. Similarly, the more options he has the capability of attaining—peacefully or otherwise—the greater his power.

At first glance, it might appear that there is no connection between freedom and power. At most points in time, one can find almost any combination of the two.
Consider, for instance, the different combinations of freedom and power existing around the year 1700. At that time monarchs had great freedom and great power. Nobles attending the throne often had great power but little freedom from the monarch's arbitrary intervention. Conscripts, serfs, and slaves had little freedom or power. The American colonists had considerable freedom but little power.

In a command society, the combinations of freedom and power remain relatively fixed. As long as the ruler stays in power, he continues to have great personal freedom, his henchmen continue to have great power, and the masses continue to have little freedom or power. The command society is a static society.

In a freer society, however, a dynamic relationship between freedom and power develops. As the American colonists, for example, pursued their affairs in relative freedom, they prospered. Their purchasing powers rose—increasing the number of options they could attain by peaceful means. They acquired more power to engage in peaceful activities.

As the colonists thrived in freedom, they accumulated capital and tried new ideas. They created new products and new manufacturing processes. These increased the number of alternatives their fellowmen could peacefully pursue without coercive intervention. They acquired more freedom.

In short, in terms of peaceful activities, freedom begets more freedom and more power.

Despite these favorable trends, many people contend that the free market creates large businesses with powers to coerce—giant corporations, conglomerates, and financial institutions. But, we must ask, does the offering of a large number of goods and services constitute coercion? Is a job offering a threat to freedom? In a free market, the power of large businesses is nothing more than the ability to offer many options. In a free market, these businesses have no powers to coerce.

**Freedom and Government Intervention**

But government interventions do coerce. When these interventions exceed what is necessary to keep the peace, people become less free.

For instance, Food and Drug Administration rulings prohibit consumers from buying certain products. Taxes, regulations, and price controls decrease the availability of other goods and services. Licensing regulations and minimum wage laws prevent workers from bidding for jobs. All such government interventions reduce the range of options a person may peacefully pursue.

Although government interven-
tions reduce the range of options, the hampered market is still creat­ing opportunities. In balance, peo­ple may still be gaining freedom. But they are not as free as they would be if the government didn’t intervene.

One frequently hears the asser­tion that the government itself cre­ates options. Public works, for in­stance, are pointed out as employment opportunities created for millions of workers. The tax money spent, we are told, creates more purchasing power and more freedom.

This line of reasoning ignores a simple fact: Every dollar spent on public works is a dollar that won’t be spent on private works. Public works produce no net gains in em­ployment, goods, or services. But they do produce a loss in freedom as taxpayers are coerced into financing projects they wouldn’t voluntarily support. Public works don’t create purchasing power; they reduce free­dom by forcibly transferring pur­chasing power from the private to the public sector.

Some people contend that govern­ment interventions make people better off by eliminating undesira­ble options—low wages, high rents, high gas prices. But the very fact that people pursue these options shows that, for them, these options are preferable to unemployment, no housing, and no gas.

Despite such sophisms, the issue is clear: Government intervention reduces freedom.

**Power and Government Intervention**

How does government interven­tion affect a person’s power (his abil­ity to act)? This, for many people, is the crucial question. They will tol­erate—even advocate—government programs that reduce the purchas­ing power of the upper and middle classes if these programs increase the purchasing power of the poor.

In the short run, such programs may work. Send someone a welfare check, give him food stamps, grant him a rent supplement, and his pur­chasing power will temporarily rise.

But purchasing power—the abil­ity to buy goods and services—de­pends on more than a person’s wealth. It also depends on the range of options being offered in the mar­ket.

In the long run, government in­terventions reduce incentives to work and invest, reduce the savings available for investment, reduce the opportunities entrepreneurs notice and pursue—reduce the options of­fered in the market. With the pas­sage of time, each person’s range of alternatives is diminished, com­pared to what it would have become in a free market. In the long run everyone—even the intended bene­ficiary—has less purchasing power.
For example, the purchasing power union workers gain by excluding nonunion workers is soon eaten up by taxes, rising prices, and other costs of government intervention. The power to hold onto rent controlled apartments becomes less valuable as the controls turn these apartments into slums. Even the gains minorities win through affirmative action are more than offset by oppressive taxation and stifling regulation. In the long run, all these people would be better off in a free society without their governmentally granted privileges.

It is the long run that many advocates of government intervention ignore. They point out, for instance, that it doesn't matter to poor people if rationing restrictions or high prices limit them to ten gallons of gas a week. The freedom to buy goods and services, they say, is an empty freedom if people can't afford them.

It is true, of course, that at any point in time an individual's purchasing power is relatively fixed. The most he can do, for the time being, is redirect his resources.

But time passes. In a free society, more goods and services are constantly being brought to the market. And in a free society, people may work, save, and invest so as to accumulate wealth. With the passing of time—if producers and consumers are free—the poor can afford more than ten gallons of gas. In the long run, freedom matters especially for the poor.

Unfortunately, many poor people fail to perceive the fertility of freedom. Concentrating on short term gains, they tend to be more interested in the purchasing power they lack than the freedom they may have. This shortsightedness is encouraged by welfare programs that promise immediate gratification—while they destroy the conditions which promote long range production.

Opportunities Overlooked

These arguments in terms of production are buttressed by a seminal observation of Israel M. Kirzner: People tend to notice opportunities that they are free to pursue. Freedom inspires discovery.

For instance, one reason the American colonists discovered new production techniques is simply that they were free to try them. They were free to pursue alternatives, thus creating new options for their fellowmen. This reinforces our previous assertion: In terms of peaceful activities, freedom begets more freedom and more power.

By the same token, Kirzner points out, when an option is precluded, people tend to overlook it. Poor people living under fuel rationing tend to overlook employment opportunities that would, in the absence of ra-
tioning, enable them to buy more fuel. Similarly, when businessmen are legally prohibited from carrying first class mail, they don’t perceive alternate means of delivery. It takes a lifting of legal prohibitions for people to notice such opportunities.

Because precluded options go unnoticed, opponents of government interventions often fail to gain public support. For instance, at rent control hearings landlords are greatly outnumbered by their tenants. Absent, however, are prospective tenants who don’t realize that controls are preventing them from getting apartments. Also absent are potential landlords and builders who, if controls were repealed, would perceive that apartments are opportunities for investment.

**No Precise Measure of the Costs of Intervention**

No one can identify these unwitting victims of intervention. In fact, many of the victims, because they don’t realize that their opportunities are being restricted, may be ardent supporters of the interventions that bring them the most harm. For instance, an unemployed teenager may support the minimum wage law that prevents him from starting a career.

The intellectual defenders of freedom also operate at a seeming disadvantage. Because precluded options go unnoticed, defenders of freedom can never completely list all the opportunities people have lost. For instance, how many apartments have never been built because of the threat of rent controls? How many jobs have been eliminated by minimum wage legislation? How many systems of private mail delivery have been precluded by the government’s legal monopoly? How many options have been destroyed by government intervention?

For the same reason, economists can never measure all the purchasing power destroyed by government intervention. They have no way of knowing what productive opportunities were never tried—or even perceived—because they were precluded by taxes and regulations.

But these disadvantages are more spurious than real. The case for freedom does not rest on lists of lost opportunities and estimates of lost purchasing power. It rests, in the final analysis, on moral principles. When people reject power gained at the expense of another person’s freedom—when they are convinced that coercive intervention in peaceful activities is immoral—freedom will prevail.
Wm. Cullen Bryant

On Usury Laws

The fact that the usury laws, arbitrary, unjust, and oppressive as they are, and unsupported by a single substantial reason, should have been suffered to exist to the present time can only be accounted for on the ground of the general and singular ignorance which has prevailed as to the true nature and character of money. If men would but learn to look upon the medium of exchange, not as a mere sign of value, but as value itself, as a commodity governed by precisely the same laws which affect other kinds of property, the absurdity and tyranny of legislative interference to regulate the extent of profit which, under any circumstances, may be charged for it would at once become apparent.

The laws do not pretend to dictate to a landlord how much rent he may charge for his house; or to a merchant what price he shall put upon his cloth; or to a mechanic at what rate he shall sell the products of his skill; or to a farmer the maximum he shall demand for his hay or grain. Yet money is but another form into which all these commodities are transmuted, and there is no reason why the owner of it shall be forbidden to ask exactly that rate of profit for the use of it which its abundance or scarcity makes it worth—no reason why the laws of supply and demand, which regulate the value of all other articles, should be suspended by legislative enactment in relation to this, and their place supplied by the clumsy substitute of feudal ignorance and worse than feudal tyranny....

Such attempts have always been, and always will be, worse than fruitless. They not only do not answer the ostensible object, but they accomplish the reverse. They operate, like all restrictions on trade, to the injury of the very class they are framed to protect; they oppress the borrower for the advantage of the
lender; they take from the poor to give to the rich. How is this result produced? Simply by diminishing the amount of capital, which, in the shape of money, would be lent to the community at its fair value, did no restriction exist, and placing what is left in the most extortionate hands....

But usury laws operate most hardly in many cases, even when the general rate of money is below their arbitrary standard. There is an intrinsic and obvious difference between borrowers, which not only justifies but absolutely demands, on the part of a prudent man disposed to relieve the wants of applicants, a very different rate of interest. Two persons can hardly present themselves in precisely equal circumstances to solicit a loan. One man is cautious; another is rash. One is a close calculation, sober in his views, and unexcitable in his temperament; another is visionary and enthusiastic. One has tangible security to offer; another nothing but airy one of a promise. Who shall say that to lend money to these several persons is worth in each case an equal premium?

Should a person come to us with a project which, if successful, will yield an immense return, but, if unsuccessful, leave him wholly destitute, shall we not charge him for the risk we run in advancing his views? The advocates of usury laws may answer that we have it at our option either to take seven per cent or wholly refuse to grant the required aid. True; but suppose the project one which is calculated, if successful, to confer a vast benefit on mankind. Is it wise in the legislature in such a case to bar the door against ingenuity, except the money lender turns philanthropist and jeopardizes his property, not for a fair equivalent, but out of mere love to his fellow man?

The community begin to answer these questions aright, and there is ground for hope that they will ere long insist upon their legislative agents repealing the entire code of barbarous laws by which the trade in money has hitherto been fettered.

Unions as an Established Religion

Just what sort of organizations labor unions are is not only an intriguing but also an important question. It is a question which assumed much more importance after the United States government empowered them in the 1930s. By that empowerment they became legal entities, but what sort of entities was left in doubt. Congress did attempt to define them, but the definition was in terms of their composition and purpose, not of their nature or essence. Nor have economists or historians done much by way of clarifying their basic nature as organizations. Students and critics alike have tended to assume they are what they claim or appear to be.

Customarily, modern labor unions have been traced backward to their antecedents in the Middle Ages, the medieval guild. There are some similarities between the medieval guild and the modern labor union, but they are mostly superficial. Some medieval guilds were organizations of craftsmen. In this, they did resemble the modern trade union which is organized along the line of trades, skills, and arts. They were organized, too, to restrict entry into the craft. They did so, in the first place, by requiring years of apprenticeship and supervised work before the attainment of independent status as craftsmen. More broadly, as the Dutch historian, Henri Pirenne, pointed out, the craft guild's "essential aim was to protect the artisan, not only from external competition, but also from the competition of his fellow-members. It reserved the town market exclusively for him, closing it to foreign products, and at the

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same time it saw that no members of the profession grew rich to the detriment of the others.” In their monopolistic and egalitarian emphasis the guilds resembled labor unions.

But basically guilds were different from modern labor unions. Craft guildsmen were fundamentally merchant craftsmen. Although they did work at their crafts, they were organized primarily as merchants rather than as workmen. Their monopoly was of the sale of their products in a given jurisdiction, not of their labor. They were shoemakers, hatters, bakers, butchers, tailors, pewterers, and so forth, and they dealt directly with their customers. The guilds were different, too, in that they were corporations; whereas, the modern labor union is not ordinarily incorporated. (Medieval corporations usually had a monopoly within a given jurisdiction; whereas, modern corporations may or may not have a monopoly.) Above all, it should be made clear that craft guildsmen were capitalists, though on a small scale, and they were not in any sense organized against employers, management, or capitalists.

**Medieval Craftsmen**

The craft guilds fitted within a medieval framework of specialization, status, regulation, and class. Their locus was the city or town within which they were incorporated. They were the craft counterpart of clergymen, knights, export merchants, and others. They were fraternal organizations within the social and religious setting of their age. As one history puts it, “The guilds were also religious associations, benefit societies, and social clubs. . . . Gildsmen attended the funerals of deceased members, and tried to care for their families. They kept candles burning in the chapel of their patron saint, and often hired special chaplains to say Masses for the repose of the souls of their dead colleagues.” In short, the craft guild was a medieval institution. It was a medieval mode for containing a commercial activity so that it would not become competitive and expansive. It was no more like a modern labor union than a knight in armor is like a twentieth century soldier.

True, there are some relics of the craft guilds to be found in the modern union, but they tend to conceal rather than reveal the nature of the modern union. The guild was the result of pressing yet another order of men into the medieval mold. The labor union is the leading edge of a militant collectivism aimed at fundamentally altering the prevailing order. This does not tell us what labor unions are, as organizations, but it focuses our attention in a direction where we may be able to discover the answer. Labor unions have
never come close to comprising all those working people whom they claim as their clientele. They are, then, a portion of a whole, or, more precisely, several portions usually, since there have been divisions among unionists. In religious terminology, they are a sect, or several sects. And it is as a religion that they are now to be considered.

Moral Imperatives

The idea of unionism as a religion first occurred to me after reading an article in a historical journal. The article dealt with the use of appeals drawn from nineteenth century Protestant evangelism by union leaders. The author was concerned with the influence of certain religious ideas on unionism rather than with unionism as a religion. His main conclusion was that "Prophetic Protestantism offered labor leaders and their followers a trans-historic framework to challenge the new industrialism and a common set of moral imperatives to measure their rage against and to order their satisfactions." These observations prompted my thinking along a somewhat different path.

The question that occurred to me was this: What if unionism is a secular religion? If it is, then, it has to be an established religion, for there is no doubt that labor unions were established by their empowerment in the 1930s. But whether or not unionism is a religion is the crucial question for which evidence of establishment provides no proof.

The burden of proof clearly rests on anyone who asserts that it is. It cannot be assumed. It is not generally accepted, or even alleged. It is not self-evident. Moreover, much of the evidence for it becomes evidence only when the connections have been made. Yet a strong case can be made that unionism is a religion, or, more precisely, religion-like, and that labor unions are essentially organized around a set of beliefs. And, when unions are viewed in this light, their basic character does begin to emerge.

Perhaps, the best approach to the religion-like character of unionism is through the feel of it. Unionism feels like a faith. It is something in which one believes or does not believe. The feeling of the unity of the working class has been its touchstone. "An injury to one is an injury to all" has been the phrase most commonly used to describe the "proper" attitude of a union man. An interesting sidelight on this occurred at the founding convention of the Industrial Workers of the World (I.W.W.) at Chicago in 1905. Amidst the revolutionary fervor of the proceedings, one of those present rose to question the accuracy of the phrase. He pointed out that an injury to one worker, or even to one group of workers, need not be an in-
jury to all. Of course, he was silenced. The Arian challenge about the divinity of Christ was at least entertained at the Council of Nicaea in 325; not so, reasonable objections to a primary article of faith of unionists in Chicago in 1905.

Missionary Zeal

The missionary character of union organizing work has sometimes been noted. One writer points out that "During the nineteenth century union organizers were often called 'missionaries'... Nowadays, in the interest of greater accuracy, the term has been dropped..." But another writer declares that "Even in more current times, the motive power for new unionism is provided by men and women whose main drive is the spreading of the gospel of unionism." The parallel with missionary work shows in this description by one organizer of his work: "Half of the mornings I would be up at a factory gate before 7 A.M. ... distributing leaflets... Each such morning was an experience; you didn't know whether the look you got from a passing worker indicated hostility, agreement, indifference, or what. A certain percentage always refused the leaflet...; others took them and ostentatiously tore them up. Always, however, there was a smiling face and one or two people who wished you luck. After a while you were able to strike up a conversation with some of them... The idea was to form a nucleus of five or ten people, call them to a meeting... and let them do the recruiting from the inside." The term "conversion" was sometimes used to describe what had happened to those who had come to believe in unionism.

Ideology as Religion

But the main proof of the religion-like character of unionism is in its dependence upon and relationship to ideology. Ideology is, if not the religion of modern man, the contemporary religion of many people. For some, secular ideologies have entirely supplanted transcendental religion. For others, they have come to supplement traditional religion so as to reduce it largely to the status of a relic. And for almost everyone, the pervading intellectual outlook is temporal, secular, and this-worldly. Ideologies fill the place vacated by traditional religious belief and tend to provide such religion as many people have.

The onset of ideologies which supplanted or supplemented transcendental religion was signaled by the appearance of numerous "isms" in the nineteenth century, such as, socialism, conservatism, liberalism, transcendentalism (man's transcendence), communism, capitalism, Darwinism, materialism, scientism, progressivism, and so on. Not all of these were fullfledged ideologies, but
the tendency in that direction was indicated by the attaching of the suffix "ism" to words.

Leaders as Ideologues

Unionism might have been an ideology itself, distinct and independent of all others. For some, it may have been. A case can be made that the ideology of Samuel Gompers, longtime head of the American Federation of Labor, was unionism. One labor historian describes his attitude this way: "The trade union's purpose was to maximize the price of labor through collective bargaining. . . . For the worker the supreme loyalty must be to the union; for the union supreme loyalty must be to the economic advancement of the worker. For the organization must be exclusive, uncontaminated—'pure and simple.' Nonworkers who intervened in union affairs were meddlers. . . ."9 If William Green, who succeeded Gompers as head of the A.F. of L., was anything other than a unionist the fact has not come out. Indeed, the list of union leaders who were ideological unionists, if ideologues at all, should include John L. Lewis, William L. Hutcheson, such Teamsters as Dave Beck and Jimmy Hoffa, and, in more recent times, George Meany. Such unionism, too, falls considerably short of being a religion.

But unionism in America is not an independent ideology, not usually, not historically, and not in those dogmas which are necessary to its general acceptance. It is not that "pure and simple" unionism would not succeed sometimes as a basis of organization and in the advancement of some particular group of workers. William L. ("Big Bill") Hutcheson demonstrated the potentialities of such unionism with the Carpenter's union which he headed for several decades. He was a huge man who was determined to and did become master of his domain. His domain, in his view, included all who worked with wood or with materials that had been substituted for wood. His jurisdictional battles were legendary, and his domination of those under him was rarely questioned. "His world was seen through the narrow-angle lens of the union's interests; his only concern was with what was good for the Carpenters, not with what was good for the labor movement, workers in general, or America."10 The anti-social character of his unionism was apparent to all who would see it. Moreover, it is highly doubtful that he could have succeeded to the extent that he did without the protective coloration drawn from another ideology and which was coming generally to prevail.

Unionism is a derivative ideology; it derives from and depends upon socialism. Its collectivism finds its justification in socialism. The crucial
The doctrines of class consciousness and the class struggle derive from socialism. Socialist ideology provided the protective coloration for union advancement of the interests of particular groups.

Influenced by Socialism

One way to examine the dependence of unionism on socialism is through the influence of socialism on union leaders over the years. That is larger than is generally recognized.

Even Samuel Gompers, accepted in his day as being among the most conservative of union leaders, was influenced by socialism. He heard the doctrines of socialism from German and Hungarian immigrants who worked alongside him making cigars in New York City. He also studied them on his own. Gompers disavowed the utopianism of socialism and steered clear of militant class struggle rhetoric, but Theodore Draper holds that the Marxist influence might be the key to his opposition to union involvement in politics.

There were two prominent strains in socialism in the United States in the 1870s and 1880s, one stemming from Lassalle and the other from Marx. Marx opposed the political road to socialism, while Lassalle favored it. Out of this ferment came "ex-Socialists and former Socialist sympathizers who moved from trade-union socialism to trade unionism without socialism. Two cigar makers, Adolph Strasser and Samuel Gompers, traveled this road from socialism to 'pure and simple' trade unionism. The American Federation of Labor, which they were largely instrumental in forming in 1886, in part grew out of the reaction against political unionism." At any rate, the influence of socialism was there at the inception.

With many other labor leaders, there was no doubt of their commitment to socialism. Eugene Debs, quadrennial candidate for President on the Socialist ticket, organized the American Railway Union in 1893. Although his conversion to socialism was subsequent to this, his position on the relationship between unionism and socialism is made clear in the title of a book he published in 1904: Unionism and Socialism, a Plea for Both. He was a prominent figure at the organizing convention of the IWW and for several years thereafter in its work. Daniel De Leon, head of the Socialist Labor party was also a union leader and an important spokesman at the founding of the IWW. William D. ("Big Bill") Haywood, longtime leader of the IWW was so radical that he was expelled from the executive committee of the Socialist party in 1913.

David Dubinsky, leader of the International Ladies Garment Work-
ers Union, was an enthusiastic socialist before he became a union leader. He was born in Czarist Russia, made his way to the United States in 1911, and within days of his arrival joined the Socialist party. For several years thereafter, his main interest was socialist activities. Sidney Hillman, leader of the Amalgamated Clothing Workers and eventual confidant of President Franklin Roosevelt, was a Russian by birth and a socialist in his early life also. Indeed, in Russia, he had been a Menshevik, the less violent of the Marxist Communist parties. Homer Martin, the president of the United Auto Workers who took the union into the CIO, was under the influence—perhaps, domination would be nearer the mark—of Jay Lovestone. Lovestone was an anti-Stalinist who formed his own small Communist party. The socialist background of Walter Reuther, long a leader in the UAW and CIO, may be better known. His father was a socialist, and he trained his sons to follow in his footsteps. Walter and Victor were members of the Socialist party, and Walter only finally resigned from it to become a Democrat in 1938.

"Fellow Travelers"

A goodly number of union leaders were Communists, or closely associated with them, particularly in the 1930s and 1940s. This was the case with Harry Bridges of the Longshoremens, Michael Quill of the Transport Workers Union, and Joseph Curran of the Maritime Workers Union. Lee Pressman, who served as General Counsel for the CIO, had joined the Communist party in 1934 and left it in 1935, according to his statement. Len DeCaux, editor of the CIO News in the 1930s was characterized by Eugene Lyons as a "Fellow Traveler" of the Communists. John L. Lewis used Communists with reckless abandon in organizing the CIO, and Philip Murray, who succeeded him as the head of the organization, did little to disturb their entrenched positions in many unions. Murray, incidentally, had been influenced by the British Fabian socialists, Sidney and Beatrice Webb, in his conception of unions.

Many more names could be given and connections made, but the above should be enough to make the point. My point, of course, is to show that unionism is linearly connected to socialism, that the modern labor union was in considerable measure the offspring of socialism, and that socialists gravitated toward unions and union work. (It should go without saying that it is no part of my purpose to indict people for their beliefs or associations, but since there are those who do, it probably needs saying.)

The role of unions for radical so-
Socialists has been described this way: "To be sure, revolutionary class consciousness... must await the capitalist crisis that would prove the inability of the economic system to meet the workers' needs. Prior to the crisis, however, political and trade union activity prepared the workers organizationally and ideologically for the conflict that would result in great social changes. Radicals were to enter the trade unions in order to win over workers to the ideas of socialism, but also to encourage militant struggles for immediate demands."\(^{25}\)

The Religion-like Nature of Socialism and Unionism

The place of socialism in unionism varied greatly, of course: for some it was the springboard into unionism; for others the unions were simply a means of moving toward socialism; for yet others socialism had only provided a framework for unionism of which they may have been more or less conscious. Many individual union members are probably not aware at all of the socialist assumptions which inform unionism.

My broader point is this. Socialism is a religion, or is religion-like, and unionism by derivation is also religion-like. Socialism is religion-like because of its vision of creating a heaven-on-earth. Bertram D. Wolfe concluded the following about Marxism:

In an age prepared for by nearly two thousand years of Christianity with its millennial expectations, when the faith of millions has grown dim, and the altar seems vacant of its image, Marxism has arisen to offer a fresh, antireligious religion, a new faith, passionate and demanding, a new vision of the Last Things, a new Apocalypse, and a new Paradise.\(^{26}\)

Other varieties of socialism, such as gradualist or democratic, may hold forth the vision less dogmatically, yet they, too, are religion like in their faith. The vision, linked with its unionist thrust, was articulated this way at the founding convention of the IWW:

The road is no doubt long and weary, many centuries have passed before us; centuries of slavery, degradation, misery and disease. Never before have all the forces been present and all the materials at hand to release the world from economic slavery.... When such a transformation has occurred results which would be considered by the early Utopians as wild and chimerical will be realized.\(^{27}\)

Once the view that labor unions are religion-like organizations is accepted, they come into focus, as they never do from any other angle. They are usually advanced as being economic organizations and, sometimes, also as political organizations. But they are not economic organizations: they produce nothing; they transport nothing; and they
sell nothing. They are dis-economic organizations. If economy be understood as comprising those actions which are aimed at making available the greatest quantity of goods and services that are most wanted with the least expenditure of the means of production, i.e., land, labor, and capital, then labor unions do not fit into it. Their thrust is in the opposite direction, to raise the price of labor, to restrict the ways in which the means of production may be employed, and thus to increase the cost of production. A corporation is an economic organization; a labor union is some other kind of organization.

**Not Primarily Political**

Nor is the labor union primarily a political organization. That is not to say that labor unions may not engage in political activities, which they do from time to time, but rather to note that the political effort must always be subordinated to the sectarian interests of their members, else they will consider themselves to have been betrayed. The tangles in which the British Labour governments have been caught when they have attempted to deal with unions illustrate the point well. But, at any rate, labor unions are not basically political organizations in the United States.

Labor unions are religious, or religion-like, organizations, and, as I say, once this is grasped they come into focus. Their immediate goals are ethical in character; their ultimate goals are religious. Their economic claims are ethical in character: this is so whether they are pressing for higher pay or dealing with particular grievances of their members. Their political activity has as its purported end the attainment of conditions within which they can successfully press their ethical claims. It is quite possible that both union ethics and religion-like beliefs can be subjected to withering criticism, but that is another matter. What I am doing here is to establish that they are ethical and religion-like organizations, and, having done so, to show where they belong in our system.

As a religion, unionism comes clearly into focus under our constitutional law. The First Amendment to the Constitution declares that "Congress shall make no law respecting an establishment of religion, or prohibiting the free exercise thereof. . . ." Historically, the prohibition has two aspects. First, since the United States had no established church or religion when the Constitution was written, it effectively prohibits the establishment of any by the United States government. Second, since some states did have established churches, it prohibited Congress to interfere with these, or such as states might thereafter establish, for it prohibits Con-
gress to make laws respecting, i.e., in regard to, “an establishment of religion.”

Note, too, that it is religion that Congress is prohibited to establish, the most comprehensive way of describing what they were after. This was deliberate. The amendment as it was originally passed by the House and Senate, each acting separately, read this way:

Congress shall make no law establishing articles of faith, or a mode of worship, or prohibiting the free exercise of religion, or abridging the freedom of speech, or the press, or the right of people peaceably to assemble, and petition to the government for the redress of grievances.

Two major changes were made by the conference committee on this amendment before it was approved and sent to the states. One was the substitution of "respecting an establishment of religion" for "establishing articles of faith, or a mode of worship." The other change was more subtle but hardly less important. It substituted semicolons for three of the commas in the original proposal. Thus, that part of the amendment dealing with religion is separated from speech and press by a semicolon, as are assembly and petition from the other two sections.

The amendment, as originally drawn, was a rather narrow effort to guarantee that the new government would not tamper with what were called at that time, “the rights of conscience.” Conceivably, it could have been construed to apply only to matters of faith and belief. The changes greatly broadened what was prohibited and by separating the rights protected from one another by stronger marks of punctuation tended to universalize them. And, what is most germane here, it prohibited the establishment of religion.

Establishing Unionism as an Official Religion

When Congress empowered labor unions in the 1930s, it transgressed the prohibition against establishing religion. It went far toward establishing unionism as an official religion. For example, in the Wagner Act of 1935 Congress proclaimed as correct doctrine what is in fact union dogma. To wit:

The inequality of bargaining power between employees who do not possess full freedom of association or actual liberty of contract, and employers who are organized in the corporate or other forms of ownership association substantially burdens and affects the flow of commerce, and tends to aggravate recurrent business depressions, by depressing wage rates and the purchasing power of wage earners in industry and by preventing the stabilization of competitive wage rates and working conditions within and between industries.

More important, it gave labor
unions standing which can be fruitfully compared with that of established churches. An established church is one which has special standing before the government. It has been granted special privileges, may have a monopoly within a state or country, and enjoys the protection and support of the government. While the Catholic church had some of the attributes of an established church in Medieval Europe, the species took on its full form during the Protestant Reformation. The Medieval church did not consider itself to be a creature of any or all of the states; on the contrary, it preferred the position that the state was a creature of the church. Not so, however, the churches that were established during the Reformation. In many countries and principalities, the religion of the prince was to be the religion of his subjects. The Peace of Augsburg of 1548, which dealt with Germany, provided that the princes and governments of the Free Cities were to be allowed to choose between the Roman and the Lutheran faith, but their subjects must either conform to this faith . . . or emigrate.31 In England, the king became head of the church as well as head of the state.

Of course, the parallels between established churches and established unions are not exact. Still, there are some highly suggestive similarities. In both cases, the government did the establishing, or recognition and protection. True, during the Reformation, it was the prince who made the decision; nowadays the decisions for unions are made by majorities. But the former was in the days of the divine right of kings; whereas, we live in the age of the divine right of majorities. The industrial strife of the nineteenth and twentieth centuries parallels the religious wars of the sixteenth and seventeenth, and if the full thrust of socialism and the attendant wars is added to the computation the more recent conflicts have been even bloodier than the earlier ones. Churches often have had their canon law; labor unions, by contrast, live under administrative law. And, no Holy Synod has ever scrutinized with greater care the articles of faith than does the National Labor Relations Board, the rules which emerge from its decisions.

The Use of Compulsion

Perhaps, the most crucial similarity between established churches and established unions lies in the use of compulsion. Established churches were supported by compulsory tithes and taxes, often collected by the government. Unions are supported by dues which become compulsory for all workers where a union has been established. Attendance at the established church was frequently required of all inhabi-
Laissez Faire

THE medieval epoch was finished. Individualism was exalted to a way of life. The foundations of modern capitalism were laid. The powers of government were limited. Free enterprise began. In pursuit of his economic ends, on his way to transform the world, European man was released from the restraints and sanctions imposed upon him both by the ecclesiastical tyranny and a vast bureaucratic system of administrative law.

The two ancient enemies of laissez faire were the state and the church. Laissez faire represented the principle of radicalism in both religion and economics. Radicalism was the sword of liberty. Neither the state nor the church has ever loved liberty.

GARET GARRETT, from the Winter 1949 issue of American Affairs

In the nature of things, church membership was not compulsory, but many advantages were attendant upon it. Where the union is established, all workers must accept the union as bargaining agent, whether they belong or not. Churches excommunicated; unions expel recalcitrant members. No one was supposed to have relations with an excommunicated person. Expelled union members ordinarily only lose their jobs. The Medieval Church could lay regions under interdict, thus denying religious services to people in the area. National unions have been known to pronounce unions as being outside the fold and thus their members to be treated as non-union workers.

The main argument for an established church was that effective government over a people required that they all be of the same faith and belief. The main argument for established unions is that they must be united in order to accomplish their ends. Underlying both these arguments is the idea of a common enemy, or enemies who have to be met and overcome. For Reformation churches, it was other princes, rulers of different faiths, and, ultimately, no doubt, a wily Satan. For labor unions, it is capitalists who will overwhelm them if they are not united.

In sum, unionism is an ideology. It is an ideology which arose from and was enlivened by a religion-like
ideology, socialism. When government empowered unions, it established a religion, in effect. When unions were permitted to use compulsion and to have the compulsion of government used for them, they took on the semblance of established churches. This way of looking at them brings them within the framework of historical understanding. There is no reason to believe that when James Madison drafted the First Amendment that he thought either religion or churches were an evil. The evil he sought to prevent was government establishment. Could anything less be said of labor unions?

—FOOTNOTES—

2Ibid., p. 186.
10Bernstein, The Lean Years, p. 112.
14See Ibid., pp. 45–46.
16Ibid., p. 68.
17Ibid., pp. 555–56.
18Ibid., pp. 558–59.
19Ibid., p. 259.
21Bernstein, Turbulent Years, p. 452.
22Lyons, op. cit., p. 225.
23Ibid., pp. 221–22.
29See Ibid., p. 218.
American business, in the early Nineteen Thirties, was definitely under the gun. Mencken and Sinclair Lewis had, for a decade, been undermining it with their satire: the figure of Babbitt stood out among the booboisie, and it was a moot point whether Ivar Kreuger, the Swedish match king, or Samuel Insull of Chicago was the greatest villain. The depression completed what the satirists had begun, and when Franklin D. Roosevelt took off against the economic royalists, nobody outside of the Liberty League dared say him nay. The Liberty League was naturally dismissed as an interested party.

Like practically everyone of my college generation I joined the anti-business procession. The mood was certainly pervasive—even Henry Hazlitt and Elmer Davis supported Norman Thomas, the socialist candidate for President, in 1932, rationalizing their action as a "protest vote."

Who among theorists was prepared to defend old economic values at the time? Carl Snyder, maybe, and Garet Garrett. But the Austrians hadn't yet come to our shores; there was, as yet, no Ludwig von Mises seminar in New York. "Planning" was the by-word in The New Republic and The Nation, and George Soule, Stuart Chase and Rexford Tugwell were, in Tugwell's phrase, busy "rolling up their sleeves to make America over."

It would be a long time before the "freedom philosophy," as a theory, was to have its principled defenders. But a strange thing happened to some of us. A beetle-browed man named Henry Luce, the son of a Christian missionary to China, had, during the last days of the Coolidge boom, planned a magazine of business that was to be called Fortune. Ironically, its first issue, dated February 1930, hit the mails just when the stock market collapse of October 1929 was being felt.
The Luce Adventure

Luce had a philosophy, all right, but his interest in journalism was predominantly an interest in facts. The facts were flippantly exploited in his news magazine, Time. For Fortune he wanted something different—a magazine that would, with proper gravity, treat business as an adventurous drama, something worthy of the efforts of good men. That was all he had in mind at the start—the first editorial expression of a point of view in the magazine came in Roosevelt's second term, when Russell Davenport, the managing editor, started a monthly department called Business and Government.

I went to work for Fortune in 1936 still filled with the average New York City intellectual's scorn for the businessman. Nobody tried to convert me to anything: the idea, as Luce said, was that the "profit system was a fact, not a cause," and we were supposed to set forth the "fact" with vividness and accuracy, letting the reader draw his own philosophic conclusions.

How it all worked out is animately set forth in a book brought out on the fiftieth anniversary date of the Luce adventure. Nineteen authors who had worked in the Luce vineyard were asked to contribute their reminiscences for a volume called Writing for Fortune (Fortune Magazine, Time-Life Building, Rockefeller Center, New York, N.Y. 10020, 194 pp., $15.00). They carried out the assignment each on his own, with a minimum of editing. Amazingly enough there is little repetition. Sometimes the effect of writing for Fortune had radically different results—J. Kenneth Galbraith and myself had much the same exposure to the "facts" of corporate America, but we might as well have been investigating the industrial life of different planets. But Galbraith and Dwight MacDonald are the only two contributors out of nineteen whose exposure to the "corporation story" failed to mitigate the socialistic biases that were, at the start, almost universally part of the intellectual baggage of the fledgling Fortune writer of the Thirties, Forties and Fifties.

More Imaginative Writing

Luce's feeling, adequately buttressed by the examples he saw all around him in the Twenties, was that business writers lacked the imagination to do justice to their subject. But where to turn for a different type of writer? The intellectual Left hated business. Of intellectuals in general, Luce said "Everything about business which does not actually offend them bores them."

If intellectuals didn't promise much, maybe poets would do. Or imaginative writers, novelists not
interested in ideology or party-line politics. Poets and novelists would be alive to the color and drama of what General Hugh (Old Iron Pants) Johnson called the "savage poetry" of business competition.

The early Fortune mastheads are revealing. The editors included Charles Wertenbaker, Green Peyton, Robert Cantwell, Edmund Gilligan and James Gould Cozzens, all novelists. Jim Agee, another editor, was a well-known poet. John Davenport, a poet in college, could spout Yeats by the yard. Louis Kronenberger, an esthete with little interest in politics, would go on from a Fortune career to be a first-rate dramatic critic. Jack Jessup came out of an advertising agency to adapt his incomparable slow ball to corporate stories that blithely ignored the advertising space salesman.

Russell Davenport's Influence

Arch MacLeish, Pulitzer poet, was the acknowledged Konzertmeister of the early staff. Russell Davenport, the managing editor during most of the eight years I spent as a Fortune writer, had devoted hours to tinkering with terza rima, his favorite verse form. His only defect as a managing editor was his practice of rewriting big sections of stories. Since his own style was so distinctive, the presence of his interjected paragraphs played havoc with the tonal unity of an article. Charles J. V. Murphy, no mean stylist himself, resented the two-toning of his prose.

Lest the strange crew that Luce had assembled to dramatize business should fail to respect facts, the female researchers, many of whom had had actual business experience, stood ready to curb the more florid departures from prosaic reality. The system seemed to work. It not only produced good business stories, it also helped cross-fertilize the articles on the mixed economy that had become the prevailing mark of the Rooseveltian decade. Russell Davenport's business-and-government editorials "leaked" by any strict libertarian's standards when it came to criticizing what was going on in Washington, D.C. But, in their tentative way, they foretold that a period of questioning the role of the State in economic decisions would not be long in coming.

For myself, the experience of visiting factories, mines and board rooms left me open to the arguments of a Hayek (The Road to Serfdom), a Mises (Socialism), an Isabel Paterson (The God of the Machine), a Rose Wilder Lane (The Discovery of Freedom), when the philosophical backlash to the Keynesian and Marxian theories came in the Nineteen Forties. Fortune gave me insight into the creative experience that I would never have had if I had remained in the tight little world of the Manhattan intellectuals.
EMPIRE OF THE MASSES: THE DECLINE OF TASTE IN AMERICA
by Fred DeArmond
(Dorrance & Co., 35 Cricket Terrace, Ardmore, PA 19003), 1980
146 pages • $6.95 cloth

Reviewed by Vera Brubaker Thompson

Any citizen beyond his teens must be aware of negative factors threatening the usual pleasant pace of life to which most of us have become accustomed. What has gone wrong? Where are all those bright dreams every American child had, and expected to see materialized?

The tarnished ideals, the despair, the default of those who pilot the ship of state, the plunge in international prestige, economic uncertainties, all reflect the decline of taste observed by Fred DeArmond in Empire of the Masses.

"If America as champion of the West should come out a loser," the author warns, "future historians may assess the cause to have been corruption of the high spirit that made us great, accompanied by the demise of good taste."

The standard of middle-class living is incredibly high, civil rights seem to have made every man a king, and what is called education is practically a universal possession, the author writes, but "The paradox is that at the same time popular taste is the lowest it has ever been and the anti-cultural forces are rebarbarizing our proud civilization."

The book is studded with quotations of eminent observers to support the points of the book's thesis. For example, "At least one American saw this intellectual bankruptcy coming. When he was at the peak of his critical zeal as editor of the American Mercury, Henry L. Mencken said that it was 'impossible to overestimate the low taste of the American public.'"

Universal free schooling was once regarded as a panacea. With what result? According to the College Entrance Examination Board, test scores of graduating seniors in 1975 showed a drop for the twelfth consecutive year . . . ten points lower in verbal skills and eight points lower in mathematical skills than the high school graduates of the preceding year.

Academic degrees are commonplace, but ignorant skepticism and blind credulity shackle the mass mind: "There are sizable numbers of men and women with college degrees who accept only selectively and with reservations the Ten Commandments and the Constitution of the United States. They believe there is no limit to how far the federal government can go in printing money and distributing it among the proletariat . . . They are skeptical when conventional wisdom points
to belief, and credulous of the most monstrous fallacies when presented plausibly and perhaps linked to ingrown prejudices."

The author paraphrases Solzhenitsyn’s Harvard Address and endorses its charge: “I looked to your society for a model alternative to my own enslaved country. But America doesn’t constitute such an ideal. You have an enormously free press, but an enslaved readership. Almost nothing is officially prohibited but you are dictated to by the fashions and deluded about the verities. Your people exhibit deadly signs of decadence. I am saddened by such things as the revolting invasion of privacy, by publicity, the TV stupor, and the intolerable music. “You are being softened by inflated luxury and permitted lawlessness. No modern weapon, however powerful, can help you if you have lost national will power.”

What has happened to this once great nation? Many an American is searching his soul, looking for just the sort of help this book offers. Some readers may recall earlier articles by Mr. DeArmond. He won a Freedom’s Foundation Award for “The Right to Choose” from the December 1961 Freeman.
Understanding “Austrian” Economics  Henry Hazlitt  67
An introduction to the basic concepts and principles of the so-called Austrian school of economics.

Standards of Living Are Falling  Hans F. Sennholz  79
How government interventions have handicapped U.S. productivity and progress.

The Case for Economic Freedom  Benjamin A. Rogge  85
Not the mixed, but the unmixed laissez faire economy, was Ben Rogge’s ideal.

In Defense of Millionaires  William H. Peterson  94
A kind word for a much-maligned minority group.

The Impossible Task of the Fed  Ernie Ross  97
The Federal Reserve is faced with trying to serve conflicting objectives.

The Impact of Unionism  Clarence B. Carson  103
Tracing the economic consequences of the socialist theory implicit in union practices.

Freedom of Conscience  Thomas Jefferson  116
Truth needs no coercive support.

The Economics and Politics of Discrimination  George C. Leef  118
Not capitalism but political intervention prolongs racial discrimination.

Book Reviews:
“Wealth and Poverty” by George Gilder
“Black America and Organized Labor” by Walter Williams et al.

Anyone wishing to communicate with authors may send first-class mail in care of THE FREEMAN for forwarding
"Austrian" economics owes its name to the historic fact that it was founded and first elaborated by three Austrians—Carl Menger (1840–1921), Friedrich von Wieser (1851–1926), and Eugen von Böhm-Bawerk (1851–1914). The latter two built upon Menger, though Böhm-Bawerk, in particular, made important additional contributions.

Menger's great work, translated into English (but not until seventy-nine years later!) under the title of Principles of Economics, was published in 1871. In the same year, by coincidence, W. Stanley Jevons in England published his Theory of Political Economy. Both authors independently developed the concept now known as "marginal utility." (Menger never used the term. Jevons called it "final degree of utility." It was Wieser who first employed the German term Grenznutzen, which translates as "marginal utility.")

But as few American or British economists read German in the original, it was years before the real extent of the revolution begun by Menger was realized outside of German-speaking countries. For it was Menger, by recognizing most fully the implications of the marginal-utility concept, who opened up new paths and, so to speak, turned the old classical economics upside-down.

Goods have no inherent value in themselves. They are valued because they help to satisfy some human want or need.

Menger insists throughout his work that value is essentially subjective, and that therefore economics must be in the main a subjective science. Goods have no inherent value in themselves. They are valued because they help to satisfy some hu-
man want or need. A given quantity or unit of a certain good will satisfy a man’s most intense desire or need. He may also want a second, third, or fourth increment. But after each unit consumed or employed, his desire or need for a further unit of that good may be less intense, and may finally become completely satisfied.

It follows that each increment of that good at his disposal will have a reduced value to him. But as no unit of the total available quantity of that good can have a greater value in exchange than any other (of the same quality), it follows further that no other unit will be worth more in the market than the “final” unit of the supply. Thus in a given community the exchange value of a given increment of each good will be determined by the relation between its total available quantity and the intensity of the human need or want that it fills.

So far this may seem like little more than a refinement on the old classical doctrine that value and price are determined by supply and demand. It seems merely to state that doctrine in subjective rather than objective terms. But then Menger comes to point out some of its implications. The values of goods are mutually interdependent. Bread is valued because it meets a direct consumption need. Flour is valued because it is needed to bake bread. Wheat is valued because it is needed to produce flour. Plows, seed, land and labor are valued because they are necessary to produce wheat, and so on.

Values are also interdependent because, for example, if one raw material necessary in combination for the production of a final product is missing, that lack reduces the usefulness and value of the other raw materials needed.

Goods wanted and ready for direct use or consumption are called by Menger “goods of the first order.” Raw materials and other factors necessary to produce these are called “goods of the second order.” Materials, machinery, labor and other factors needed in turn to produce these...
goods of the second order are called goods of the third order, and so on. These goods of the second, third, and other "higher" orders are valued because of the consumption goods that they produce.

The Austrian doctrine holds that the "cost of production" itself is ultimately determined by the value of consumption goods.

Thus while the classical Ricardian doctrine held that the "normal" value of consumption goods was determined by their "cost of production," the Austrian doctrine holds that the "cost of production" itself is ultimately determined by the value of consumption goods.

These two doctrines can be partly reconciled in the statement that though what a good has cost to produce cannot directly determine its value, what it will cost to produce determines how much of it will continue to be made. It is the limit that cost of production puts upon the total quantity of a good produced that determines its marginal value and therefore its market price. Thus there is a constant tendency for marginal cost of production and market price to equal each other, though not because the first directly determines the second.

Something should be said also about the sharp distinction between the Ricardian and the Austrian concept of "cost." The Ricardian (and the modern businessman) thinks of cost as a money outlay. But the Austrian economist has a much wider concept, what economists now call "opportunity" costs, or "foregone opportunity" costs. Such costs exist, of course, not only in business but in all our decisions and actions in life. The cost of learning French in any given period is to forego learning German, or to learn less mathematics, or to give up some tennis or bridge, and so on.

Menger emphasizes the importance of time and the role of uncertainty in the whole productive process. He also points out that no single good, no matter how abundant, can maintain life and welfare, but that these depend upon the production of combinations of goods of different kinds in the proper proportions. And he points out, finally, that the process of production cannot be expected to go on at an adequate rate unless there is adequate protection of property.

The economic value of goods, to repeat, depends upon their respective quantities in relation to the human needs they meet. It does not necessarily depend upon the amount of labor expended in their production. To quote from Menger's Principles of Economics: "If there were a society where all goods were available in amounts exceeding the re-
quirements for them, there would be no economic goods nor any 'wealth' (p. 109). . . . Hence we have the queer contradiction that a continuous increase of the objects of wealth would have, as a necessary final consequence, a diminution of wealth (p. 110)."  

(In other words, Menger pointed out more than a century ago a basic fallacy in the now-fashionable national income statistics.)

"The value of goods arises from their relationship to our needs, and is not inherent in the goods themselves (p. 120). . . . Objectification of the value of goods, which is entirely subjective in nature, has nevertheless contributed very greatly to confusion about the basic principles of our science (p. 121). . . . The importance that goods have for us and which we call value is merely imputed (p. 139).

"There is no necessary and direct connection between the value of a good and whether, or in what quantities, labor and other goods of higher order were applied to its production. . . . Whether a diamond was found accidentally or was obtained from a diamond pit with the employment of a thousand days of labor is completely irrelevant for its value (p. 146)."

Menger goes on to discuss further how higher goods, including capital goods, get their value: "It is evident that the value of goods of higher order is always and without exception determined by the prospective value of the goods of lower order in whose production they serve (p. 150)."

He outlines a theory of interest, but he leaves it vague. On page 156 of *Principles of Economics* he tells us: "We have reached one of the most important truths of our science, the 'productivity of capital.'" But he emphasizes that this productivity occurs only through the passage of time, and that therefore the market value of presently existing and available goods is at a "discount" compared with the expected value of equivalent goods in the future.

**A Time-Preference Theory**

This suggests that Menger leaned more toward a "time preference" than a "productivity" theory of interest, though the distinction between these theories was not sharpened and made explicit until the publication of Böhm-Bawerk's *Capital and Interest* in 1884 and his *Positive Theory of Capital* in 1888. Böhm-Bawerk laid great emphasis upon the superior productivity of "roundabout" processes of production, and therefore (after a brilliant demolition of productivity theories of interest) ended by himself offering a theory of interest that combined productivity and time preference. Nearly all "Austrians" today, however, following the lead of Frank A. Fetter and
later of Ludwig von Mises, support a pure time-preference theory.

To return to Menger: His Principles of Economics next presents a "theory of exchange." In this he points out that men do not buy from or sell to or exchange with each other merely because of a "propensity of men to truck and barter," as implied by Adam Smith, but because each man seeks to maximize his satisfactions by exchanging what he values less for what he values more. In this way the satisfaction of all is increased. Exchange is thus an integral part of the whole process of production. What is being produced is value. Menger's whole theory of price, to repeat, is developed on the basis of "the subjective character of value."

The final chapter of Menger's Principles is on "The Theory of Money." This does not explicitly discuss such subjects as interest rates or inflation, but deals solely with fundamentals, especially the origin and evolution of money. "Money is not the product of an agreement on the part of economizing men nor the product of legislative acts. No one invented it (p. 262)." It developed out of barter. Because it so seldom happened that A and B each had and was willing to offer exactly what the other wanted, triangular and indirect barter began to take place. Men first offered their specialized goods for more "marketable" goods more widely wanted, in the hope that they could exchange these, in turn, for the particular goods that they themselves wanted. As a result these more "saleable" goods became still more saleable because of this extra demand. The most saleable of all finally became "money." Historically, all kinds of goods have served as money, though it later came down to coins of precise weights of copper, silver, or gold.

Money is not a "measure of value," though it is legitimate to call it a measure of price. It is the only commodity in which all others can be evaluated without roundabout procedures. It is the most appropriate form in which people can save and store part of their wealth. The right of coinage has generally been left to governments, even though "they have so often and so greatly misused their power (p. 283)."

I may have seemed to devote a disproportionate amount of space to Menger, but the special contributions of Austrian economics can be most clearly realized, it seems to me, if we begin by dwelling in some detail on those of its originator.

Menger's first important successor as an "Austrian" economist was Friedrich von Wieser, who, beginning in 1884, published several books elaborating, rounding out, and refining Menger's theory of value, clarifying especially problems of cost, "imputation," and distribution.
It was the analysis of Austrian economics that made Böhm’s refutation of Marx so conclusive. No refutation based on the assumptions of the old classical economics could have been as devastating.

The next great successor was Eugen von Böhm-Bawerk, whose trailblazing contributions in Capital and Interest, in 1884, and the Positive Theory of Capital, in 1888, have already been referred to. In addition, Böhm-Bawerk wrote a brilliant demolition of Marx’s Das Kapital in 1896, in a comparatively short work first translated into English under the title Karl Marx and the Close of His System. In this essay Böhm-Bawerk exposed particularly the fallacies in Marx’s labor theory of value and his “exploitation” theories, which the latter had derived as a supposed corollary from errors of Ricardo. It should be emphasized that it was the analysis of Austrian economics that made Böhm’s refutation of Marx so conclusive. No refutation based on the assumptions of the old classical economics could have been as devastating.

After the passing of its three founders—Menger, Wieser, and Böhm-Bawerk—Austrian economics fell for a long time into eclipse. It was not so much refuted as neglected. English-speaking economists began devoting themselves to such matters as mathematical treatment of problems of “general equilibrium.” The Austrian view was revived mainly by one man, an Austrian by birth as well as an “Austrian” by conviction—Ludwig von Mises (1881–1973). He made his influence felt both by his written works and by his oral teachings. Among his early distinguished students and followers were Gottfried Haberler, Fritz Machlup, Oskar Morgenstern, Lionel (now Lord) Robbins, and, most influential of all, F. A. Hayek (b. 1899).

Ludwig von Mises was prolific, but his principal contributions were made in three masterpieces. These were The Theory of Money and Credit, first published in German in 1912, Socialism: An Economic and Sociological Analysis, also first published in German in 1922, and Human Action, which grew out of a first German version appearing in 1940, but was not published in Mises’ own rewritten English version until 1949.

Mises on Human Action

Though there is now a gratifying number of able young American economists writing in the Austrian tradition, Human Action still stands as the most complete, powerful, and unified presentation of Austrian economics in any single volume. Mises always generously acknowledged his indebtedness to his pred-
ecessors. He recalled in a short au-
tobiography (Notes and Recollections,
1978) that around Christmas, 1903
he read Menger's Principles of Eco-
nomics for the first time. "It was the
reading of this book," he wrote, "that
made an 'economist' of me."

It would carry me to too great
length to itemize and explain all the
contributions to economics that Mises
made, and I will content myself with
mentioning only two. He was the
first to prove that it was impossible
for socialism to undertake "eco-
nomic calculation"; and he made one
of the most important contributions
of any economist toward solving the
problem of "the trade cycle."

Because Mises so uncompromis-
ingly rejected government interвен-
tionism in all its forms, he acquired
the reputation of a "laissez-faire ex-
tremist" during most of his lifetime,
and was scandalously neglected by
the majority of academic econo-
mists. But because Hayek elabo-
rated his own ideas in a more concil-
liatory form, his writings attracted
more attention from the academic
world, and he leapt into prominence
in 1931 with his own contribution to
the theory of the trade cycle, Prices
and Production, along lines similar
to Mises'. The result is entitled to be
called the "Mises-Hayek" theory.

Hayek is also a prolific writer, but
though he has written volumes on
money, on the trade cycle, on infla-
tion, and on The Pure Theory of
Capital (1941), he has never at-
ttempted a comprehensive book on
economic principles. Of late years
he has turned his attention mainly
to the realms of politics, ethics, and
law, and has written profound and
widely-discussed treatises on The
Constitution of Liberty (1960) and a
three-volume work on Law, Legis-
lation and Liberty, completed in
1979. He has been more widely in-
fluential in his own lifetime than
was Mises, and was awarded the

Today's zealous group of younger
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ing a whole range of economic
problems with a new vigor.

Today's zealous group of younger
"Austrian" economists, though all
acknowledging their great debt to
Mises, do not treat his Human Ac-
tion as the final word on the subject,
but are exploring a whole range of
economic problems with a new vigor.
Murray Rothbard (b. 1926), a stu-
dent of Mises, produced a two-vol-
ume treatise, Man, Economy, and
State (1962), along Misesian lines,
with notable clarity of exposition,
and making important contribu-
tions of his own, pointing out the
fallacies, for example, in the pre-
vailing theories of "monopoly price."

Israel M. Kirzner (b. 1930), pro-
fessor of economics at New York
University, another former Mises student, although he has not undertaken a comprehensive book of "principles," has explored individual problems in five separate volumes: *The Economic Point of View* (1960), *Market Theory and the Price System* (1963), *An Essay on Capital* (1966), *Competition and Entrepreneurship* (1973), and *Perception, Opportunity, and Profit* (1979). His work is distinguished by great scholarship, systematic thoroughness, and precision of statement. He has brought further illumination to every problem he has dealt with.

Finally, no reference to individual writers would be adequate that did not include Professor Ludwig M. Lachmann (b. 1906). Though he is one of the most original and profound among living Austrian economists, his work has not yet nearly achieved the recognition it merits. Among his principal books are *Capital and Its Structure* (1956; republished in 1978), *The Legacy of Max Weber* (1971) and *Capital, Expectations, and the Market Process* (1977). His writings are notable for their emphasis on the role of expectations and for their thoroughgoing application of a "radical subjectivism."

Restrictions of space permit me merely to list the names of half a dozen of the now increasing group of important "Austrian" economists: S. C. Littlechild, Gerald P. O'Driscoll, Jr., Mario J. Rizzo, Hans Sennholz, Sudha R. Shenoy, and Lawrence H. White. But so arbitrarily short a list must omit a number of names unjustly.

The "Austrian" economists, more consistently than those of any other school, have criticized nearly all forms of government intervention in the market—especially inflation.

The "Austrian" economists, more consistently than those of any other school, have criticized nearly all forms of government intervention in the market—especially inflation, price controls, and schemes for redistribution of wealth or incomes—because they recognize that these always lead to erosions of incentives, to distortions of production, to shortages, to demoralization, and to similar consequences deplored even by the originators of the schemes. But personal value judgments of government policy are of course not an essential part of Austrian theory.

The present vigorous Austrian School is not content merely to keep re-expounding the principles developed by Menger and Mises, but is addressing itself constantly to new problems, or a more thorough probing of old ones. This is dramatically evident in a recent volume, *New Directions in Austrian Economics* (1978), edited by Louis M. Spadaro, with contributions from eleven wri-
ters. Professor Spadaro himself, in his concluding essay, outlines some of the still unresolved problems that Austrians ought to explore. In some sense, however, practically all eleven contributions do the same thing.

I have heard it said (by an economist of another school) that there is no such thing as Austrian economics; there is only good economics or bad. But in the same way we could say that there is no such thing as Ricardian economics, Marxist economics, Keynesian economics, and so on. This sort of statement, though true in one sense, is false in another. It is fallacious in implying that if anything is classified in accordance with one characteristic, it cannot be classified in accordance with any other. It is like saying that there are no such persons as Americans or Japanese; there are only men and women. Those who call themselves “Austrian” economists give themselves this label because of its historic origins; but they happen also to believe that its fundamental theses are true, and offer more promise than any other for further progress in economic science.

Perhaps something should be said about the chief differences today between Austrian economics and what we may call “orthodox” or “mainstream” economics. The difficulty here is that “mainstream” economics itself would be hard to define. Economists are still divided into a number of recognizable “schools”—neoclassicists, Keynesians, the Chicago school, the Lausanne school, and so on. The limits of space forbid me to go into the distinguishing doctrines of each of these schools. But one outstanding difference of the Austrians from all of these lies in their method of reasoning. The Austrians emphasize methodological individualism. That is, they not only begin by emphasizing human actions, preferences, and decisions, but individual actions, preferences, and initiatives. Mainstream economists are concerned with “macroeconomics,” with averages and aggregates; and those of the Lausanne school, trying to reduce economics to an “exact” science, and therefore seeking to quantify everything, are obsessed with complicated mathematical equations that try to stipulate the conditions of “general equilibrium.”

Equilibrium a Useful Concept, Though Never a Reality

Now “general equilibrium” is defined by these economists (when it ever is) in highly abstract and obscure phrases; but for laymen it might be defined as a condition in which all the tens of thousands or millions of commodities and services are being turned out in the exact quantities and proportions in which they are relatively wanted by producers or consumers, so that there
are no "shortages" or "surpluses." All prices reflect costs, and there is no more profit in making one commodity than any other. (In fact, there is no "pure" profit at all.) These economists admit that at any moment this condition does not exist, but they contend that there is a constant long-run tendency toward equilibrium, because when there is an unusual profit in turning out some one product, producers will turn out more of it, and when there is a loss in turning out some other product, producers will make less of it, or transfer to making something else.

Now the concept of equilibrium (or much better, the Mises concept of an "evenly rotating economy") can have great usefulness as a tool of thought. We are often better able to analyze the problems of change if we begin with the fictitious assumption of a state of affairs in which certain changes are hypothetically eliminated. But this is a purely imaginary construction, a useful fiction. It should never be confused with reality.

While a true "equilibrium" between the marginal cost of production and the market price of any one commodity is a condition that is seldom reached, even momentarily, a "general equilibrium" in the relative production, supply price and demand price of all commodities and services is a condition that is never reached, even for an instant of time.

Neoclassical economists seem obsessed today with setting up complicated algebraic equations, but it is difficult to specify precisely what their x's and y's stand for.

The concept itself is extremely nebulous. Neoclassical economists seem obsessed today with setting up complicated algebraic equations stipulating the conditions of equilibrium or functional relations under "perfect competition" and the like, but it is difficult to specify precisely what their x's and y's stand for. They cannot refer to physical quantities, because you cannot add apples to horses, or a ton of gold watches to a ton of sand. One might add or compare quantities times prices, but what would be the meaning of the total, or any of the parts that make it up? The price, even of one commodity, differs from hour to hour, place to place, and transaction to transaction. The value of the currency itself fluctuates and constantly changes its exchange ratio with commodities. If we simply add or compare "values," then we must recognize that values are purely subjective. They are impossible to measure or to total because they differ with each individual.

If we pass over these fundamental difficulties, where do we arrive? Even if we assume that there may be a persistent long-run tendency toward
general equilibrium, we must admit that there is also a persistent short-run and long-run tendency toward the persistence of disequilibrium.

This is not only because there is a tendency of entrepreneurs, in increasing or reducing production in response to market and profit signals, to overshoot the mark, but because individual entrepreneurs, so far from making merely automatic responses, are constantly gaining new knowledge, alert to new opportunities, changing methods and reducing production costs, improving products, innovating—turning out entirely new products or inventions. And consumers too are constantly learning, changing tastes, and demanding new products to meet new wants. So Austrian economists seldom speak of market equilibrium, but of the market process.

My own suspicion is that the enormous attention now being devoted to stipulating the mathematical conditions of "general equilibrium" is a pursuit of a will-o’-the-wisp, of questionable help in solving any real economic problem.

But space forbids me to go into too many detailed contrasts. Let me sum up briefly the main Austrian theses once again, this time not in my own words or in Menger’s, but in those of two prominent living "Austrians."

"Beginning in the 1870’s in Vienna, Austria," writes Professor Kirzner, "the school was distinguished by its emphasis on the subjective elements in economic analysis, on the significance of time in production processes, and on the role of error and uncertainty in economic phenomena." (His italics.)

The summarization by Professor Lachmann is remarkably similar: "The first, and most prominent, feature in Austrian economics is a radical subjectivism, today no longer confined to human preferences but extended to expectations. . . . Secondly, Austrian economics displays an acute awareness of the many facets of time that are involved in the complex network of interindividual relations. . . . In the subjective revolution of the 1870’s the first step in the direction of subjectivism was taken when it was realized that value, so far from being inherent in goods, constitutes a relationship between an appraising mind and the object of its appraisal." (New Directions in Austrian Economics, pp. 1–3.)

All the rest of Austrian economics follows from these basic insights. Let me conclude with my own opinion that any economic analysis that fails to embody such insights cannot be entirely sound.

RECOMMENDED READING

Those who have no previous acquaintance with Austrian economics, and would like a short and sim-

Surprisingly, the original Principles of Economics, first published in 1871 by Carl Menger, the founder of Austrian economics (328 pages), still makes an excellent, very readable, and not too technical introduction to the school’s basic principles.


For the reader interested in the latest developments in Austrian economics I can highly recommend two books: One is The Foundations of Modern Austrian Economics, edited by Edwin G. Dolan, which contains contributions by half a dozen writers (1976, 238 pages, Kansas City: Sheed & Ward, Inc.) The other is New Directions in Austrian Economics, edited by Louis M. Spadaro (1978), 239 pages, with contributions by eleven writers. (Kansas City: Sheed, Andrews and McMeel, in cooperation with the Institute of Human Studies at Menlo Park, Calif., and with Cato Institute.)

Most of these foregoing books have already been mentioned in the text. The reader may also profitably consult others mentioned there, especially the volumes by Kirzner and Lachmann.

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It is a sad fact that most Americans have become poorer during the 1970s. They can no longer afford the amenities and luxuries to which they had grown accustomed. Many consumer goods are getting smaller or cheaper in quality although their prices continue to soar. We are urged to “conserve” and make do with less. Our new economic motto is “more conservation,” which is a euphemistic term for “more poverty.” Other industrial countries in Europe are experiencing similar difficulties. Their economies are stagnating or lingering in recession. Inflation is raging and unemployment is rising.

To most Americans the deterioration of living conditions is all the more incredible as their inborn optimism is calling for an ever brighter future. Surely, our history textbooks tell us of hard times during the major wars in American history or during the Great Depression. But they are not yet comparing our present situation with similar calamities in the past. And yet, some similarities are beginning to emerge.

The Great Depression was accompanied by a disintegration of the world economy. Economic nationalism ran rampant, cutting off channels of trade and commerce and impairing the world division of labor. According to most economic historians, this disintegration was an important cause that aggravated and prolonged the Great Depression. After World War II the trade barriers erected during the 1930s were gradually dismantled, which led to a phenomenal improvement in world economic conditions. For a quarter of a century it provided us with ever more materials and supplies. Total output of goods and services rose

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Dr. Sennholz heads the Department of Economics at Grove City College in Pennsylvania and is a noted writer and lecturer on monetary and economic affairs. His latest book, *Age of Inflation*, describes our dilemma and offers recommendations for restoring a sound monetary system.
rapidly and our standards of living improved steadily. During the 1970s unfortunately, governments the world over turned back the clock as they gave new life to economic nationalism, especially in the developing countries, and brought radical changes of which most Americans are not yet aware.

Transfer to OPEC

In 1973–74 an Arab oil embargo and a doubling of oil prices thereafter dealt a devastating blow to all industrial countries. Since then sizable increases in the price of OPEC oil added new uncertainties to an already cloudy outlook.

The net effect was a massive shift of income and wealth from the industrial countries to oil-producing countries. OPEC revenues rose sharply, as did production costs in industrial countries. The oil price increases not only dammed economic expansion in such countries as Japan and West Germany, but even brought it to a sudden halt in many others. The effect of this shift of income and wealth was alleviated somewhat since much of OPEC unspendable income was recycled into investments in both government securities and private banks in the United States and Europe. While OPEC countries were growing richer and the industrial countries becoming poorer relative to the world, the day of truth was postponed through rising indebtedness of the latter. In fact, OPEC lending not only obscured the shifting, but even helped to finance massive U.S. Government deficits for health, education and welfare that consumed capital en masse. In short, it helped to finance the American decline.

Government spokesmen always blame the sharp increase in petroleum prices for the rampant inflation that has engulfed the U.S. But economists are pointing out again and again that the ultimate impact of the oil price increase depends on the reaction of individual governments. In countries that refrain from deficit spending and monetary expansion, there is little or no inflationary impact at all. Increased spending by consumers on petroleum products necessarily leads, because of limited incomes, to reduced spending on other goods and to lower prices. Surely, the people in Japan and Switzerland suffered losses in income and wealth as a result of rising petroleum prices. But many other prices fell as other spending declined.

In the U.S. all prices rose at various rates because massive federal deficits were monetized, that is, the federal debt was used to increase currency in circulation. This was carried out essentially by the purchase of Treasury obligations by the Federal Reserve System, thus releasing Federal Reserve notes into
1981 STANDARDS OF LIVING ARE FALLING

circulation or creating bank reserves that permitted commercial banks to expand their credit even further. Obviously, the federal government alone conducted the inflation and orchestrated the credit expansion. But it is extremely eager to point the finger of blame at someone else.

In fact, the federal government greatly aggravated the situation and accelerated the wealth transfer by shackling and crippling the domestic industry so that the U.S. became ever more dependent on oil imports. In 1972, before OPEC intervened, we were importing some 6 to 7 percent of our needs. Today we are importing nearly 50 percent. No policy sinisterly designed to promote the transfer of income and wealth to OPEC could have been more effective than that conducted by the U.S. Government.

On August 15, 1971, the Nixon Administration imposed comprehensive price controls that were generating the first energy shortage. The Ford and Carter Administrations perpetuated the controls and made matters worse with complex systems of allocation and distribution. In 1977 the Carter Administration created a new U.S. Department of Energy merging the Energy Research and Development Administration, the Federal Energy Administration and the Federal Power Commission. It introduced a comprehensive national energy plan that emphasized conservation rather than production, and imposed the biggest single tax in U.S. history, the Windfall Profits Tax. It is surprising indeed that domestic production, reeling under such heavy blows, continues to meet one-half of our petroleum needs.

From Producers to Almsmen

Almost without exception governments are tempted to treat the symptoms while they eagerly ignore or even foster the causes. To fight the symptoms is always rewarding politically. It may even alleviate the problems in the short run although it does not solve them. It merely postpones the hour of reckoning.

The economic expansion during the 1950s and 1960s permitted interventionist governments to develop massive transfer systems that favored some people at the expense of others. The federal government became a giant transfer agency that extracted ever more revenue from the economic activities of the working people and bestowed its largess to a growing army of almsmen. From 1946 to 1980 nondefense spending rose from just $15.2 billion a year to an estimated $433.2 billion. (The Budget of the United States Government, Fiscal Year 1981, p. 613)

Despite the staggering burdens of government the American economy proved to be surprisingly resilient
as long as some capital could be formed and economic activity be expanded. But it was a fatal mistake to conclude that the economy could withstand any and all burdens which government chose to place on it.

A tax burden that is heavy during periods of expansion becomes destructive during stagnation and decline. When OPEC began to raise our costs of production, the load of federal levies became increasingly painful. To counteract or even offset the detrimental effects of OPEC machinations, instant tax relief would have been in order. But lo and behold, the federal government was not to be outdone by foreign extractions. It raised its own from $208.6 billion in 1972 to an estimated $523.8 billion in 1980. Its annual extractions now exceed the oil import expenses by one thousand per cent.

The effects of this double-barreled attack on economic activity could be readily seen. The returns of capital investments, that is, business profits, fell to scanty levels. Many enterprises suffered losses which mostly were hidden by the thick veil of inflation. Surely, some business profits stated in shrinking dollars continued to rise, permitting governments to extract ever higher levies. But in terms of purchasing power and real wealth many businesses merely struggled along or even deteriorated. They formed no new capital for expansion or modernization, built no new facilities, and created no jobs.

The dearth of genuine profits forced business to cut back its expenditures on research and development. Again jobs were lost or fewer were created. When an industry thus falls behind technologically, it may encounter the fierce competition of foreign industries. It may be outproduced and undersold and therefore may shrink even further, causing heavy unemployment of capital and labor. To correct such a dilemma is extremely difficult and painful.

The situation becomes all the more tragic if it involves important industries that are employing hundreds of thousands of workers. For political reasons the government cannot afford to let such industries collapse or wither away. It is expected to come to their rescue. Our steel and automotive industries are examples in case.

The most popular rescue action consists of a dose of economic nationalism. The steel industry in distress demands higher tariff barriers, which would curtail the steel supply and permit it to raise its prices. The automobile industry suffering losses clamors for import restrictions, which would force the American people to buy more domestic cars at higher prices. Foreign trade is to be curtailed, interna-
tional relations to be severed, and living conditions to be lowered so that the beleaguered industry may be permitted to continue its antiquated operations.

If no tariff protection can be granted because it would violate international treaties, the industrial captains and labor leaders may clamor for financial aid and support. The taxpayers are called upon to support with tax extractions what they do not patronize with their consumption dollars. Of course, the subsidies cannot restore the strength and viability of such industries. They tend to become a permanent burden to society which is impoverished not only by the subsidy but also by its loss of foreign products. In the end, the healthy industries that must carry the burden of support may be infected by the same dilemma, and the subsidized industries in search of ever more reliable support may beg to be taken over by the government. In any case, the people will pay the price in the form of ever lower living standards.

Cleaner but Poorer

During the 1970s national governments throughout the world pledged a commitment to a cleaner environment. In the United States the administration of Jimmy Carter was especially sympathetic to the pleas of environmentalists. It sent wide-ranging environmental policy statements to Congress and made concrete legislative proposals to impose more air and water pollution controls, and regulate strip-mining, wilderness preservation, and energy.

At this place we need not dwell on the ideological causes that gave rise to the policy. But we must observe that in nearly all cases of environmental concern, the blame was laid on business concerns and the individual enterprise system. And governments always felt called upon to correct the situation through massive expenditures and severe production restrictions. (Cf. "Controlling Pollution," *The Freeman*, Feb. 1973, pp. 67-77)

The federal Environmental Protection Agency (EPA) is demonstrating great perseverance against American industry. It not only is issuing countless guidelines but also setting rigid effluence limitations for many classes of enterprises. The Agency's persistence received support and encouragement by a number of favorable court decisions that made U.S. corporations install many millions of dollars worth of wastewater recycling equipment and other anti-pollution devices. In nearly every case the U.S. district courts and the U.S. Supreme Court ruled in favor of EPA and strengthened its hand in dealing with industrial pollution.

It is difficult to estimate the total financial burden placed on Ameri-
can industry in order to secure a cleaner environment. Direct costs up to now probably exceed half a trillion dollars. Indirect costs consisting of time and effort spent on cleaning operations, of factories not built and jobs not created because business capital was spent on environmental devices, may amount to a trillion dollars. And this amount may double or triple again if we include all the production that was cancelled or not even attempted because the environmental costs made it unprofitable. Surely, the American people paid a high price for any improvement in their environment.

Environmental costs are business costs like any other costs that limit economic undertakings. Governments imposing new costs are limiting economic production, eliminating jobs and reducing incomes. It is dishonest to ignore the costs and deny the consequences.

The People Must Choose

A representative government like ours tends to reflect the choices of the people. During the 1970s the American people charted a course of policies that led to economic stagnation and gradual impoverishment. The facts are undeniable and indisputable. But most Americans probably acted and voted in utter ignorance of the costs and consequences of their choices, which affords us new hope for the future.

The surprising results of the recent election seem to indicate that many Americans are awakening to the challenge of the future. They are rejecting the road of the 1970s and instead are opting for a new beginning. If this means that they are choosing prosperity rather than stagnation, employment rather than doles, the road into the future is very clear: The federal energy policies must be reversed completely and the wealth transfer to OPEC be discontinued immediately. We must overcome and restrain the public hostility toward investment returns and business profits that are building plants and factories, creating jobs and raising wages. The countless restraints and restrictions on business activity and creative energy must be rescinded without delay. And finally, environmental improvements must be weighed against all costs, direct and indirect. If the costs exceed the benefits they must be reduced or removed. The federal bureaucracy which has been sitting in judgment of such matters has failed conspicuously. It must be disbanded promptly, and all environmental issues returned to the courts of law.

It is difficult to reverse public policies that are deeply rooted in popular ideas and beliefs. But it is possible through honest information and education.
My economic philosophy is here offered with full knowledge that it is not generally accepted as the right one. On the contrary, my brand of economics has now become Brand X, the one that is never selected as the whitest by the housewife, the one that is said to be slow acting, the one that contains no miracle ingredient. It loses nine times out of ten in the popularity polls run on Election Day, and, in most elections, it doesn’t even present a candidate.

I shall identify my brand of economics as that of economic freedom, and I shall define economic freedom as that set of economic arrangements that would exist in a society in which the government’s only function would be to prevent one man from using force or fraud against another—including within this, of course, the task of national defense. So that there can be no misunderstanding here, let me say that this is pure, uncompromising laissez faire economics. It is not the mixed economy; it is the unmixed economy.

I readily admit that I do not expect to see such an economy in my lifetime or in anyone’s lifetime in the infinity of years ahead of us. I present it rather as the ideal we should strive for and should be disappointed in never fully attaining.

Where do we find the most powerful and persuasive case for economic freedom? I don’t know; probably it hasn’t been prepared as yet. Certainly it is unlikely that the case I present is the definitive one. However, it is the one that is persuasive with me, that leads me to my own deep commitment to the free mar-
Benjamin Arnold Rogge, 1920–1980

We miss the presence of this most eloquent spokesman and practitioner of freedom but give thanks for the legacy of his ideals and example.

Dr. Rogge had been at Wabash College in Crawfordsville, Indiana since 1949, serving variously as teacher of economics, academic dean, director of the Wabash Institute of Personal Development, and Distinguished Professor of Political Economy.

He was in international demand as a speaker and the author of numerous articles. *Can Capitalism Survive?* is a collection of his speeches and essays, published in 1979 by Liberty Press of Indianapolis.

Ben Rogge became a Trustee of The Foundation for Economic Education in 1958 and was Chairman of the Board from 1960 through 1962. He often lectured at FEE seminars. One of his favorite topics, “The Case for Economic Freedom,” appeared in *The Freeman* in 1963 and is here reprinted as appropriate testament to his guiding ideals.

The Moral Case

You will note as I develop my case that I attach relatively little importance to the demonstrated efficiency of the free-market system in promoting economic growth, in raising levels of living. In fact, my central thesis is that the most important part of the case for economic freedom is not its vaunted efficiency as a system for organizing resources, not its dramatic success in promoting economic growth, but rather its consistency with certain fundamental moral principles of life itself.

I say, "the most important part of the case" for two reasons. First, the significance I attach to those moral principles would lead me to prefer the free enterprise system even if it were demonstrably less efficient than alternative systems, even if it were to produce a slower rate of economic growth than systems of central direction and control. Second, the great mass of the people of any country is never really going to understand the purely economic workings of any economic system, be it free enterprise or socialism. Hence, most peo-
People are going to judge an economic system by its consistency with their moral principles rather than by its purely scientific operating characteristics. If economic freedom survives in the years ahead, it will be only because a majority of the people accept its basic morality. The success of the system in bringing ever higher levels of living will be no more persuasive in the future than it has been in the past. Let me illustrate.

The doctrine of man held in general in nineteenth-century America argued that each man was ultimately responsible for what happened to him, for his own salvation, both in the here and now and in the hereafter. Thus, whether a man prospered or failed in economic life was each man's individual responsibility: each man had a right to the rewards for success and, in the same sense, deserved the punishment that came with failure. It followed as well that it is explicitly immoral to use the power of government to take from one man to give to another, to legalize Robin Hood. This doctrine of man found its economic counterpart in the system of free enterprise and, hence, the system of free enterprise was accepted and respected by many who had no real understanding of its subtleties as a technique for organizing resource use.

As this doctrine of man was replaced by one which made of man a helpless victim of his subconscious and his environment—responsible for neither his successes nor his failures—the free enterprise system came to be rejected by many who still had no real understanding of its actual operating characteristics.

**Basic Values Considered**

Inasmuch as my own value systems and my own assumptions about human beings are so important to the case, I want to sketch them for you.

To begin with, the central value in my choice system is individual freedom. By freedom I mean exactly and only freedom from coercion by others. I do not mean the four freedoms of President Roosevelt, which are not freedoms at all, but only rhetorical devices to persuade people to give up some of their true freedom. In the Rogge system, each man must be free to do what is his duty as he defines it, so long as he does not use force against another.

Next, I believe each man to be ultimately responsible for what happens to him. True, he is influenced by his heredity, his environment, his subconscious, and by pure chance. But I insist that precisely what makes man man is his ability to rise above these influences, to change and determine his own destiny. If this be true, then it follows that each of us is terribly and inevitably and forever responsible for every-
thing he does. The answer to the question, "Who's to blame?" is always, "Mea culpa, I am."

I believe as well that man is imperfect, now and forever. He is imperfect in his knowledge of the ultimate purpose of his life, imperfect in his choice of means to serve those purposes he does select, imperfect in the integrity with which he deals with himself and those around him, imperfect in his capacity to love his fellow man. If man is imperfect, then all of his constructs must be imperfect, and the choice is always among degrees and kinds of imperfection. The New Jerusalem is never going to be realized here on earth, and the man who insists that it is, is always lost unto freedom.

Moreover, man's imperfections are intensified as he acquires the power to coerce others; "power tends to corrupt and absolute power corrupts absolutely."

This completes the listing of my assumptions, and it should be clear that the list does not constitute a total philosophy of life. Most importantly, it does not define what I believe the free man's duty to be, or more specifically, what I believe my own duty to be and the source of the charge to me. However important these questions, I do not consider them relevant to the choice of an economic system.

Here, then, are two sections of the case for economic freedom as I would construct it. The first section presents economic freedom as an ultimate end in itself and the second presents it as a means to the preservation of the noneconomic elements in total freedom.

**Individual Freedom of Choice**

The first section of the case is made in the stating of it, if one accepts the fundamental premise.

*Major premise:* Each man should be free to take whatever action he wishes, so long as he does not use force or fraud against another.

*Minor premise:* All economic behavior is "action" as identified above.

*Conclusion:* Each man should be free to take whatever action he wishes in his economic behavior, so long as he does not use force or fraud against another.

In other words, economic freedom is a part of total freedom; if freedom is an end in itself, as our society has traditionally asserted it to be, then economic freedom is an end in itself, to be valued for itself alone and not just for its instrumental value in serving other goals.

If this thesis is accepted, then there must always exist a tremendous presumption against each and every proposal for governmental limitation of economic freedom. What is wrong with a state system of compulsory social security? It denies to the individual his freedom, his right to choose what he will do with his
own money resources. What is wrong with a governmentally enforced minimum wage? It denies to the employer and the employee their individual freedoms, their individual rights to enter into voluntary relationships not involving force or fraud. What is wrong with a tariff or an import quota? It denies to the individual consumer his right to buy what he wishes, wherever he wishes.

It is breathtaking to think what this simple approach would do to the apparatus of state control at all levels of government. Strike from the books all legislation that denies economic freedom to any individual, and three-fourths of all the activities now undertaken by government would be eliminated.

I am no dreamer of empty dreams, and I do not expect that the day will ever come when this principle of economic freedom as a part of total freedom will be fully accepted and applied. Yet I am convinced that unless this principle is given some standing, unless those who examine proposals for new regulation of the individual by government look on this loss of freedom as a "cost" of the proposed legislation, the chances of free enterprise surviving are small indeed. The would-be controller can always find reasons why it might seem expedient to control the individual; unless slowed down by some general feeling that it is immoral to do so, he will usually have his way.

Noneconomic Freedoms

So much for the first section of the case. Now for the second. The major premise here is the same, that is, the premise of the rightness of freedom. Here, though, the concern is with the noneconomic elements in total freedom—with freedom of speech, of religion, of the press, of personal behavior. My thesis is that these freedoms are not likely to be long preserved in a society that has denied economic freedom to its individual members.

Before developing this thesis, I wish to comment briefly on the importance of these noneconomic freedoms. I do so because we who are known as conservatives have often given too little attention to these freedoms or have even played a significant role in reducing them. The modern liberal is usually inconsistent in that he defends man's noneconomic freedoms, but is often quite indifferent to his economic freedom. The modern conservative is often inconsistent in that he defends man's economic freedom but is indifferent to his noneconomic freedoms. Why are there so few conservatives in the struggles over censorship, over denials of equality before the law for people of all races, over blue laws, and so on? Why do we let the modern liberals dominate an organization such as the American Civil Liberties Union? The general purposes of this organization are completely
consistent with, even necessary to, the truly free society.

Particularly in times of stress such as these, we must fight against the general pressure to curb the rights of individual human beings, even those whose ideas and actions we detest. Now is the time to remember the example of men such as David Ricardo, the London banker and economist of the classical free-market school in the first part of the last century. Born a Jew, married to a Quaker, he devoted some part of his energy and his fortune to eliminating the legal discrimination against Catholics in the England of his day.

It is precisely because I believe these noneconomic freedoms to be so important that I believe economic freedom to be so important. The argument here could be drawn from the wisdom of the Bible and the statement that "where a man’s treasure is, there will his heart be also." Give me control over a man’s economic actions, and hence over his means of survival, and except for a few occasional heroes, I’ll promise to deliver to you men who think and write and behave as I want them to.

**Freedom of the Press**

The case is not difficult to make for the fully controlled economy, the true socialistic state. Milton Friedman, professor of economics at the University of Chicago, in his book, *Capitalism and Freedom*, takes the case of a socialist society that has a sincere desire to preserve the freedom of the press. The first problem would be that there would be no private capital, no private fortunes that could be used to subsidize an anticapitalist press. Hence, the socialist state would have to do it. However, the men and women undertaking the task would have to be released from the socialist labor pool and would have to be assured that they would never be discriminated against in employment opportunities in the socialist apparatus if they were to wish to change occupations later. Then these anticapitalist members of the socialist society would have to go to other functionaries of the state to secure the buildings, the presses, the paper, the skilled and unskilled workmen, and all the other components of a working newspaper. Then they would face the problem of finding distribution outlets, either creating their own (a frightening task) or using the same ones used by the official socialist propaganda organs. Finally, where would they find readers? How many men and women would risk showing up at their state-controlled jobs carrying copies of the *Daily Capitalist*?

There are so many unlikely steps in this process that the assumption that true freedom of the press could be maintained in a socialist society is so unrealistic as to be ludicrous.
Partly Socialized

Of course, we are not facing as yet a fully socialized America, but only one in which there is significant government intervention in a still predominantly private enterprise economy. Do these interventions pose any threat to the noneconomic freedoms? I believe they do.

First of all, the total of coercive devices now available to any administration of either party at the national level is so great that true freedom to work actively against the current administration (whatever it might be) is seriously reduced. For example, farmers have become captives of the government in such a way that they are forced into political alignments that seriously reduce their ability to protest actions they do not approve. The new trade bill, though right in the principle of free trade, gives to the President enormous power to reward his friends and punish his critics.

Second, the form of these interventions is such as to threaten seriously one of the real cornerstones of all freedoms—equality before the law. For example, farmers and trade union members are now encouraged and assisted in doing precisely that for which businessmen are sent to jail (i.e., acting collusively to manipulate prices). The blindfolded Goddess of Justice has been encouraged to peek and she now says, with the jurists of the ancient regime, 

"First tell me who you are and then I'll tell you what your rights are." A society in which such gross inequalities before the law are encouraged in economic life is not likely to be one which preserves the principle of equality before the law generally.

We could go on to many specific illustrations. For example, the government uses its legislated monopoly to carry the mails as a means for imposing a censorship on what people send to each other in a completely voluntary relationship. A man and a woman who exchange obscene letters may not be making productive use of their time, but their correspondence is certainly no business of the government. Or to take an example from another country, Winston Churchill, as a critic of the Chamberlain government, was not permitted one minute of radio time on the government-owned and monopolized broadcasting system in the period from 1936 to the outbreak of the war he was predicting in 1939.

Each Step of Intervention Leads to Another

Every act of intervention in the economic life of its citizens gives to a government additional power to shape and control the attitudes, the writings, the behavior of those citizens. Every such act is another break in the dike protecting the integrity of the individual as a free man or woman.
The free market protects the integrity of the individual by providing him with a host of decentralized alternatives rather than with one centralized opportunity. As Friedman has reminded us, even the known communist can readily find employment in capitalist America. The free market is politics-blind, religion-blind, and, yes, race-blind. Do you ask about the politics or the religion of the farmer who grew the potatoes you buy at the store? Do you ask about the color of the hands that helped produce the steel you use in your office building?

South Africa provides an interesting example of this. The South Africans, of course, provide a shocking picture of racial bigotry, shocking even to a country that has its own tragic race problems. South African law clearly separates the whites from the nonwhites. Orientals have traditionally been classed as nonwhites, but South African trade with Japan has become so important in the postwar period that the government of South Africa has declared the Japanese visitors to South Africa to be officially and legally "white." The free market is one of the really great forces making for tolerance and understanding among human beings. The controlled market gives man rein to express all those blind prejudices and intolerant beliefs to which he is forever subject.

Impersonality of the Market

To look at this another way: The free market is often said to be impersonal, and indeed it is. Rather than a vice, this is one of its great virtues. Because the relations are substantially impersonal, they are not usually marked by bitter personal conflict. It is precisely because the labor union attempts to take the employment relationship out of the marketplace that bitter personal conflict so often marks union-management relationships. The intensely personal relationship is one that is civilized only by love, as between man and wife, and within the family. But man's capacity for love is severely limited by his imperfect nature. Far better, then, to economize on love, to reserve our dependence on it to those relationships where even our imperfect natures are capable of sustained action based on love. Far better, then, to build our economic system on largely impersonal relationships and on man's self-interest—a motive power with which he is generously supplied. One need only study the history of such utopian experiments as our Indiana's Harmony and New Harmony to realize that a social structure which ignores man's essential nature results in the dissension, conflict, disintegration, and dissolution of Robert Owen's New Harmony or the absolutism of Father Rapp's Harmony.
The "vulgar calculus of the marketplace," as its critics have described it, is still the most humane way man has yet found for solving those questions of economic allocation and division which are ubiquitous in human society. By what must seem fortunate coincidence, it is also the system most likely to produce the affluent society, to move mankind above an existence in which life is mean, nasty, brutish, and short. But, of course, this is not just coincidence. Under economic freedom, only man's destructive instincts are curbed by law. All of his creative instincts are released and freed to work those wonders of which free men are capable. In the controlled society only the creativity of the few at the top can be utilized, and much of this creativity must be expended in maintaining control and in fending off rivals. In the free society, the creativity of every man can be expressed—and surely by now we know that we cannot predict who will prove to be the most creative.

You may be puzzled, then, that I do not rest my case for economic freedom on its productive achievements; on its buildings, its houses, its automobiles, its bathtubs, its wonder drugs, its television sets, its sirloin steaks and green salads with Roquefort dressings. I neither feel within myself nor do I hear in the testimony of others any evidence that man's search for purpose, his longing for fulfillment, is in any significant way relieved by these accomplishments. I do not scorn these accomplishments nor do I worship them. Nor do I find in the lives of those who do worship them any evidence that they find ultimate peace and justification in their idols.

I rest my case rather on the consistency of the free market with man's essential nature, on the basic morality of its system of rewards and punishments, on the protection it gives to the integrity of the individual.

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

I give you, then, the free market, the expression of man's economic freedom and the guarantor of all his other freedoms.
Millionaires are proliferating in Tennessee, and that is both good news and bad news.

In 1979, according to the U.S. Trust Company of New York and its annual wealth survey, 11,705 millionaires resided in Tennessee. As of September 1, 1980 the survey has the number of millionaires bounding up to 13,230, giving Tennessee more than its pro rata share of the 574,342 millionaires in the nation.

In terms of millionaire density—the number of millionaire residents per thousand of state population—Tennessee has a 2.95 total—practically three millionaires for every thousand Tennesseans—man, woman and child.

First, this proliferation is bad news because a millionaire, like that old gray mare, “ain’t what she used to be.” Inflation, in other words, is breeding a new caste of millionaires who, because of a runaway inflation rate, have seen a sharp appreciation in the nominal value of their personal holdings and investments such as oil stock, defense investments, gold, silver, platinum, antique furniture, diamonds, jewelry, real estate and especially farmland. (Farm states show the highest millionaire densities.) The upshot is that thousands of Tennesseans and other Americans are realizing the Horatio Alger dream of piling up a cool million dollars in personal assets. But in terms of, say, 1940 dollars that million dollars would be more like $200,000 or so. Indeed, if inflation keeps escalating, everybody will be
a "millionaire" before very long but a rather pauperized one.

The further bad news is that envy and social harassment still dog the millionaire. Look at our plays and novels, our movies and television programs. Millionaires are usually if not always portrayed as venal, grasping, shallow men and women. The TV phenomenon of "Dallas," which I confess I greatly enjoy, is about par for the course. As a character in F. Scott Fitzgerald's *The Rich Boy* put it: "Let me tell you about the very rich. They are different from you and me. They possess and enjoy early and it does something to them, makes them soft where we are hard, and cynical where we are trustful in a way that, unless you were born rich, it is very difficult to understand."

Even some church officials get into the act: "Ours is a world in which wealth is superabundant, exists beside and depends upon, the poverty and starvation of countless of God's human children. Some humans devour the resources of the earth while innumerable others languish in want and despair. The church must stand within that struggle, making its voice heard in behalf of the powerless and the forgotten. It must point out the superfluous wealth is an abhorrence to God in a world where, for the majority, economic failure, means permanent disaster."

The war against wealth has taken more extreme forms: the holocaust of Jews in Germany, the liquidation of Kulaks in Soviet Russia, the slaughter of the Ibo tribesmen in Nigeria, the killing of nearly a million overseas Chinese in Indonesia, the massacre of whites in Uganda. To be sure, in all these cases there were factors besides that of an anti-wealth mentality.

A subtler form of that mentality lies in the progressive income tax, which Karl Marx and Friedrich Engels expressly called for in their *Communist Manifesto* as a means of making "inroads upon the old social order, and ... revolutionizing the mode of production." Today the progressive income tax is especially nefarious in our inflationary age, cutting ever more deeply into the ability of everybody, especially salaried people, to reach the nirvana of millionaire status.

As it is, the top 50 percent of income earners pay 93.5 percent of the Federal income tax bill, according to the 1978 figures compiled by the Tax Foundation of Washington, D.C. And of course, with mounting inflation, this concentration of the tax burden at the upper end of the income spectrum is on the increase.

Thus the irony of the progressive income tax is at least two-fold: First, through "bracket-creep," the effective federal income tax bite is making upward mobility in *real* income terms harder and harder.
Secondly, millionaires and other high income earners are blunted in their ability to inadvertently serve the poor. The rich, you see, have a function in society not unlike that of the honey-seeking bee spreading pollen as it flits from flower to flower. Millionaires, in other words, are savers and investors par excellence, and thus they are our chief creators of capital formation, which is the raison d’être of the well-being of our society—public sector and private sector, rich and poor but especially the poor. Inflation and the progressive income tax thus become harsh regressive taxes on “the underprivileged.”

Further, envy of the rich is mostly misbegotten. Many believe that the rich exploit their wealth from the poor, that one man’s profit involves another man’s loss, that Corporate America rapes the environment, that the consumer stands helplessly before “shared monopoly,” that the poor become poorer and poorer and so on.

To meet all these and other arguments of what Ludwig Mises called “the anti-capitalist mentality” is impossible in terms of time and space. Enough to say that the consumer—mostly the little fellow—is sovereign if not dictatorial in the marketplace, that the marketplace is strictly voluntary in contrast to the coercion involved under socialism, that both parties in an exchange profit, that if Reggie Jackson, Sophia Loren and many entrepreneurs are millionaires their wealth is most willingly bestowed on them by consumers, including the poor, for coming up with better and better goods and services at lower and lower cost.

But, lo and behold, some good news for the poor: Their secret friend, the millionaire, is acquiring some powerful friends of his own in the court of public opinion. For example, according to Thomas Sowell, the brilliant black UCLA economist, the rich, like the poor, have become a full-fledged “Social Problem.” Dr. Sowell worries that forthcoming tax reform could conceivably stalk “the rich in their tax shelters,” and he would have none of that.

Again, Nobel laureate Milton Friedman calls for wiping out all progressivity in the federal income tax. He advocates a low flat rate—under 20 percent—on all income above personal exemptions with no deductions except for strict occupational expenses. Such a flat rate tax, he argues, would yield Uncle Sam more revenue than the present unwieldy structure with all its loopholes, special privileges and deadening impact on personal incentive and capital formation.

Meanwhile, let’s hear it for millionaires—the poor’s unknown, unloved, envied, socially harassed, politically abused and much misunderstood friends.
The Federal Reserve has an impossible task? Of course it does. But it's seldom mentioned. Most everyone just assumes that this autonomous government agency "on line" since 1914 has a job to do and should, well, simply do it. It's not that easy. The Fed does indeed have a job which it is expected to do. In fact, given modern politics, it has several. However, there is a profound difference between being expected to do a job and being able to.

On the surface, to the layman, the Fed's job might appear unequivocal: take care of the nation's money supply in such a way as to help America. As the fiftieth anniversary edition (1967 revised version) of The Federal Reserve System: Purposes and Functions, issued by the system's Board of Governors, succinctly put it, "The principal function of the Federal Reserve is to regulate the flow of bank credit and money." (p. 4) While this seems straightforward enough, the Fed's monetary manipulation to serve the national interest is a means to a number of ends. In the modern U.S.A., the Fed is expected to prevent banking crises, facilitate commerce ("at high levels of employment," as the Board put it), cover government deficits and fight inflation. The trouble is, manipulation toward one or more of these ends almost always contradicts another. They don't mesh!

There is perhaps no better example of this than the Fed's issuance of credit to cover the deficits of Congress. As monetary experts know, unless Congress raises taxes, the Fed is virtually forced to expand the money supply to pay for deficits. This is regarded as essential in order to protect the credit rating of the nation. Monetary expansion means more dollars will chase fewer goods; the dollar's value is lowered.

While the initial surge of new money may benefit some, often high-profiled, politically well-connected industries (most recently, synthetic fuels, solar energy, automobiles, housing and aerospace), the eventual effect of devalued currency on

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the economy cannot rationally be regarded as a factor which facilitates commerce; it slows commerce (and lowers employment). Inflation takes purchasing power away from businesses as it takes it away from everyone. Persistent inflation, such as we have had since the late 1960s, makes it more expensive to run government, too, thereby increasing chances Congress will deficit spend even more.

So, while attempting to help the nation meet its debts in the short run, the Fed has in the long run actually damaged business and private employment and increased the operating costs of government (especially state and local governments, which cannot fall back on the power to issue their own credit). As this happens, the Fed quite obviously must abrogate its responsibility to fight inflation! Conversely, if the Fed cuts the money supply, it abrogates short run responsibilities to cover Congressional deficits and stimulate depressed businesses (and employment) through lowered interest rates on borrowing.

After years of overlooking it, the newly more economically aware national press is noticing this dilemma. As Newsweek's Harry Anderson remarked just prior to the November general elections, "Regardless of who is the next President, the pressure on the Fed seems sure to intensify as the budget deficit swells. . . . Any Federal deficit must be financed through borrowing, and unless the Fed meets the new demand by creating more money, interest rates could be pushed to ruinous levels as private and public borrowing compete for funds. . . . In fact, the battle between the nation's fiscal and monetary authorities is a no-win situation for the economy. If the Fed caves in and finances immense budget deficits, the inflationary implications would be vast. If the Fed does not, a fragile recovery—if in fact it has arrived—will be slower than almost all the forecasts predict." (Oct. 13, 1980, p. 88)

**Bailing Out Banks Subsidizes Bad Investments**

Another example of the failure of Fed purposes to mesh is apparent in bank bailouts. What, in the name of preventing banking crises, does bailing out banks accomplish long term? Whether by means of credit subsidies, loan guarantees or perhaps forced mergers with other stronger banks (the method makes almost no economic difference), banks require bailing out primarily because they have made bad investments. The policy of bailing out banks subsidizes bad investments.

True, the Fed may frown upon and chastise the makers of bad investments, but that is not the message that sticks with the banking
community—it is not the economic message. The economic message comes through loud and clear from the Fed’s action: the rewarding of malinvestments. A reward is exactly what it is. The more the Fed does it, the worse it will get. It’s the old incentive principle at work—rewards encourage more of the action that is rewarded. Put another way, subsidizing poor investments makes them appear profitable. Could that seriously be regarded as a method of facilitating the nation’s commerce? Hardly. Commerce on a national scale gains and retains health only through wise investments.

Nor can the Fed bailout obligation be regarded as a sound banking practice or even a method of preventing banking crises. Admittedly, in the short run it may well appear sound, especially to those banks "pulled out of the fire," to the investors of the banks and to a Fed determined to polish its image as a financial savior. (One must always remember that the Fed is subject to the bureaucratic survival principle: act to serve those who perpetuate your existence, or die.) But one could quite cogently argue that repeatedly making malinvestment remunerative must ultimately lead to banking crises—perhaps on a massive, unmanageable scale.

As banks, including some of the nation’s giants, continue operating in this insulated atmosphere of guaranteed bailouts, they become progressively involved in larger and larger unwise, often downright speculative loans. Loans to third world countries—whose political instability makes their solvency highly questionable—are frequently in this category. (See the Wall Street Journal’s article last summer on American financial involvement in Zaire if you’d like to read an excellent tale of dubious investment.)

As the unwise investments accumulate, the danger increases that a bailout, or series of them, will be required that is so large the American government will not be able to generate the funds. Not only will we see losses to millions of American investors in banks, we could also see a severe monetary crisis. If the Fed hyperinflates in order to "save" the banks and the savings of American citizens and businesses, respect for the dollar will nosedive along with its value. It’s crucial to constantly bear in mind that the dollar is the reserve currency of most of the free world. Therefore, a rapid dollar depreciation could precipitate a world depression.

Consider the depth of the economic contradictions involved in the Fed’s various tasks. Manipulating the money supply must serve the masters of Combatting Banking Crises, Covering Government Deficits, Inflation Fighting and Facilitating Commerce. But different ma-
Manipulations are required to accomplish these ends—depending on the range of one’s vision. This means the monetary caretaker function of the Fed is necessarily eroded. Being a caretaker requires that one should ensure no harm comes to that for which one cares. If the Fed’s service to multiple masters creates a currency of wild fluctuations, a currency neither business nor consumers can count on, it cannot fulfill what an AP business writer aptly termed the Fed’s obligation as the “appointive guardian of the nation’s money supply.” (Oct. 7, 1980, AP Wire)

In addition, one must take note of what I call “the confusion factor” existent at the Fed. The guardian of the nation’s money supply must know clearly what it is to guard; a doubting guardian, a confused guardian, cannot function efficiently and cannot be counted on in times of crisis when his efficiency is critical. With the conflicting functions the Fed is expected to pursue these days, frequently at the expense of the health of the nation’s currency, its purpose as a money supply guardian cannot be clear to the agency.

After all, Fed members are human and therefore subject to human pressures and frustrations. Human beings subjected to contradictory orders and aims exhibit lowered efficiency and confusion. While this state of turmoil over objectives makes the Fed’s job tougher, it is not what makes it impossible. Rather, the turmoil occurs because the Fed’s job is impossible. Nevertheless, the doubts and confusion over purpose do act as a feedback loop, amplifying the difficulties.

Catering to Expediency

There are people in respectable economic circles who argue that the basic purpose of the Fed is not to act “purely” as a money supply caretaker, or, for that matter, as a caretaker of any single function. They argue, and have argued for over sixty years, that the Fed must also act as a servant of “political necessity,” as a caterer to the political “facts of life” in a modern democracy. But what is increasingly apparent even to the man in the street is that the primary fact of life in modern politics is the equivalency of “political necessity” and rampant expediency.

Catering to expediency makes the Fed a neurotic, nervous servant of favor and fancy—no matter how much it likes to regard itself as above all that. If the Fed is not above it all, why bother having a Fed? Surely, elected politicians, bickering and empire-building, could successfully provide a proper Congressional psychology of neurosis in which to manipulate the money supply in a most honorable tribute to frenzied expediency!
Of course, it was precisely such a madhouse political free-for-all Congress intended to avoid when it passed the Federal Reserve Act of 1913 (augmented, eventually, by the Banking Act of 1935). It intended to avoid that kind of mess and what was then seen as the “frenzied” actions of the free market. Congress has not succeeded. It could be no other way. The nature of the task it set for the Fed decades ago and the additional duties demanded of the Fed in more modern times are permeated with contradictions. What seems generally unrealized in modern economic forums is that the creation of the Fed involved not just problems but a fundamental flaw common to all economic tyrannies.

A Legally Empowered Tyranny

The Fed is an economic tyranny—a democratically created, legally empowered tyranny over the nation’s money supply. Whether an economic tyranny takes the broader forms of socialism, fascism and communism or this narrower form of federal monetarism, it holds an error in common: it seeks to subjugate private, individual or business decision making to state authority. In fact, private monetary decision making was precisely the economic “frenzy”—i.e., free human action—so unacceptable to the politicians and fellow supporters of federal monetary centralization.

Politicians have long understood that maintaining and expanding state power is incompatible with freedom. The Fed has been used for just such maintenance and expansion—perhaps more than any other government institution created by man. Given that this nation’s money supply is crucial to the U.S. economy and to the world economy, that it underlies and affects all transactions of the free world (and much of the unfree world), the creation and perpetuation of the Federal Reserve System is the most gripping, insidious economic tyranny yet accepted. The domains and edicts of such agencies as the Federal Trade Commission, departments of Energy, Education, or Health and Human Services and most other agencies of this government are small potatoes indeed when compared to the realm and power of the Fed.

Yet, most of today’s established market economists tacitly support this tyranny. Even the most influential of them, Milton Friedman, in his current bestseller, Free to Choose, while documenting a damning case against government economic intervention in general and the Fed’s specific malfeasance in the 1930s depression, nevertheless insists that the Fed could have “used wisely the powers that had been granted to it (in order to) perform the task for which its founders had established it.” (p. 85) Unfortunately, it is in-
stances of this sort of wishful thinking which divert attention from a proper, contextual focus on the subject.

The issue is not that a government agency could have made a right decision in any particular instance, but rather that the propensity of government agencies is to make wrong economic decisions. Friedman and his admirers (and even more so the statist economists) forget that the Fed’s task is to perform as monetary dictator. The evidence is overwhelming that no government has succeeded for long in productively dictating the actions of any segment of the economy; monetary policy is no exception. Governments have succeeded—notoriously so—in destructively dictating economic actions; monetary policy is no exception.

Abolish the Fed and Privatize Monetary Functions

The case record of the Fed—most notably, its recession-causing sharp monetary contractions after World War I; its inflation in 1927 which created the dangerous speculative market boom; its effort to counter that boom with a panicky, severe contraction which led to the Great Depression; its hand in causing the severe 1937 recession; and its ever-widening post-World War II swings between over-inflation and recession-spawning contractions which have finally merged into “stagflation,” plunging the business morale and hopes of American citizens for their future to new lows—is enough by itself to warrant a case for abolishing the Fed. But the fact that the Fed is by its nature bound to serve impossible ends must surely add philosophical ammunition to the case.

There is in the long run only one answer to the problem of managing the monetary economy: It should be privatized, with privately coined and printed currency, privately controlled credit systems and private insurance of monetary deposits. Because of the scope of such a revision we would also be forced to consider more seriously privatizing many other government services. For without its own monetary machinery, the government will find the financing of redistributive and vote-buying schemes considerably more difficult.

Privatized monetary functions do act as a natural check on the power of government. But the alternative to privatizing the U.S. monetary system, tinkering and fiddling with the derelict government system we have, means keeping a form of tyranny intact. There is only one way to prevent the damages to human liberty which a tyranny inflicts—take away the tyranny. The Fed is such a tyranny. There is no place for it in the future of a free America.
UNIONISM is not a theory of economics, nor does it have one. It is, as I have said, an ethical theory, buttressed by a religion-like ideology. Its theory is that individual workers cannot get their just deserts in an open market, that they must combine and use coercion to get their due. Yet the primary impact of unionism is on the economy, though it extends outward to have effects on all social relations. Underlying the thrust of unionism, then, there must be at least an implicit economic theory.

So there is. It is a theory that is uncovered by positing what it is necessary to believe in order to explain doing what unions do. What unions do is to act to reduce the supply of workers available. They organize some of the workers against the other workers and attempt to monopolize the available jobs. Now it is sometimes supposed that the labor theory of value provides the unionist contact with economics. But the labor theory of value does not provide an economic explanation for the unionist effort to reduce the supply of labor.

If labor were the source of all value, it still would not follow that it would be socially desirable to reduce the supply of labor. On the contrary, it would appear that it would be socially desirable to use every smidgeon of labor to the fullest extent possible.¹ It is doubtful, however, that the labor theory of value should be considered as an economic theory; it makes much more sense as a partisan, or sectarian, ethical

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¹ Dr. Carson has written and taught extensively, specializing in American intellectual history. He is a frequent contributor to The Freeman.
theory. In short, it is best understood as a claim that labor should have all the product of industry. In any case, it does not explain actual union behavior which aims to monopolize jobs rather than to take the whole proceeds of industrial activity.

**Economic Goods Are Scarce**

The economic theory necessary to unionism comes into view when we turn the major premise of economics upside down. The major premise of economics is that all economic goods are scarce. (Not all economists acknowledge this, but it is nonetheless the premise required for their study.) They are economic goods because they command a price, and they command a price because they are scarce. The minor premise which follows from this, in syllogistic form, is that labor commands a price in the market. Therefore, it is an economic good which is scarce. The scarcity of labor is axiomatic, then, and it is this that makes it a subject of concern for economics.

The major premise of unionism is that there is a surplus of labor. Looked at more broadly, the major premise of unionism is a conclusion derived from a major premise of socialism or interventionist economics, namely, that there is a surplus of goods generally. This statement is not made as a universal by its advocates, that is, they do not claim that there has always been a surplus of goods or that it is everywhere the case. Rather, it is described as an historical condition and attributed to industrialization. (Not, it should be noted, as a worthy development, but as a problem, because the goods are not evenly distributed.)

This major premise of socialism—that there is a surplus of goods produced, or producible in highly industrialized countries—was stated dramatically by Karl Marx and Friedrich Engels in 1848. They said, "In these crises there breaks out an epidemic that, in all earlier epochs, would have seemed an absurdity—the epidemic of over-production. . . . Because there is too much civilization, too much means of subsistence, too much industry, too much commerce."

**Over-Production a Problem**

This concept of a surplus of goods has had vigorous proponents among Americans of the historical school of economics, usually called institutionalists. The leaders of this school have included John R. Commons, Stuart Chase, Thorstein Veblen, and John Kenneth Galbraith. Stuart Chase, for example, declared that the United States turned the corner and achieved a condition of abundance in 1902. "Abundance," he said, "is self-defined, and means an economic condition where an abun-
dance of material goods can be produced for the entire population of a given community." Tugwell maintained, in the 1930s, that "there is no scarcity of production. There is, in fact, a present capacity for more production than is consumable, at least under a system which shortens purchasing power while it is lengthening capacity to produce." Chase offered documentary evidence for what he conceived of as the capacity for over-production (written in 1931, note, when they may have been more convincing):

American oil wells are capable of producing 5,950,000 barrels a day, against a market demand of 4,000,000 barrels, according to the figures of the Standard Oil Company of New Jersey.

The real problem [in coal] is excess capacity. The mines of the country can produce at least 750,000,000 tons a year, while the market can absorb but 500,000,000 tons.

American shoe factories are equipped to turn out almost 900,000,000 pairs of shoes a year. At present we buy about 300,000,000 pairs. Yet if we doubled shoe consumption... one-third of the present shoe factory equipment would still lie idle.

Three decades later, in different conditions, Vance Packard stated the position of the surplus of goods succinctly:

Man throughout recorded history has struggled—often against appalling odds—to cope with material scarcity. Today, there has been a massive breakthrough. The great challenge in the United States—and soon in Western Europe—is to cope with a threatened overabundance of the staples and amenities and frills of life.

If there were a surplus of goods generally, it would follow that there is a surplus of labor. As early as 1893, John R. Commons held that there was a "chronic excess of labourers beyond the opportunities for employment." Stuart Chase spelled out the position in the 1930s:

What threatens to continue unabated, in good times and bad, is technological unemployment. In four years oil refineries increased output 84 per cent, and laid off 5 per cent of their men while doing it. Tobacco manufacturing output climbed 53 per cent in the same period, with 13 per cent fewer men at the end. It can mean only one thing. An equivalent tonnage of goods can be produced by a declining number of workers, and men must lose their jobs by the thousands—presently by the millions.

**Emphasis on Consumption**

The general premise of a surplus of goods leads to consumer or consumption economics, i.e., to measures promoting the consumption of goods. The premise of a surplus of labor provides the basis of an implicit economic theory for unionism which is nowhere spelled out but which is everywhere practiced by
unionists. It is the theory undergirding the practices of reducing the available supply of labor.

The unionist theory of a labor surplus is a self-fulfilling prophecy when it is put into practice. That is, labor unions tend to create the very conditions they posit, namely, labor surplus, or, more precisely, unemployment, underemployment, and low-paid work for non-union workers. But before explaining why, it needs to be made clear that labor is scarce. This has been affirmed already in terms of economics, but there is a more basic axiom than the one cited. It is this. Human wants are insatiable, but the means for satisfying them are limited (scarce). Human labor can be used in innumerable ways to satisfy human wants. Therefore, labor is scarce—essentially and permanently.

I can make the same point in a much more homely fashion, one which brings us in the vicinity of everyman's experience, and one which will get us much closer to the effects of labor unions. There is more work to be done than there is ever time or energy to do. It is certainly true around my house, and from all I have ever learned it is true for others as well. As I write this, there are dozens of tasks I can think of that need doing. The roadway to my house needs some repair; the lawn needs mowing; the lawn needs fill in places, reseeding, and fertilizer generally; the trees will need pruning when the time comes. The place where the water pipe enters the house from the well needs blocking up, because it freezes in very cold weather. I have been intending for more than two years to paint the exposed concrete blocks in the foundation of my house. Several rooms inside the house need a new coat of paint. It is time to spread lime on my garden in preparation for next year. My car would benefit greatly not only from being cleaned and washed but also from a good waxing. And this list only scratches the surface of all the work awaiting either my own attention or that of someone whom I could afford to employ. More broadly, there are numerous goods I would like to have for myself or my family—ranging from a yacht and swimming pool to clothing and exotic foods—if I only had the means to pay for them. And every one of my wants would require more or less labor to satisfy it.

In short, I have a surplus of wants and a scarcity of means for satisfying them. That condition is sufficiently near universal that no one has ever bothered to make a survey to determine if it is unanimous.

Price a Crucial Factor in Satisfying Wants

Equally important, we do not feel all our wants with equal intensity. We have priorities as to which of them we would satisfy with what
outlay of our limited means. For example, my desire for a yacht is of such low intensity that I am by no means certain that I would rush to buy one if 50-foot yachts were selling for $100. On the other hand, if new automobiles were selling for $25 each, I would stop what I am doing and lay in a stock of them immediately. Price, then, is a crucial factor in my decisions about satisfying my wants. And, the price of labor is a factor in the price of virtually all the goods I want.

What this means, practically, is that all who can work so as to satisfy some human want can find employment—somewhere, at some price. The full employment of all who are willing to work is the norm for human societies. Price is the crucial variable, however, for full employment. This is so both because of the great range in intensity of wants and the range of human capacity, ability, and skill in satisfying wants. Indeed, individuals differ from one another and vary as to the extent to which they can perform all the tasks which have an effect on the quantity and quality of their output. That is, they differ in temperament, power of concentration, intellectual penetration, endurance, strength, skill, and so on. The basic means for making adjustments for differences in intensities of wants and different individual abilities are in price and working arrangements (not "working conditions," for as that phrase is ordinarily used it is simply an aspect of price).

The thrust of unionism is to establish downward price (wage) inflexibility and to raise ever higher the level below which wages cannot go. This means that wages cannot be adjusted to changing demand (intensity of want) or to the lower productivity or different work patterns of some workers. More directly, it means that unions cause unemployment, and the more widely they are established the greater the unemployment. They price workers out of the market, thus causing endemic unemployment.

It might be supposed that the connection between labor unions and unemployment could be easily demonstrated empirically. All that should be necessary would be to match the figures of increasing union membership and recognition with unemployment figures. That it is not so simple will become apparent by examining an instance, and the reasons for its complexity will lead us to the broad and sustained impact of unionism.

**Unions and Unemployment**

Perhaps the best period for an historical case study of the effect of unions on unemployment was 1935–1939. The Wagner Act was passed in 1935. In 1936, there was a 10.1 per cent increase in union
membership over the preceding year. In 1937, the greatest jump in membership for a single year in the twentieth century occurred; it was a whopping percentage increase of 53.9. The main thrust for this increase came from the CIO under the leadership of John L. Lewis. As one writer describes this surge: "At the end of two years of activity, in December, 1937, the C.I.O. boasted a membership of 3,700,000—composed of 600,000 miners, 400,000 automobile workers, 375,000 steel workers, 250,000 ladies' garment workers, 175,000 clothing workers, 100,000 agricultural and packing house workers, 80,000 rubber workers. The day of labor giants had dawned."

There followed a drastic increase in unemployment. According to one compilation, unemployment stood at about 7 ½ million in 1937. In 1938, it rose to 11 million, and in 1939 was still lingering around 9 ½ million. A stock market crash of considerable dimensions occurred beginning in the middle of 1937. One economic historian explains these events in this way. There had been an increase of aggregate labor income at the expense of profit income. This had resulted primarily from the unionization which increased wages of manufacturing laborers rapidly. "A main factor," he says, "on the industrial side in bringing the revival of 1935–1937 to a close was this startling increase in wages, due . . . to a tremendous burst of activity by trade unions under the Wagner Act—a rise in wages unmatched by a corresponding rise in the productivity of labor." Or, technically, in terms of marginal utility theory, the higher union wages made many workers marginal who had been employed, and they lost their jobs.

Described in this way, there appears to be very nearly a prima facie case that unions caused the unemployment. Unfortunately, there were other developments during the same period which may have contributed to the unemployment and which certainly muddy the waters of causation. Many were leaving the farms seeking industrial employment, such as, from the Dust Bowl, and some of these added to the rolls of the unemployed. There were changes in governmental fiscal policies which probably had some effect. Here is a succinct summary by an historian: "In June, 1937, Roosevelt . . . slashed spending sharply. He cut WPA rolls drastically and turned off WPA pump-priming. At the very same time, Washington collected two billions in new social security taxes. The government had not only stopped priming the pump but was even 'taking some water out of the spout.'" Benjamin Anderson has challenged this explanation, but it is plausible that the higher wages
combined with a slacking off of inflation would have contributed to the unemployment.

**Minimum Wage Laws**

Government further aggravated the situation in 1938 by the passage of the Fair Labor Standards Act. This established minimum wages and maximum hours in many industries, resulting in higher wages and shorter hours for some workers. The effect of the minimum wage is the same in kind as a union wage. So far as it works to raise wages above the market level it will result in unemployment.

These latter developments illustrate the point that now needs to be made. Unions are not simply empowered by government, they are aided and abetted by a host of government programs which, on the one hand, conceal or confuse the effects of unionism and, on the other, aggravate them. Union contracts, plus government enactments, would—in fact, do, when viewed from the angle of potential employment—cause massive unemployment, but most of these effects are concealed from public view by a host of other programs. Most, if not all, of this should be attributed to unionism, for governments generally act on unionist premises and the public at large tends to accept union goals, even when they may deplore certain union tactics.

To grasp the full impact of unionism, it may be helpful to view it in the light of the Greek fable of Procrustes. It is said that the countryside was inhabited by assorted petty tyrants and marauders. "One of these evil-doers was called Procrustes, or the Stretcher. He had an iron bedstead, on which he used to tie all travellers who fell into his hands. If they were shorter than the bed, he stretched their limbs to make them fit it; if they were longer than the bed, he lopped off a portion." 

**The Cost of Fringe Benefits**

The thrust of unionism is to make a Procrustean bed, into the confines of which all who would work must fit. The most obvious of the confines is price. By making prices of labor (wages) downwardly inflexible, only those who can produce at a level that would make it worthwhile for an employer are likely to find work. This price inflexibility extends much beyond what is ordinarily called wages. It includes employer contributions to retirement plans, Social Security, unemployment compensation, hospitalization plans, workmen's compensation, and so on. Indeed, these "fringe benefits" have become so expensive that many employers find it less expensive to pay overtime to those already employed than to take on new people. (This is so because there may be little or no fringe benefit payments for the
Overtime work.) "Overtime" has become a way of life for many industrial workers. Indeed, it is sometimes considered one of the "perks" of the job, and some workers make obligations based on the expectation of it. The supreme irony of this is to be seen in all the verbiage that historians have lavished on the supposedly horrible conditions of work in earlier times when people worked long hours and six- and seven-day weeks.

The thrust of unionism to make a Procrustean bed in which all who would work must fit is much broader than is suggested by downward price inflexibility. Unions and government exert pressure for uniform pay scales, for raises in pay according to seniority, and for objective job definitions. Indeed, the pressure of unionism is to have work as highly structured as possible, to have it done under managerial supervision and control, to have payment based on time worked, to have it performed within factories or factory-like surroundings, to require of every worker within a job classification that he do as much, or as little, as all others, in short, to have it done under conditions that are optimal for unionization.

**Home Workshops Opposed**

This pressure may best be illustrated, perhaps, by unionist opposition to work being done in the home. Unionists and their sympathizers attached odium to such arrangements by characterizing it as a "Sweating System." In the argot of Americans, a "sweat shop" is a factory where intolerable working conditions prevail. That is not at all the origin of the idea of "sweated labor." It originated as a term of derogation, or was so used by unionists, for work done in the home.

The *Encyclopedia Britannica* describes the "Sweating System" as being closely "associated with contracting. Individual workers or groups of workers contract to do a certain job for a certain price." The work is then performed in the home, home workshops, and the like. The same source says that the "sweating system grew in the United States during the Civil War, when soldiers' wives were employed to make uniforms with the relatively newly developed sewing machines." Unionists attacked the system with all the energy they could muster. The *Britannica* says that "In the United States most of the pressure to eliminate sweating was applied by organized labor.”

Industrial homework has long since been virtually eliminated in the United States by a combination of union and government effort. Unions had considerable success in getting it eliminated in such undertakings as clothing making and cigar making. It became virtually il-
legal in some states, for Jack Barbash notes that when the New York legislature considered a bill for "partial legalization of industrial homework," it was vigorously opposed by the New York Federation of Labor. At any rate, much homework was made impractical by minimum wage prescriptions (based on an hourly rate, as they were, employers would be unwilling to pay when they could not check), prescriptions as to working conditions, by zoning laws, and such like.

Problems of Organizing

The unionist motives for opposition to home work are not difficult to surmise. It would probably be nearly impossible to organize such workers. The conditions of proximity and association would not exist for developing class consciousness among them. They could do the work less expensively than it could be done in the factories; thus making it difficult to organize factory workers engaged in similar pursuits. Thus, unionists stigmatized such work arrangements as inhumane and oppressive.

Though there are many other aspects of it, the above examples suggest the outline, at least, of the Procrustean bed made by unionism. It is a bed far short of the size that could accommodate the potential work force of the country.

Those workers who do not fit within its confines are lopped off. For one thing, most workers who cannot fit into factory-like requirements as to hours of work are largely eliminated from consideration for employment. Many who have small children to attend to and household tasks to perform would undoubtedly like part-time employment in the home. An employer who sometimes had large numbers of letters to be individually addressed told me that the first time he advertised for such help applicants tied up his office telephones for days. The next time he had occasion to advertise, he gave only a box number, but he still received hundreds of written applications from people wishing to do work in the home.

Governments Intervene

Governments have assisted in numerous ways in lopping off potential willing workers. Compulsory school attendance and child labor laws largely eliminate children from most employment. Prolonged schooling much beyond the ages of 16 to 18 has kept many young people off the labor market. States subsidize technical and college education on a vast scale. The community and junior colleges founded in unprecedented numbers in the 1950s and 1960s were the most dramatic instances of such an effort. The G.I. Bill of Rights was the largest of the Federal efforts along this line, but it has in more
recent times been supplemented by both Federal and state scholarship and loan programs.

Social Security and other retirement programs enable many at the other end of the age scale to stay off the labor market. Aid to dependent children and other welfare programs provide support for many mothers and older children without their holding jobs. Social Security provides such support, too, in cases where a covered mate has been disabled or died. Unemployment compensation relieves some of the pressure from union- and government-induced unemployment. Indeed, ingenious workers can cut their work time by perhaps as much as one-half or more by working from time to time, getting laid off or having the job discontinued, and drawing unemployment compensation. Some do, but in the nature of the programs there is no way to determine how much of it is deliberate.

My concern is not with the motives which led legislators to enact these and other such programs. The effects are the same whatever the motives, and the effects are the reduction of the available labor supply. And there is bountiful evidence that both unions and governments act upon the premise that there is a surplus of labor.

Even all the efforts that are made at reducing the labor supply by lopping it off do not succeed in reducing the supply so that it will fit into the Procrustean bed for jobs. There are usually still millions looking for employment, or claim that they are. There is a major effort, then, to "stretch" the jobs to fit the available labor supply. Unions are famous, or infamous, for job stretching. It is sometimes called "featherbedding." The way this is usually done is in work rules in union contracts. Here are some examples:

1. Limitations on supervisory personnel performing production work—for example, a Rubber Workers's union provision: "Members of factory management shall not perform work which is normally assigned to direct workers. . . ."

2. Limitations on assigning work outside of an employee's classification, as for example a Meat Cutters' union provision that weighers and wrappers may not "platter" meat cuts in self-service counters.

3. Requirement for minimum number of employees on a job: for example, the Motion Picture operators demand for two men in projection booth.

4. Rules regulating the use of labor-saving methods and machinery. . . .

5. Rules protecting union's jurisdiction: in New York theatres "Carpenters will build a platform, but the covering is prop man's. A hat (worn) is costume but the same hat (unworn) is a prop. A table is moved by prop men, but the lamp on it is sacred to electricians. . . ."

Governments, too, have made efforts to "stretch" jobs, provide temporary jobs, and "stretch" the money
supply to fit the Procrustean bed they have helped to create. The most general effort by the United States government to "stretch" jobs has been the mandated 8-hour day, 40-hour week. That effort has met with mixed success, however, as already noted, because overtime pay is often not a sufficient penalty to prevent longer hours, in view of the effective penalties involved in hiring other workers. Thus, government programs are often initiated with the idea of providing more jobs. The role of the unions in this is suggested in the following:

Unions seek to enlist the aid of government in providing more jobs in the industries in which their members are employed; or to protect job opportunities from being impaired in their industries. . . . [Among these] are the interests of the building trades unions, which have been among the most energetic supporters of government action for a major low-cost housing program; and the metal trades unions for a shipbuilding program.  

Inflation to Offset Impact of High Wages on Employment

The most prolonged effort at "stretching" has been in stretching the money supply—i.e., inflation, to offset the impact of high union wages on employment. It is doubtful that most unions could survive for long without progressive increases in the money supply. The continually higher monetary wages on which their success depends would produce such levels of unemployment (even if all other programs to reduce labor supply were in effect) that union workers would no longer be employed.

Further, Friedrich A. Hayek has pointed out that if government is committed to full employment, "current union policies must lead to continuous and progressive inflation. . . . If labor insists on a level of money wages too high to allow of full employment, the supply of money must be so increased as to raise prices to a level where the real value of the prevailing money wages is no longer greater than the productivity of the workers seeking employment. In practice, this necessarily means that each separate union . . . will never cease to insist on further increases in money wages and that the aggregate effort of the unions will thus bring about progressive inflation."  

He has ably described the process of "stretching" that goes on.

Unionist policies flow from a misconception of reality. Labor is essentially scarce in reality. Unionists operate on the premise that there is a surplus of labor. The result is an apparent contradiction. Unionism produces both a labor shortage and unemployment (a labor surplus?). The reason for this is before us. Many potential employers cannot find workers to do the work they would
Unemployment and Unionism

In its tendency toward mass action and indifference to the interest and choice of the individual, trade unionism gives its leaders tyrannical authority over members and nonmembers alike. Modern trade unionism, by the use of force, not only distorts the wage market, causing unemployment or inflation, but also interferes with the liberty to work, to trade, and to associate. Such action frequently makes it impossible to enter a wage contract voluntarily; the right to abstain from working becomes the obligation to take part in strikes against one's will; and the right to associate becomes the obligation to join this or that union. Coercive force, instead of being reserved exclusively to the government for the protection of the life, liberty, and property of the citizens, is employed by these organized groups to attack many of those same fundamental individual rights.

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hire done at a price they are willing to pay. (It is commonly observed today, "You can't find workers to do this, that or the other.") Wages are too high to pay for low-priority and low-productivity work. On the other hand, many people cannot find employment at the artificially established high wages.

Institutional Unemployment Plus a Shortage of Labor

The impact of unionism is as broad as the economy over which it holds sway, and even broader than that. It leads to institutional (or structural) unemployment and an endemic labor shortage. It requires massive government intervention to conceal the worst of its ravages. Unionism—labor unions plus accommodative government action—intervenes in the market at its most sensitive point. It makes rigid what needs to be most flexible to meet continually changing conditions. It causes unemployment, labor shortages, promotes inflation, higher prices, less productivity, and leads to fewer goods and services for everyone.

Who are labor unions organized against? They are organized against all who work, and all who benefit
from work. They are organized against non-union workers most obviously, for these are often turned away from the gates, may not be able to find employment, and, if they do, may have to accept lower wages. In some respects, unions are organized against their own members, some of whom may be compelled to join or pay dues, the most industrious of whom may be held back to the level of the less productive, and some of whom lose their jobs when the union wage prices them out of the market. They are organized against employers. They are organized against consumers. Above all, they are organized against the weakest members of society, those who cannot fit into the structure of employment—the young, the old, the lame, the halt, and the blind.

—FOOTNOTES—

1Marxists, however, are not necessarily being inconsistent in promoting unionism. They are making warfare on capitalism by obstructing production generally. Once in power in a country, they regularly subdue the labor unions.


6Ibid., p. 89.

7Ibid., p. 79.


10Chase, op. cit., pp. 15–16.


18There is a factory near where I live in which many of the workers work 7 days one week and 6 days the next by regular alternation. In another factory, it is not unusual to work 12 or 16 hours (called "working a double") some days. It would be an error either to suppose that workers resent the long hours or that the decision to work overtime is voluntary. Often enough, the willingness to do so is a condition of continued employment.


20Ibid., pp. 167–68.

21Ibid., p. 247.

THE ERROR seems not sufficiently eradicated that the operations of the mind, as well as the acts of the body, are subject to the coercion of the laws. But our rulers can have authority over such natural rights only as we have submitted to them. The rights of conscience we never submitted, we could not submit. We are answerable for them to our God. The legitimate powers of government extend to such acts only as are injurious to others.

But it does me no injury for my neighbor to say there are twenty gods, or no God. It neither picks my pocket nor breaks my leg. If it be said his testimony in a court of justice cannot be relied on, reject it then, and be the stigma on him. Constraint may make him worse by making him a hypocrite, but it will never make him a truer man. It may fix him obstinately in his errors but will not cure them. Reason and free inquiry are the only effectual agents against error. Give a loose rein to them, they will support the true religion by bringing every false one to their tribunal, to the test of their investigation. They are the natural enemies of error, and of error only.

Were the government to prescribe to us our medicine and diet, our bodies would be in such keeping as our souls are now. Thus in France the emetic was once forbidden as a medicine, and the potato as an article of food. Government is just as infallible, too, when it fixes systems in physics. Galileo was sent to the Inquisition for affirming that the earth was a sphere; the government had declared it to be flat as a trencher, and Galileo was obliged to abjure his error. This error, however, at length prevailed; the earth became
a globe, and Descartes declared it was whirled round its axis by a vortex. The government in which he lived was wise enough to see that this was no question of civil jurisdiction, or we should all have been involved by authority in vortices. In fact, the vortices have been exploded, and the Newtonian principle of gravitation is now more firmly established on the basis of reason, than it would be were the government to step in and to make it an article of necessary faith.

Reason and experiment have been indulged, and error has fled before them. It is error alone which needs the support of government. Truth can stand by itself. Subject opinion to coercion: whom will you make your inquisitors? Fallible men; men governed by bad passions, by private as well as public reasons. And why subject it to coercion? To produce uniformity. But is uniformity of opinion desirable? No more than of face and stature. Introduce the bed of Procrustes then; and, as there is danger that the large men may beat the small, make us all of a size by lopping the former and stretching the latter. . . . Reason and persuasion are the only practicable instruments. To make way for these, free inquiry must be indulged; and how can we wish others to indulge it while we refuse it ourselves?
It is widely believed that capitalism, to the extent that it is still allowed to function, is responsible for our problem of racial discrimination. Blacks, Hispanics, and other ethnic groups are seen to be "underutilized" by business, and therefore many people conclude that the cause must be that businessmen are guilty of racial discrimination. Having arrived at this conclusion, the solution is simple and obvious: Merely compel businesses to hire more individuals from these groups. Mandate "affirmative action" programs, "goals" or quotas in hiring and promotion, enforce these with a federal bureaucracy and the courts, and everything will be fair and equal. A closer examination will show, however, that racial discrimination, far from being caused by capitalism, is in fact the result of governmental interferences with capitalism. We shall see that the proper response to the problems of blacks and other ethnic minorities in society is not more governmental coercion, but to eliminate that which we now have.

Businessmen are in business to make money. They are engaged in a continuous struggle to increase revenues and decrease costs. The first crucial point we must grasp is that racial discrimination imposes costs upon businessmen who practice it. For example, purchasing decisions are generally made upon the criteria of least cost and best service. If a businessman refuses to deal with a black supplier who could offer the lowest price and/or best service, he has imposed additional costs upon himself. Similarly, to refuse to hire
qualified persons because of their skin color means that the businessman must devote more time and resources to searching for a person to fill the job, and perhaps having to settle for a less well qualified candidate.

The Price of Prejudice

Not many businessmen prefer prejudice to profits. As economist Milton Friedman puts it, "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." (Capitalism and Freedom, pp. 109-110)

In theory, therefore, we would expect to find little discrimination in a free market because of the self-interest of businessmen. This theory finds strong support from historical evidence. First, the Jim Crow laws of the states of the South specified that certain jobs in industry could be done only by white workers. But if the industrialists were intent upon discriminating, why did this preference have to be enacted into law? The answer is that to preserve the status of the white worker, there had to be a legal restraint upon employers. In the absence of the law, competition from nondiscriminating employers would have urged all to hire and promote blacks and whites on the basis of economic value, not race.

A second piece of evidence comes to us from South Africa, and again shows the power of business competition to reduce racial discrimination. The reason for the adoption of the policy of Apartheid in the 1930s was that white workers were incensed that so many blacks were being hired and were competing with them in pay and promotions. Therefore, they persuaded the government to restrict the better-paying jobs to whites only. Once more, we see that business was the enemy of discrimination, government the cause.

Further evidence on the relationship between capitalism and discrimination is found in the considerable affluence many "free persons of color" in the antebellum South were able to achieve. These were free blacks who had no political power at all, but could own property and do business as they wished. For example, in pre-Civil War New Orleans, free Negroes owned one-fifth of the total taxable property in the city. (Race and Economics by Thomas Sowell, p. 40) Thus, even while the government discriminated against these people, according them no political power, capitalism gave them
economic power restricted only by their abilities to satisfy the wants of consumers.

**Conditions Have Changed**

Next, let us examine the experience of other ethnic groups which have migrated to the urban centers of the United States in search of economic progress. Jews, Italians, Chinese, Irish, Japanese, and many others settled here and were usually despised and subjected to legal harassment for decades after their arrival. Nevertheless, members of these groups have been highly successful in moving into the mainstream, and frequently into the highest strata of American life. Discrimination did not keep them depressed. Why were they able to advance whereas today's bottom-of-the-ladder minorities seem to be permanently stuck there? Have conditions changed in some way which would explain the difference? The answer is yes.

The great influx of blacks into the cities began after World War II. Prior to that time, most of the country's black population had lived on farms in the rural South. With the movement to the cities, the process of economic advancement began for the majority of the black population, just as it had for the Jews, Italians, Chinese and others in the previous century. What factors are militating against blacks now that did not hinder the progress of the earlier groups? A rather large number of such factors could be identified, but I wish to concentrate on three of the most significant.

**Minimum Wage Laws**

The first difference to which we can point is the existence of minimum wage laws. The minimum wage came into existence as a part of the Fair Labor Standards Act, passed during the New Deal. It sets a wage floor below which an employer may not pay. The stated reason for this law was to raise the income of poor workers. (The real reason was that labor union leaders hoped that it would stifle competition from lower-wage areas, such as the South. For this reason, the minimum wage bears a kinship to the Jim Crow laws discussed above.) What the legislators either did not see or chose to ignore is that the amount of one's pay depends upon his economic value to his employer. If the law says that you, the employer, cannot pay anyone less than $2.00 per hour, you are not going to hire people who, because of lack of skills and work experience, cannot produce at least $2.00 worth of revenue per hour for you.

What the minimum wage does, then, is to prevent people from getting a start. It prevents a person from going to an employer and saying, "I know I don't have any job
skills, and I don't have a work record to prove my reliability, but I'm willing to start at a low wage. All I would like is a chance." That is exactly how the earlier immigrant groups began their climb up the economic ladder; but today that option is gone. Because they cannot find work, millions of young blacks, Hispanics, and others remain unemployed and unemployable. Frequently they turn to crime; if not, a life of indolence on welfare awaits them. It is not capitalism that caused this. It is the government.

**New Businesses Thwarted**

A second reason why economic advancement is more difficult today than it was for ethnic groups in the past is the obstacles which have been placed in the way of entrepreneurs who desire to open businesses. In the last century, one of the chief sources of employment for newly-arrived Jews, Italians, Chinese, and others, was in small businesses started by other members of their own ethnic group. Opening a bakery, tailor shop, or laundry was easy. If you could come up with the monthly rent, you could get a storefront location; if you wanted to hire someone, you simply put him on the payroll. There were virtually no government regulations, licenses, taxes, or inspectors.

Things are vastly different today, of course. The would-be entrepreneur is now faced with a maze of costly paperwork, usually requiring the high-priced services of lawyers and accountants before he can even make his first sale. There are also numerous taxes which he must collect and pay, and volumes of regulations with which he must comply. No wonder that more than eighty per cent of new businesses fail every year, and that many who might have attempted to start new businesses are deterred by the slim prospects for success. So here is a second reason why economic advancement is more difficult today—the hindrance of small business. Is this the fault of capitalism? No. It is the fault of government.

**Educational Shortcomings**

Lastly, let us consider education. In the previous century, schools concentrated on the "3 R's." The student who completed work at even the junior high school level was equipped with the language and math skills he needed to function in the business world. Jewish immigrants made particularly good use of the educational opportunities available to them, quickly rising in such verbal-oriented professions as banking and the law. In contrast, what can we say about the possibilities of learning the language and math skills one needs to succeed in business today? It is close to impossible to learn them in the typical inner-city school.
The environment in such schools is not conducive to learning, replete with disturbances and distractions from students who are there only because they are forced to attend. Even without the problems of violence, unruliness, apathy, and drugs, it would still be nearly impossible for today's inner-city high school student to learn the skills needed in business, for the simple reason that those skills are not being taught. The public education bureaucracy no longer attaches much importance to such matters as precision in speech and writing. Rather than teach the mental discipline necessary for intelligible sentence structure and critical analysis of written passages, contemporary "English" courses usually revolve around getting the student to express how he "feels" about something he has attempted to read. Young people routinely graduate from such schools without even the reading and writing skills of the third grader of the nineteenth century. Is business to be blamed for not hiring as insurance adjustors people who have great trouble in reading and writing reports, or not hiring as cost accountants people who struggle with addition and subtraction? Clearly not. The blame is to be placed upon the government which runs the public education monopoly.

The foregoing analysis has discussed only a few of the important ways in which the government has made it difficult for blacks and other groups now attempting to improve their economic condition to do so. The elimination of these governmentally-erected barriers to progress is the only true solution. The minimum wage should be repealed. The plethora of taxes, regulations, and paperwork which now prevent the formation of small businesses should be swept away. The monopoly which public schools enjoy ought to be broken through the granting of tuition tax credits to parents who choose to send their children to private schools. Eventually, tax-supported schools should be phased out completely. This is the course of action which will enable minority group members to develop and sell the skills for which businesses compete.

**Why Coercive Affirmative Action Programs Cannot Succeed**

But what of the other "solution" to this problem, namely affirmative action programs to compel the hiring of minority group members? Should that policy not be used to speed the process? The answer is no, for three reasons.

First, to compel an employer to hire according to government dictates violates the employer's freedom of contract and association.
Good ends do not justify bad means.

Second, it is no favor to the unqualified individual to obtain a job in which he will be constantly pressured and frustrated by his lack of preparation for it.

Third, the history of governmental activism on behalf of specified minority groups leads one to conclude that this course makes matters worse rather than better. The economist Thomas Sowell has pointed out that economic advances for blacks have slowed or retrogressed during periods of greatest governmental efforts to assist them. *(Race and Economics, pp. 51–55)* Moreover, Sowell also finds that there is an inverse relationship between the extent of a group’s economic progress and the extent of its political power. Blacks, Irish, and American Indians, groups which have relied heavily upon political power to improve their conditions, have advanced the most slowly, while Jews and Orientals, who never had much political power and thus had to rely upon their individual abilities, have done by far the best. Therefore, either by diverting attention from the true solutions, arousing antagonism, or both, the current policy of governmental activism is likely to make matters worse.

Let Self-Interest Take Its Course in the Open Market

In this brief essay, I have argued that the belief that racial discrimination is the fault of prejudice-blinded businessmen who refuse to hire minority group members is entirely wrong. There is probably no institution in society where color is as irrelevant as in the free market. In the commercial world, making money is what counts, and discrimination gets in the way of doing that. Many ethnic groups have come to this country and met poverty and prejudice. In the past, such people were able to advance economically by acquiring the skills which made them valuable to businessmen. Unfortunately, conditions are different now. Due to a variety of governmental actions, those ethnic groups which are presently attempting to rise in the economy have had the deck stacked against them. Instead of following the foolish course of believing that the way to rectify the undesirable results of past governmental interferences with freedom is through yet more interferences with freedom, we must see that the only escape from our difficulties is to let freedom work. Do so, and a lot of self-interested businessmen will make short work of racial discrimination.
Wealth and Poverty

The Reagan triumph is the political culmination of a movement that has been thirty years in the making. But we are not yet home free. Washington, D.C., is riddled with a conflict of "buts" even as the guard is changing. Every assent is coupled with a dissent. Yes, we must cut taxes, BUT not at the expense of unbalancing the budget. Yes, we must reduce the cost of welfare, BUT not by pushing anybody below the poverty line. Yes, we must go back to capitalism, BUT labor cannot be despoiled of its gains—and it would risk too much in unemployment if a corporation the size of Chrysler were allowed to fail.

It is too much to hope that we will escape at least two or three years of dubious political battle, but maybe the key to America's future exists somewhere outside of Washington. True enough, we need some help from a Reagan regime dedicated, even though the BUTs abound, to getting the government off the peoples' backs. We need at least a diminution of inflation. But benign neglect would help, too. The creative society (Reagan used to talk about that in California) depends on the free play of a social power that is not constrained by the politicians.

Luckily, at this juncture, we have a seminal book, George Gilder's Wealth and Poverty (Basic Books, 10 East 53rd Street, New York, N.Y. 10022, 306 pp., $16.95), that could be to the Age of Reagan what Stuart Chase's A New Deal and George Soule's The Planned Society were to the Age of Roosevelt.

What Mr. Gilder has done in vital and vivid style is to smash all the models that have treated capitalism as something that is destined to modulate into socialism, with or without the help of Marxian conflicts. He does not deny that the big corporations often become bureaucratized, preoccupied with problems of marketing a given product when the world is really clamoring for something new. Galbraith is right, he says, in observing the existence of a technostructure that resists change. But in a brilliant
chapter on "the entrepreneurial future" Mr. Gilder shows how the small entrepreneurs continue to swarm in. Change, despite the Biggies, is what we get.

The infiltration comes even when investment capital is hard to come by. There is the phenomenon of California's Silicon Valley, for example, where, as Gilder says, "worlds indeed unfold in grains of sand." The sand refers to the silicon chip, something no bigger than a fly, that will store thousands of bits of information for computer use. The silicon chip owed nothing to either the government or huge IBM—it began with "a second-rank camera firm, Fairchild," and "achieved its crucial breakthrough in 1971 at a tiny firm, Intel." It is "not only a product but also a producer of science ... with multifarious industrial and commercial uses ... from astrophysics to medicine." And on the heels of the microprocessor are coming other new technologies—lasers, for example, and the photovoltaic cell.

The point that Mr. Gilder is making is that it is men and ideas, and common faith or "animal spirits," that continue to create jobs and plenty. Mr. Gilder does not rely on statistics to prove his contentions, but when he does invoke them he uses them tellingly. Between 1969 and 1976 smaller firms created 7.4 million new jobs. This was at a time when the businesses on Fortune's list of one thousand largest corporations were experiencing practically no growth at all.

The Moral Case for Capitalism

Mr. Gilder's case for capitalism is fundamentally a moral case. It is based on giving. The enterpriser can't know that he has a market waiting for him. He ponies up the energy, the brains and the capital, and in an act of faith floats them out into the unknown. "The essence of his giving," says Mr. Gilder, "is not the absence of all expectation of return, but the lack of a predetermined return."

As a "supply side" economist, Gilder goes back to Say's Law of Markets. Supply creates its own demand by releasing claims on goods into the marketplace in the form of wages, interest, dividends and outlays for raw materials. People may not even know they want something until they see what is being offered, but when they see it the money is already there to buy it. Purchasing power cannot be created apart from supply, for any paper claims in excess of the money that supply calls into being will have an inflationary effect.

Mr. Gilder does his painting in bold strokes for the most part. But he is also good at miniature brush work. In his chapter on "the nature of wealth" he centers on a small community in the Berkshires, where there are few "natural resources." He tells about a Lebanese family who
arrived in Lee, Massachusetts, with few dollars and fewer words of English. The family bought an abandoned shop beside the road. Every day the father of the family drove over to the Connecticut Valley, a hundred miles away, to load up with vegetables, which he bought cheaply. With the help of six children the roadside shop prospered. Today, the family owns the biggest office building in town, a large clothing store, and what amounts to a small shopping center at the original shop site. In the same town of Lee a man named Kelley parlayed a business of making scratch pads out of refuse paper into a variety of businesses. And another man, named Sprague, turned a small patrimony into a huge conglomerate which began with a chicken hatchery in Iran.

By focusing on the Berkshire town of Lee, Massachusetts, Mr. Gilder is telling us how England and Japan, Taiwan and Hongkong, all of them relatively barren islands, became wealthy without having any natural resources that might be called riches. Saudi Arabia does have riches in its oil. Whether it will ever become wealthy in the Berkshire-British sense is a question. Wealth begins as a state of mind and a state of will.

The Senseless War Against Wealth

Only in the "zero sum" thinking of modern "liberals" does wealth create poverty. In the real dynamic world one man's fortune is a boon to all. The savings of the rich create jobs for the poor. So the "war against wealth," as Mr. Gilder sees it, is senseless. We tax the producer to pay for a welfare that keeps women and dependent children locked into dingy ghetto life, with the men taking off because they can't stand the feeling of being unneded as breadwinners. As long as welfare payments to women are a cut above what a family can earn in the market, the government, says Gilder, will continue to cuckold men.

This is strong stuff, and no politician, even in the Age of Reagan, is going to succeed in abolishing welfare. But we can hope that supply side economics, helped by tax cuts that will give productive people something to play with, will float a few families off the relief rolls. Meanwhile the new atmosphere in Washington may make some of Mr. Gilder's observations on welfare seem less hard-hearted than they would have seemed in the days of the Great Society. When Mr. Gilder says that "aid for families with dependent children makes more families dependent and fatherless," or that "unemployment compensation promotes unemployment," he isn't being mean. He is merely being accurate about the "moral hazards" of some of our best intentions. What he is saying is that the Welfare State has become counterproductive. It is time for something new and more inventive.
BLACK AMERICA AND ORGANIZED LABOR: A FAIR DEAL?
by Walter E. Williams, Loren A. Smith and Wendell W. Gunn
(The Lincoln Institute for Research and Education, 1735 DeSales, N.W., Suite 500, Washington, D.C. 20036)
60 pages • $5.00 paper

Reviewed by Allan C. Brownfeld

The importance of this slim volume is not to be measured by the number of pages it contains, but by the potency of the ideas it releases. The sponsor of this study, The Lincoln Institute, was set up in 1978, to assess the impact of public policy issues on the black community. Two of the authors are black, and all three offer persuasive arguments for the thesis that the free market economy provides the best hope for bringing minorities into the nation's economic mainstream. Their case against welfarism and unions is devastating, and marks one more bit of evidence of the growing disillusionment of black Americans with the liberal establishment.

Unions have all but eliminated competition in the labor market, locking those at the bottom—mainly members of minority groups—into a situation of hopelessness. Organized labor, pursuing its narrow interests by means of the powers conferred upon it by government, has the power, in many parts of the country, to determine who shall be employed and who shall be denied work. This unpleasant truth is emphasized by Senator Hayakawa in the Preface he contributes to this book. "Racial exclusion is not simply a part of union history but remains a reality today. In 1967, for example, statistics on black membership in some major craft unions were as follows: electricians, 1.6 per cent; ironworkers, 1.7 per cent; plumbers, 0.2 per cent; and sheetmetal workers, 0.2 per cent. In 1979, 58 per cent of local unions reporting to the Equal Employment Opportunity Commission had no black members at all."

Professor Williams, one of the nation's keenest economists, furnishes other considerations: "A considerable part of the activities of the labor movement ... has been that of attempting to thwart competition among workers. One of the ways this has been done is through the use of union political power to lobby for laws that confer monopoly power on labor unions."

He continues: "To the extent the union is successful in negotiating wages that are higher than those which employees would obtain in the absence of monopoly power, unions must also devise means of entry restrictions. The reason is simple: the higher wages will attract entry by workers from other sectors of the economy. If others were permitted freely to enter the union-
ized labor markets, the increased supply of labor would mean less employment and downward pressure on wages... Whatever the purpose for granting unions the sort of monopoly power they now possess, the result is weak minority participation."

Labor unions support programs such as welfare, food stamps, unemployment benefits and a host of other "maintenance" devices, Dr. Williams argues, so that those who are unemployed as a result of market restriction policies will remain docile: "If the alternative to not working were starvation, it would present a socially volatile climate. Thus it is very probable that labor unions will lead the support for income subsidy programs which represent a redistribution of income from society at large to those who have restricted the labor market in the first place. They disguise the true effects of market entry restrictions caused by unions and other economic agents by casting a few crumbs to those denied jobs in order to keep them quiet, thereby creating a permanent welfare class."

Wendell Gunn does not condemn union officials, most of whom are sincere; but he does criticize union policies, which bring about unforeseen consequences. "For black workers, who have been denied their basic right to work in many fields by the actions of labor unions over the years, to be forced to join unions against their will... is to make a mockery of the civil rights which have, we are repeatedly told, been achieved. Compulsion and coercion are alien to a free society."

Everyone has a stake in the free society, rich as well as poor. But as these essays make clear, the "disadvantaged" have the greatest stake of all.

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What’s This About Solar Energy?

Now don’t get me wrong; I am a devotee of solar energy. As a matter of fact, I wouldn’t use any other kind. I have a total solar energy home. I heat with it, cool with it, cook with it, and run all my appliances on it. More, my lawn mower and automobile run on solar energy. Nor is it going too far to say that I run on solar energy myself, when I run. So do all the other members of my family.

So do you. So does everyone else. We have no choice in the matter. All this I take to be true, that is, unless there is a new science which goes along with the “new math,” and the science I was taught has been drastically modified. What I learned when I was in school was that “the sun is the source of all energy.” If that is still the case, it follows ineluctably that all the energy we use is solar energy.

This mini-lesson in science and a goodly number of the remarks which follow would probably be unnecessary if it were not for the fact that some contemporary usage has introduced considerable confusion into the matter. The phrase “solar energy” has been specialized, at least journalistically, to refer to energy obtained directly from the sun. If those who use it that way would modify the phrase, call it “direct solar energy,” say, the confusion might be avoided. But if my suspicions are well founded, I think those who use it this way are more or less deliberately avoiding the distinctions which would not only remove the confusion but also remove much of the drive behind the movement for the use of direct solar energy.

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Dr. Carson has written and taught extensively, specializing in American intellectual history. He is a frequent contributor to The Freeman.
There is a missionary zeal about many of the proponents of direct solar energy. It is almost as if they have just discovered the sun and are eager to exploit all its potentialities. If we could just find ways to tap this marvelous source of energy, they are proclaiming, we would have at our beck and call a nearly unlimited source of energy. And, it would be free. That is the crux of the matter: it would be free. Or, to put it more precisely, direct solar energy is free, though the vantage point from which it may be received may not be. Once, I wrote a chapter of a book called "The Flight from Economics." The enthusiasm for direct solar energy looks to me like another verse in it.

Recognized Uses

Before subjecting this heady vision of free energy to some dashes of cold water, however, it is in order to make some qualifications. It is well that we should attend to ways in which direct solar energy can be obtained and used to advantage. Undoubtedly, there is much to be gained in constructing buildings, for example, in situating them and locating windows so as to get heat and light from the sun at the times of day and year when they are most wanted. Astute use of insulation can greatly aid, too, in keeping the heat out when it is not wanted and inside when it is. It may be, too, as I have been told, that there are excellent possibilities in heating water for use in the home by the sun. There may be a goodly number of possible uses of direct solar energy which we have hardly exploited. If so, well and good. It is no part of my purpose here to denigrate what has been done, is being done, or may be discovered along these lines.

Now that these qualifications have been got out of the way we can move on to the dashes of cold water. First, there is nothing new about the use of direct solar energy. Man has been heated by the rays of the sun since he has been around on this planet. Ever since he has worn clothes, he has been to some degree insulated from its rays and had about him a sort of shell which stored such heat as got in. Dwellings and other buildings have been at least partially heated by the sun for millennia and served as insulation to store the heat at night. More, the breezes and winds which have cooled him, which have been used to draw his water and propel his boats on occasions, are set in motion in some fashion by the sun. The water which he has used in a variety of ways has been heated by the sun, drawn into the atmosphere by the heat of the sun, and released as rain when it was cooled.

Second, all the proposals for the greater use of direct solar energy with which I am familiar involve the use of things that are scarce. That is, they involve the use of land,
labor, and capital. These are all scarce, must be allocated, and thus necessarily entail economic decisions.

Third, there are severe natural limitations on the use of direct solar energy. The sun is only around for a portion of the day; that portion varies with the time of year, and even when it is around it may be obscured by clouds or chilled by winds. Moreover, when it is available at greatest intensity, it is apt to be too hot for comfort, and its direct rays will fade and warp many materials. In short, there are two huge problems connected with the use of direct solar energy. One is often described as the problem of storage. The other, not so often discussed, is having it available in the concentration wanted.

Nature Solves Many Problems

Happily, these problems, which may be so costly of solution as to be practically insurmountable so long as they are approached in terms of direct solar energy, are regularly partially solved for us by nature. However, I would like to enlist the aid of the great Austrian economist of the turn of the century, Eugen von Böhm-Bawerk, in making my exposition of it. Böhm-Bawerk had a fascinating insight into the means by which goods can best be made available when and where they are wanted. He called it the "round-about method of production." He introduced this concept in order to define capital, but it seems to me even more appropriate to the problems raised by the proponents of direct solar energy.

The roundabout method is best described in the words of the author himself as they have been so felicitously made available in English by Mr. George Huncke and Professor Hans Sennholz. Here is his description:

A farmer needs and desires drinking water. There is a spring at some distance from his house. In order to meet his requirements he may follow any one of several procedures. He may go to the spring and drink from his cupped hands. That is the most direct way. Satisfaction is the immediate consequence of his expenditure of labor. But it is inconvenient, for our farmer must travel the distance to the spring as often during the day as he feels thirsty. Moreover it is inadequate, for this method never enables him to gather and store any considerable quantity such as is required for a variety of purposes. Then there is a second possibility. The farmer can hollow out a section of a log, fashioning it into a bucket, and in it he can carry a full day's supply of water to his house all at once. The advantage is obvious, but to gain it he must go a considerable distance on a roundabout course. It takes a whole day's carving to hollow out the pail; to do the carving it is necessary first to fell a tree; to do the felling he must first procure or make himself an axe, and so forth. Finally, there is a third possibility for our
farmer. Instead of felling one tree, he fells a number of them, hollows out the trunks of all of them, constructs a pipe line from them, and through it conducts an abundant stream of spring water right to his house. Clearly, the roundabout road from expenditure of labor to attainment of water has become considerably longer, but to make up for it, the road has led to a far more successful result. Now our farmer is entirely relieved of the task of plying his weary way from house to spring burdened with the heavy bucket, and yet he has at all times a copious supply of absolutely fresh water right in the house.²

Böhm-Bawerk went on to give other examples, such as, tearing pieces from a granite cliff by hand versus setting a dynamite charge with tools and blowing them off, which satisfied him that the superiority of the roundabout method of production was universal. Or, as he put it, "The lesson to be drawn from all these examples is quite clear. It is to the effect that roundabout methods are more fruitful than direct methods in the production of consumers' goods. . . . In addition, the superiority appears in the fact that some consumers' goods cannot be produced except by indirect methods."³ He doubted that economic theory could prove that this was the case; it was, instead, a lesson drawn from practical experience.

While he does not point this out, it is clear to me that the roundabout method is the method of nature itself. The river follows a winding path to the sea, following the course of least resistance as it moves to an ever lower level. Even more circuitous is the manner in which the lands are watered from great bodies of water. Particles of water are captured and carried upward by the air as the air is heated by the sun. The winds carry this water to distant points where it coalesces into clouds under the right conditions and is released upon the earth as it strikes cooler air.

### Man Cooperates with Nature

Böhm-Bawerk does note, however, that man in adopting roundabout methods does so in cooperation with nature to secure the desired results. As he says, "We are as incapable of overcoming the cohesiveness of the granite cliff from which we wish to derive building material, as we are of combining carbon and nitrogen, hydrogen and oxygen, phosphorous and potassium and the like, to form a single grain of wheat. But what is denied our own powers is quite feasible for other forces, namely, the forces of nature herself. There are natural forces which can perform prodigies of strength infinitely beyond human capacity, and there are other natural forces which, in the world of minutiae, are capable of contacts of incredible delicacy. . . .
"We do not have the ability to gather atoms of phosphorus and potassium from the ground, of carbon and oxygen from the atmosphere and combine them to form a grain of wheat. But the principles of organic chemistry can be put in play by the forces within the seed-kernel of wheat to initiate the magical process of growth, while for us it is ridiculously easy to place the seed in the bosom of the earth, the one place where it can carry out its mysterious function."

Just so, and with that we come very near to our point. Any direct effort to capture and store solar energy can be likened to getting water from a spring by cupping our hands. Even early indirect methods are likely to be about as primitive as cutting down a tree and fashioning a bucket with which to fetch the water to the house. In any case, if the storing of solar energy is a problem at all, it is one which nature has long been busily solving in myriad and wondrous ways.

The most direct way in which nature stores solar energy is in plants. Nonetheless, it is done in a roundabout way. The process is called photosynthesis. It occurs in the leaves of plants to which minerals and water are brought from the roots, and these make food in the presence of sunlight. The food, or energy, is then stored in the fruit, the body, and root of the plant. Animals obtain their food, or energy, from plants, or from eating other animals, if they are carnivorous, who have obtained it from plants. Hence, it is literally true to say that I run on solar energy. The full roundaboutness of the process by which food is made in plants would involve the story of how the water got there, how minerals are deposited in the soil, and so on.

**Stored Energy**

Vast quantities of solar energy have been stored in the bowels of the earth as a result of natural processes. They are commonly referred to as fossil fuels today, and consist mainly of coal, oil, and natural gas. Coal is believed to have been formed chiefly, or entirely, from plant matter, which was interrupted either in its life or deterioration and fossilized in seams of the earth. Oil is believed to have been formed largely from extracts of sea animals (and possibly plants) which occurred when the waters covering certain areas receded. Natural gases are presumably relics of decayed animal matter trapped in the pores of the earth.

Another vast source of energy is nuclear energy. This energy is released by a process of fission in the nucleus of atoms when they are bombarded by neutrons. In the sense in which we have been using solar energy, i.e., as energy derived from the heat or radiation of the sun, I
have no information that points to the necessary conclusion that nuclear energy is solar energy. In another sense, however, it can be said that nuclear energy is solar energy. That way of stating it, however, may be going at an explanation wrong-end-to, so let us put it directly. Solar energy is nuclear energy. The heat and radiation from the sun is attributed to continuous and intense nuclear activity. Thus, the induced instability in the nucleus of the atom on the earth is an artificially devised method of releasing sun-like energy. In nature, and so far as we know, virtually all nuclear energy released is solar energy, or, to speak more universally, since there are numerous suns, or stars, in the heavens, star energy. Therefore, in a very important sense, nuclear energy is also solar energy.

What I am getting at, then, is that we have no practical choice as to whether or not we will use solar energy. Our choices are concerned only with which forms of solar energy we will use. Our choices have to do with such questions as whether we will use the direct heat and radiation from the sun, the energy that is stored in plants, the energy stored in fossil fuels, the energy that can be made available by impounding waters and releasing them so as to produce electricity, the energy made available by the movement of winds, and so on. In any case, we will be making choices as to which form, or combinations of forms, of solar energy we will use.

Nor do we have any real choice as to whether or not we will employ roundabout methods in storing and releasing solar energy. The only direct solar energy we can exploit is such heat and radiation as we can absorb by exposing our bodies to the sun. Beyond that all methods of storing solar energy are in greater or lesser degree roundabout methods. To collect rocks and place them so as to store heat during the day for use in the night is a roundabout method. To lay down pipes in which water will be heated for use is a roundabout method. To build a shelter which will store a portion of the heat for warmth during the night is a roundabout method.

The Need to Choose

In short, since we cannot eat sunbeams, and since the heat and radiation from the sun does not arrive continuously in the quantities, of the quality, and in the concentration which is satisfactory to our purpose, we must go about storing it and releasing it in roundabout ways. It is in order to reiterate, too, that in whatever form we avail ourselves of stored solar energy we will have to use things that are scarce. Therefore, our decisions will be, and are, economic decisions. Nor are there any methods available to us that do
not involve dangers; even the direct rays of the sun may cause skin cancer, and concentrated sunlight can cause all sorts of damage. In the final analysis, all energy is released by burning, oxidation, or friction; and heat, radiation, and fire are dangerous. Our choices, then, are from among roundabout ways, involve costs, and greater or lesser dangers.

A part of the appeal, at least to me, of Böhm-Bawerk's phrase, "roundabout method of production," is that it brings us up short and makes us think. After all, we do not ordinarily think of the roundabout way as being the best and most efficient way of doing anything. After all, we are brought up on the axiom that the shortest distance between two points is a straight line. That being the case, we are predisposed to the most direct way of going about a thing. On reflection, however, we may come to realize that while the axiom is valid for distance it is inapplicable to production. In production, the predisposition to the most direct way becomes a prejudice against the use of capital. (It is also, I suspect, a prejudice against civilization, for anyone who is aware of the forms of civilization must know also that they are often indirect and roundabout.)

It is not Böhm-Bawerk's point, as I understand it, that there is anything superior, per se, in roundaboutness. (Its superiority, where it occurs, is something learned from experience, he makes clear, not from theory.) Thus, we do not go about production in the most roundabout way conceivable, nor add on ever more layers of the roundabout for the sake of roundaboutness. On the contrary, we go about production in the most direct way possible to achieve what is wanted most efficiently. It is the case, however, that the use of tools (capital) is a roundabout way to get the job done, and it is the most efficient way, and sometimes the only way. It happens, too, that we can greatly increase the supply of goods produced by a given amount of labor by the judicious use of capital.

Political Intervention

If roundaboutness, per se, were wanted, we would be in excellent shape today, for there should be no doubt that government intervention, restrictions, controls, and manipulation have made much of production exceedingly roundabout. Unfortunately, politically motivated roundaboutness does not contribute to an increase in production; it is, instead, counterproductive. Indeed, the high cost of energy today which set the stage for the movement to find ways to utilize direct solar energy more effectively can be attributed directly to politically motivated roundaboutness. This is so
whether we consider the cartel formed by the governments of the OPEC nations to restrict production and charge all that the traffic will bear for oil or our own numerous restrictions which weigh heavily on production. Economically motivated roundaboutness increases production, for it brings capital to bear on supplying our wants in the most effective manner. Politically motivated roundaboutness decreases production, for it limits and restrains effective uses of capital.

Böhm-Bawerk knew nothing of our energy shortage, of course. He did know, however, that man is confronted with scarcity of all those things denominated goods, including energy. His ingenious phrase, "roundabout method of production," was devised to define and expand our conception of capital, to understand more fully the role that it plays, and how it plays it. He believed that the most effective way to get more goods in the actual world in which we live is to go about getting them in the roundabout way entailed in the use of capital. Instead of getting our water by cupping our hands, getting our wood by pushing trees down, trying to dislodge pieces of granite by pulling at it with our bare hands, or obtaining energy by trying to imprison sunlight beams, he saw the great advantages in imitating nature and going about these things in a roundabout way. To return to direct methods would be retrogressive; progress was made by indirect methods which are entailed in the use of capital.

—FOOTNOTES—

3Ibid., p. 12.

What Makes Wages Rise

What is called the American way of life is the result of the fact that the United States has put fewer obstacles in the way of saving and capital accumulation than other nations. . . . There is only one way that leads to an improvement of the standard of living for the wage-earning masses—the increase in the amount of capital invested. All other methods, however popular they may be, are not only futile, but are actually detrimental to the well-being of those they allegedly want to benefit.

LUDWIG VON MISES, "Wages, Unemployment, and Inflation"
Mr. Mayor, Members of the Council, Representatives of the Chamber of Commerce, Interested Citizens:

There are a number of things I'd rather be doing than speaking here in opposition to this proposal. As I understand it, the proposal is that we will levy a 3 1/2 per cent tax on the overnight guests in our motels in order to fund the city's industrial development program.

I am acutely aware of and in fact have no small vested interest in the economic benefits and advantages that may accrue to our community through an aggressive industrial growth program. I am acutely aware and deeply appreciative of the dedication and efforts of the Chamber representatives in that regard. I am acutely aware that the primary spokesmen for this program tonight and in your earlier meetings are close personal friends of mine who have spent countless hours in addressing this problem and for whom I have boundless respect and admiration.

Nevertheless, I am convinced that this proposal is wrong; it troubles me deeply—perhaps, admittedly, out of all proportion to practical reality, but nonetheless I feel compelled to speak to it. As a recent local news editorial pointed out, the primary merit of this proposal is that it creates an economic enhancing activity at little or no cost to the residents of...
our city. Put another way, that is to say that we are proposing to use the power of the local government to create an economic benefit for us and make somebody else pay for it.

The Abuse of Power

In my judgment, this is a classic case in microcosm of the abuse of government power. Set aside for a moment, if you will, considerations of size and scale which are admittedly small, and consider the nature of the proposal in and of itself. And if you will look at it in that light, I think you will agree that it represents one of the most flagrant examples of the abuse of government power that we will find today in any local, state or federal program or in any government spending proposal.

I would ask you four questions: (1) Do you condone the use of the power of government to accomplish in the name of expediency a purpose which has historically, traditionally and demonstrably been accomplished, and can be accomplished, by and within the private sector? (2) Do you condone the use of the power of government to levy a tax on one group for the primary benefit of another group? (3) Do you condone the use of the power of government to levy a tax on citizens who are not represented by the government; who are, in fact, disenfranchised voters under this government and are not, therefore, represented by it? (4) Do you condone the use of the power of government to assign as a legal obligation to one group an obligation which in fact is not theirs under any natural process of moral or philosophical reasoning?

If I asked any of you any of those questions on the street, you would say "no"—you do not condone such use of government power. But I say to you, to vote in favor of this proposal is to vote "yes"—you do condone the use of government power in all four of those questions.

The question before us is not really whether this proposal is right or wrong morally or philosophically. An overnight guest has no more obligation to fund our industrial development than any of us has an obligation to fund the industrial development of Springfield or St. Louis or New Orleans. On philosophical and moral grounds, the proposal is wrong, and we all know it.

The question is not whether the proposal is right or wrong. The question is, knowing that it's wrong, what are we going to do about it? Should we turn it down and in so doing perhaps place our community at a competitive disadvantage with other communities who have adopted similar legislation as a political expediency and a practical necessity?

Let me turn the question around. Should we adopt a proposal we know to be wrong on the altar of and in
the name of political expediency and practical necessity? I say to you, if the answer to that question is "yes", then we must face a second question. And that question is, when and where do we fight against the further encroachment of government power in any form on our lives and in our economy? Do we do so only on the broad and essentially national issues where the abuses of the government are admittedly the greatest but paradoxically our voice and our influence is the least?

Almost to a man, each of us has spoken out sincerely on occasion and deplored the accelerating growth of government and the interference with a free economy. And oftentimes we do so in a sense of frustration and almost a sense of futility. Can we afford to speak out on these issues only when the consequences of speaking out are relatively remote and painless? Can we in conscience vigorously support and defend the concepts of a limited government and make an exception and say that when the government proposal provides for us a benefit and someone else a bill, then we are for the growth of government? Can we say "no" to 90 per cent of governmental proposals and say "yeah, come on" in those instances where governmental expansion provides for us a benefit and for someone else a bill? Can we, in short, preach without practicing?

If we allow ourselves to be seduced into joining this parade, then who stops it? Where? When? And on what basis? Are we ready to say that it can’t be stopped, that the cause is lost? Why, then, do we bother to study our history? Why, especially, do we espouse—albeit wistfully, perhaps—concepts of individual liberty, freedom and a competitive economy? We are facing in this proposal a perfect example in microcosm of the way government has eroded its way into the free market and the free economy with a siren song of benefits for one to be paid for by someone else.

**An Impressive Record**

Is there an alternative? Perhaps. I have been a resident here for 18 years. I have been continually impressed and increasingly proud of the Protestant ethic—and I use that term in the broadest possible context—that pervades our society in this community and in this part of the state. People in this community say, in effect, that we believe completely in the concepts of individual liberty and freedom and specifically in the right of the individual to invest and to succeed or fail on his own merits. The people of this area do, in fact, in my judgment represent a bastion of that philosophy unsurpassed by any other region in this country.

If this proposal passes, we will then be able to go to outside indus-
try and say, "Here—here is our basket of goodies. We think you will find it competitive." We will not be able to offer a competitive edge. The most we can hope for under this proposal is the creation of a competitive parity. But in so doing, we will have negated and aborted the greatest strength and the most unique strength we have.

Suppose that instead of saying to outside industry, "Here is our basket of goodies," we say to industry that these people and this community specifically reject the concept of creating for one group special favors and special benefits by taxing another group. We say to you, we believe in free enterprise, we will support you and help you in any way we can, and we urge you to come and locate in our community. And we think you will find our people among the finest in this country. But our only promise to you is that we will do our best to protect you against the type of government encroachment that would have been necessary to create for you special benefit or special favor and would have, in fact, made a victim of you in some future instance where it became necessary to create under the same rules a special benefit and a special favor for some other future industry.

In short, we offer you only a microcosm of free enterprise at its best. That perhaps is a naive approach. And I'm sure that many industrial prospects would laugh you out of the room. But not all will. And those that don't are the ones who are following the concepts that built this country.

In conclusion, I can only say to you again that we must not allow ourselves to be seduced in the name of expediency by proposals that we know to be wrong. The greatest obligation we have is to our children. And the greatest gift we can give them is a moral code which has as one of its basic tenets a recognition of the rights of private property and a dedication to the safety of that property from the encroachment and confiscation of government in order to provide a benefit for some other party.

To paraphrase, if I may, our forefathers at Lexington and Concord: If a stand must be made, let it be made here, let it be made now.

Thank you very much.

Unfortunately, the tax proposal here protested was finally adopted. But in the case of numerous similar proposals the outcome is not yet known; that could depend on you.
"Consumerism" is all around us. We can see its effects every time we get into a car that buzzes to demand that we put on seat belts. We can see it in legally mandated warnings and warranties. It also affects us in less obvious ways, such as the impossibility of buying goods that do not satisfy the requirements of "consumer protection" laws, and the higher prices that we pay for the inclusion of features mandated by these laws.

"Consumerism," according to Webster's New Collegiate Dictionary, is "the promotion of consumers' interests (as against false advertising or shoddy goods)." But a definition such as this is too vague to be satisfactory. Consumers are not a separate class of people with distinct interests; everyone must consume in order to live.

It is true, however, that certain conditions are necessary if people are to satisfy their own desires for consumption; and the advocacy of these conditions could be considered as "promotion of consumers' interests."

The necessary precondition of consumption is production. Anything that is consumed must first be produced. The person who wishes to consume, if he is not a parasite, must produce either the goods he needs or something to trade for those goods. In order to benefit from his productive activity, the individual must be free to make his own choices. A person should be free to produce what he wants, if he is able, or to trade for what he wants, if someone is willing to trade with him. No one
may rightfully interfere with productive activity, or with a trade to which both parties have consented, as long as such activity does not impinge on anyone else's rights. Conversely, a person should not be required to produce or buy what he does not want. The consumer must be the ultimate judge of his own needs and desires. If he is prevented from exercising his own judgment on what he wants and doesn't want, he is prevented from obtaining what is most valuable to him.

The Conditions for Trade

If trade is to exist, not only compulsion but also deception must be excluded from people's dealings. If someone accepts a buyer's money in exchange for goods, and if the seller fails to deliver what he has promised, he has violated the buyer's rights and should at least be required to make restitution to him. Other legal penalties may be appropriate in the case of deliberate or habitual default. The buyer is not entitled to more than what the seller represents as to functionality or quality, but he has a right to hold the seller to an agreement that both have accepted.

In brief, consumption depends on production and trade, and these in turn depend on individual rights. A person who wishes to help people to become more effective consumers should, therefore, be an advocate of individual rights. Yet what passes for "consumerism" today does not follow such a principle. Rather than promoting a political-economic environment in which the consumer can make the best choices for himself, "consumerists" take the view that the consumer is incapable of making intelligent choices and that the government must make his decisions for him.

Susan B. King, the chairman of the Consumer Product Safety Commission, was quoted in the August 20, 1979 issue of People as saying, "Changing human behavior is a long-term and difficult problem. That doesn't mean we shouldn't do all we can in the meantime to protect us from ourselves."

In Unsafe at Any Speed, Ralph Nader declared that "safety measures that do not require people's voluntary and repeated cooperation are more effective than those which do."

John Kenneth Galbraith, in The Affluent Society, views the consumer as the helpless puppet of the producer, claiming that "it is the process of satisfying wants that creates the wants."

But the consumer is simply the individual human being, making choices for himself. According to the consumerist view, as expressed by King, Nader, and Galbraith, the consumer as an individual is helpless to make sound decisions for
himself. They believe that the government, or “society,” must make decisions for him.

A Doctrine of Contempt

Consumerism, as the term is used today, means a specific view of the consumer and his interests: the view that the consumer is not the best judge of his own interests, that he must be protected from himself by having his choices restricted. Only in the light of this view can consumerism be regarded as “promotion of consumers’ interests.” Whatever validity such a view might have, it is a doctrine of contempt for the consumer.

The consumerist view is not simply that product choices are too complex for the consumer. They would not speak of protecting people from themselves, or bemoan the need for voluntary cooperation, if their concern were the sheer difficulty of gathering a mass of information and digesting it. Rather, the consumerists hold that even when a consumer is presented with a plain, rational explanation of what the best choice is for him, he will not make that choice.

But people do have the power to think. If someone refuses to face the facts and choose accordingly, it is not because he was helpless, but because he defaulted on his responsibility to think. There is no reason why the rest of us should be deprived of freedom of choice in order to protect such people from their own irresponsibility.

The Consumer Is Injured

Since only the individual can be the ultimate judge of what is of value to him, he is injured every time the consumerists act to “protect” him. The consumer must make trade-offs based on his own values when he decides what to buy. Consider, for example, a choice among products with different levels of safety protection.

The consumer may decide to buy the product with the most thorough protection against accidents. But he must then pay for this protection, either through a higher price, or by giving up other features. (For example, he might want to buy a lawn mower that shut itself off whenever he let go of the handle. But having such a feature added would cost money, and it would deprive him of the convenience of being able to walk away from the mower and leave it running.) Alternatively, he may prefer to forgo some safety features, accepting an increased risk in order to save his money for something else. Or he may regard the safety features as unnecessary in the light of his own skill and prudence.

Since the money he is spending is his own, the choice of how to spend it is rightfully his. By forcing a particular choice on him, his “protectors” deprive him of the freedom to
make his own selection. The result is a loss to him, if he cannot legally buy what he would prefer.

There are, to be sure, people who benefit from consumerist legislation. The beneficiaries are the people who want the goods mandated by that legislation. In a free market, there may not have been enough demand for those goods to spur anyone to produce them. But once the law states that only those goods (e.g., only lawn mowers with automatic shutoff) may be produced, they will be produced and sold. Those who wanted those goods will indeed benefit—but their advantage is gained at the cost of everyone else's freedom of choice.

This loss of freedom affects two groups of people—those who want to buy the forbidden goods, and those who had produced such goods for sale. While this article has focused on the fact that consumerism prevents people from buying what they want, it should not be forgotten that the most direct victims of consumerism are the people who are prevented from selling what they had been producing. The laws that give the consumerists what they want often mean financial loss or worse to the businesses that had been producing what the consumerists do not want, and unemployment to the employees of those businesses.

In a free market, consumers must compete for the time and resources of producers; the consumers whose willingness to pay offers the greatest profit to the producers will have their desires met most readily. The consumerists, on the other hand, seek to corner the market by means of legalized compulsion, so that only what they want may be produced. Most people would condemn a businessman who lobbied for laws forcing people to buy only his products; but a consumerist who lobbies for laws forcing businessmen to sell only what he wants is no better.

Those Gains Are Ill-Gotten that Rest on Compulsion

There are businesses, as well as consumers, that benefit from consumerist legislation. The businesses that are best able to adapt to such legislation may find their competitors weakened or wiped out by the costs of compliance, allowing the survivors to gain a larger market. But this is an ill-gotten gain, won by means of compulsion.

Consumerists use compulsion to influence consumers; but it is also possible to influence consumers by appealing to their minds. Consumerism should not be confused with the desire to provide consumers with better information and help them make better choices. Informing a person, and compelling him, are actions based on two very different estimates of his capacities. If he is incapable of making his own choices
Intelligently, then there is no use in trying to inform him. At best, he will only absorb recommendations without understanding the reasoning behind them; and the first glamorous ad he sees will probably make him forget them altogether. If, on the other hand, he is capable of judging products when he is adequately informed, then he has no need to be protected against his own judgment.

In fact, the popularity and usefulness of consumer-information publications gives the lie to the consumerist claim that people are incapable of making sound choices on their own. A person does not have to be an expert on every product he buys in order to choose intelligently; the consumer-information publications provide him with the advice of experts at a low price. By taking this advice into account, along with his own observations of the product and his knowledge of the manufacturer's reputation, he can choose what is best for his own needs.

Critics of consumerism often try to attack it by debating the merits of specific product proposals—for example, the degree of risk and protection entailed in putting air bags into cars. But the point on which the consumerists should be challenged is not their preference for certain features, but their desire to make such preferences compulsory. This requires challenging their political premise that the government should use compulsion to prevent people from making allegedly bad choices. Challenging their politics, in turn, requires challenging their psychological premise that people are incapable of choosing rationally for themselves.

The society in which people have the greatest opportunity to obtain what they properly desire is not one that places their actions under the rule of authority, but one in which they are free to make their own choices. The principle on which such a society is based is not "consumerism," but individualism.

Competition and Choice

If producers can't produce what they please—and if you and I can't patronize whom we choose—obviously we have all been deprived of freedom of choice. When you get right down to it, there are only two ways we can ever be deprived of freedom. And both of them involve government in one way or another—either positively by laws against freedom of choice, or negatively by the government's refusal to stop gangsters who interfere with our freedom to choose.

DEAN RUSSELL
What history will think of our times is something that only history will reveal. But, it is a good guess that it will select collectivism as the identifying characteristic of the twentieth century. For even a quick survey of the developing pattern of thought during the past fifty years shows up the dominance of one central idea: that society is a transcendent entity, something apart and greater than the sum of its parts, possessing a suprahuman character and endowed with like capacities. It operates in a field of its own, ethically and philosophically, and is guided by stars unknown to mortals. Hence, the individual, the unit of society, cannot judge it by his own limitations or apply to it standards by which he measures his own thinking and behavior. He is necessary to it, of course, but only as a replaceable part of a machine. It follows, therefore, that society, which may concern itself paternalistically with individuals, is in no way dependent on them.

In one way or another, this idea has insinuated itself into almost every branch of thought and, as ideas have a way of doing, has become institutionalized. Perhaps the most glaring example is the modern orientation of the philosophy of education. Many of the professionals in this field frankly assert that the primary purpose of education is not to develop the individual’s capacity for learning, as was held in the past, but to prepare him for a fruitful and “happy” place in society; his inclinations must be turned away from himself, so that he can adjust himself to the mores of his age group and beyond that to the social milieu in which he will live out his life. He is not an end in himself.

Jurisprudence has come around to the same idea, holding more and more that human behavior is not a matter of personal responsibility as much as it is a reflection of the social forces working on the individual; the tendency is to shift onto society the blame for crimes committed by its members. This, too, is a tenet of sociology, the increasing popularity of which, and its elevation to a science, attest to the hold
collectivism has on our times. The scientist is no longer honored as a bold adventurer into the unknown, in search of nature’s principles, but has become a servant of society, to which he owes his training and his keep. Heroes and heroic exploits are being demoted to accidental outcroppings of mass thought and movement. The superior person, the self-starting “captain of industry,” the inherent genius—these are fictions; all are but robots made by society. Economics is the study of how society makes a living, under its own techniques and prescriptions, not how individuals, in pursuit of happiness, go about the making of a living. And philosophy, or what goes by that name, has made truth itself an attribute of society.

**Activating the State**

Collectivism is more than an idea. In itself, an idea is nothing but a toy of speculation, a mental idol. Since, as the myth holds, the suprapersonal society is replete with possibilities, the profitable thing to do is to put the myth to work, to energize its virtue. The instrument at hand is the state, throbbing with political energy and quite willing to expend it on this glorious adventure.

Statism is not a modern invention. Even before Plato, political philosophy concerned itself with the nature, origin, and justification of the state. But, while the thinkers speculated on it, the general public accepted political authority as a fact to be lived with and let it go at that. It is only within recent times (except, perhaps, during periods when church and state were one, thus endowing political coercion with divine sanction) that the mass of people has consciously or implicitly accepted the Hegelian dictum that “the state is the general substance, whereof individuals are but the accidents.” It is this acceptance of the state as “substance,” as a suprapersonal reality, and its investment with a competence no individual can lay claim to, that is the special characteristic of the twentieth century.

In times past, the disposition was

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This 1956 commentary is well worth reconsidering twenty-five years later.
to look upon the state as something one had to reckon with, but as a complete outsider. One got along with the state as best one could, feared or admired it, hoped to be taken in by it and to enjoy its perquisites, or held it at arm's length as an untouchable thing; one hardly thought of the state as the integral of society. One had to support the state—there was no way of avoiding taxes—and one tolerated its interventions as interventions, not as the warp and woof of life. And the state itself was proud of its position apart from, and above, society.

The present disposition is to liquidate any distinction between state and society, conceptually or institutionally. The state is society; the social order is indeed an appendage of the political establishment, depending on it for sustenance, health, education, communications, and all things coming under the head of "the pursuit of happiness." In theory, taking college textbooks on economics and political science for authority, the integration is about as complete as words can make it. In the operation of human affairs, despite the fact that lip service is rendered to the concept of inherent personal rights, the tendency to call upon the state for the solution of all the problems of life shows how far we have abandoned the doctrine of rights, with its correlative of self-reliance, and have accepted the state as the reality of society. It is this actual integration, rather than the theory, that marks the twentieth century off from its predecessors.

No Questions Asked

One indication of how far the integration has gone is the disappearance of any discussion of the state as state—a discussion that engaged the best minds of the eighteenth and nineteenth centuries. The inadequacies of a particular regime, or its personnel, are under constant attack, but there is no faultfinding with the institution itself. The state is all right, by common agreement, and it would work perfectly if the "right" people were at its helm. It does not occur to most critics of the New Deal that all its deficiencies are inherent in any state, under anybody's guidance, or that when the political establishment garners enough power a demagogue will sprout. The idea that this power apparatus is indeed the enemy of society, that the interests of these institutions are in opposition, is simply unthinkable. If it is brought up, it is dismissed as "old-fashioned," which it is; until the modern era, it was an axiom that the state bears constant watching, that pernicious proclivities are built into it.

A few illustrations of the temper of our times come to mind.

The oft-used statement that "we owe it to ourselves," in relation to
the debts incurred in the name of the state, is indicative of the tendency to obliterate from our consciousness the line of demarcation between governed and governors. It not only is a stock phrase in economics textbooks, but is tacitly accepted in many financial circles as sound in principle. To many modern bankers a government bond is at least as sound as an obligation of a private citizen, since the bond is in fact an obligation of the citizen to pay taxes. Those bankers make no distinction between a debt backed by production or productive ability and a debt secured by political power; in the final analysis a government bond is a lien on production, so what's the difference? By such reasoning, the interests of the public, which are always centered in the production of goods, are equated with the predatory interests of the state.

In many economics textbooks, government borrowing from citizens, whether done openly or by pressure brought upon the banks to lend their depositors’ savings, is explained as a transaction equivalent to the transfer of money from one pocket to another, of the same pants; the citizen lends to himself what he lends to the government. The rationale of this absurdity is that the effect on the nation’s economy is the same whether the citizen spends his money or the government does it for him. He has simply given up his negligible right of choice. The fact that he has no desire for what the government spends his money on, that he would not of his own free will contribute to the buying of it, is blithely overlooked. The “same pants” notion rests on the identification of the amorphous “national economy” with the well-being of the individual; he is thus merged into the mass and loses his personality.

“We Are the Government”

Of a piece with this kind of thinking is a companion phrase, “We are the government.” Its use and acceptance are most illustrative of the hold collectivism has taken on the American mind in this century, to the exclusion of the basic American tradition. When the Union was founded, the overriding fear of Americans was that the new government might become a threat to their freedom, and the framers of the Constitution were hard put to allay this fear. Now it is held that freedom is a gift from government in return for subservience. The reversal has been accomplished by a neat trick in semantics. The word “democracy” is the key to this trick. When one looks for a definition of this word, one finds that it is not a clearly defined form of government but rather the rule by “social attitudes.” But, what is a “social attitude”? Putting aside the wordy explanations of this slippery concept,
it turns out to be in practice good old majoritarianism; what fifty-one percent of the people deem right is right, and the minority is perforce wrong. It is the general-will fiction under a new name. There is no place in this concept for the doctrine of inherent rights; the only right left to the minority, even the minority of one, is conformity with the dominant "social attitude."

If "we are the government," then it follows that the man who finds himself in jail must blame himself for his plight, and the man who takes all the tax deduction the law allows is really cheating himself. While this may seem to be a farfetched reductio ad absurdum, the fact is that many a conscript consoles himself with that kind of logic. This country was largely populated by escapees from conscription—called "czarism" a generation or two ago, and held to be the lowest form of involuntary servitude. Now it has come to pass that a conscript army is in fact a "democratic" army, composed of men who have made adjustment with the "social attitude" of the times. So does the run-of-the-mill draftee console himself when compelled to interrupt his dream of a career. Acceptance of compulsory military service has reached the point of unconscious resignation of personality. The individual, as individual, simply does not exist; he is of the mass.

This is the fulfillment of statism. It is a state of mind that does not recognize any ego but that of the collective. For analogy one must go to the pagan practice of human sacrifice: when the gods called for it, when the medicine man so insisted, as a condition for prospering the clan, it was incumbent on the individual to throw himself into the sacrificial fire. In point of fact, statism is a form of paganism, for it is worship of an idol, something made by man. Its base is pure dogma. Like all dogmas this one is subject to interpretations and rationales, each with its coterie of devotees. But, whether one calls himself a communist, socialist, New Dealer, or just plain "democrat," each begins with the premise that the individual is of consequence only as a servant of the mass-idol. Its will be done.

There are stalwart souls, even in this twentieth century. There are some who in the privacy of their personality hold that collectivism is a denial of a higher order of things. There are nonconformists who reject the Hegelian notion that "the state incarnates the divine idea on earth." There are some who firmly maintain that only man is made in the image of God. As this remnant—these individuals—gains understanding and improves its explanations, the myth that happiness is to be found under collective authority must fade away in the light of liberty.
I am convinced that the freedom-of-choice principle is so woven into human existence that any effort to curtail it is an attempt to curtail life itself. To lose our freedom to choose is to lose our humanity.

—Bertel Sparks

Personal freedom of choice is an important aspect of the case for limited government. To the extent that responsibility for self is surrendered to or usurped by government—to the extent that one loses freedom of choice—the individual is thereby diminished. The freedom to choose is part of the very essence of man.

An assault on the peaceful exercise of free choice has been the consequence of most government programs. Whether advocated by conservatives, present-day liberals, or doctrinaire Marxists, all government activity rests on the power to coerce. It removes decision-making power from the individual and vests it in the hands of the state. This is an awesome power, best left in the hands of the many, acting voluntarily, than concentrated in the hands of those few who would compel obedience.

The greatest assault on free choice has taken place in the economic sphere, especially in our roles as consumer, worker, and businessman. This is due to the subtle and roundabout manner in which the assault has taken place. Those quick to defend the concept of free choice in the area of civil liberty often fail to recognize that the concept ex-
tends to economic liberty as well. Free choice is free choice, whether it involves the exercise of religion, the press, or speech, or whether it involves the expenditure of money or the investment of capital. Unfortunately, most businessmen are as guilty of the failure to recognize this as are the self-proclaimed protectors of civil liberties.

**Economic Liberty at Stake**

When making the case against government regulation, our arguments should not rest solely on cost/benefit analysis or economic efficiency. Rather, the question comes down ultimately to whether individuals—reporters, ministers, artists, consumers, workers, or businessmen—are entitled to exercise peacefully their freedom of choice. We must recognize that freedom of choice is not exclusively an issue involving civil liberty—the concept pertains to economic liberty as well.

The assault on free choice is easily recognized when it involves civil liberty or where laws specifically prohibit certain activities. For instance, laws which prohibit church attendance, require the use of motorcycle helmets or safety belts, outlaw gambling or ban the sale of laetrile and other drugs clearly limit the exercise of free choice by individuals. That such laws restrict the peaceful exercise of free choice is difficult to deny. However, government regulations aimed at protecting or regulating consumers, workers, and businessmen likewise restrict free choice, but do so in a manner difficult to diagnose. Perhaps if as much emphasis were placed on the case for free choice in the economic sphere as is expressed on behalf of civil liberty, businessmen would have greater success defeating harmful restrictions of their freedom. Furthermore, it is just as important to acknowledge that all restrictions on businessmen ultimately curtail the free choice of consumers. As Ludwig von Mises has written, "The market economy—capitalism—is a social system of consumers' supremacy." In a free market, consumers, by buying or abstaining from buying, are the primary influence on a profit-seeking businessman. Restricting free choice inhibits the businessman's ability to serve consumers.

The assault on free choice in economic affairs has been possible primarily because of an incomplete concept of freedom and an ignorance of the true nature of government. A clear definition of freedom reveals the coercive nature of government activity. Freedom is the absence of coercion—force or the threat of force—in peaceful activities. Free choice, therefore, is the absence of coercion in the peaceful exercise of choice. With a proper understanding of freedom and the nature of govern-
ment it is possible to examine recent government programs, recognize the presence of coercion, and consequently understand the danger which threatens the survival of the freedom-of-choice principle.

Protectionism

One of the most recent examples of the assault on free choice is the demand for protection against the influx of foreign automobiles. In an effort to protect the owners of American automobile companies and the jobs of American workers, various proposals have been made to limit or regulate the importation of foreign automobiles. Such a regulation would strike at the very heart of the free-choice principle. It would deny American consumers the freedom to choose what type of automobile they wish to drive. It is an anti-consumer, anti-free choice proposal. The American consumer would be as much of a victim of such a restriction as the Japanese producer.

Similarly, all restrictions on free trade curtail free choice. They take the decision-making power away from individuals and vest it in the hands of the state. The consumer is denied the freedom to choose how to spend his money.

A more subtle assault on free choice occurs in the area of employment. Often under the guise of "fairness" or "social justice," legislation is passed which substitutes compulsion for voluntary cooperation and free choice. But it is neither fair nor just to prohibit a worker from freely choosing whether to accept a specific wage offer. Our minimum wage laws deny a worker the choice of selling his labor for less than a politically mandated wage rate. The government intervenes and denies both the employer and the worker the freedom to choose mutually acceptable terms of their voluntary and peaceful relationship. Passing laws which arbitrarily set "proper" pay levels increases conflict in society and shifts decision-making power away from willing buyers and sellers of services over to politicians and special interest groups.

During the 1980 election campaigns, candidates for national office were loudly proclaiming their undying commitment to social security. To suggest that saving for retirement be voluntary was considered one of the worst possible political blunders. This is an indication of how far we've wandered from the principles upon which this nation was founded. It has become a political death wish to argue that citizens should be allowed free choice to decide how much—if anything—they wish to save from their weekly paycheck. Whatever happened to the individual's unalienable right to his life, liberty and property? Compulsion seems to have become a more cherished principle than free choice.
Another area where the role of free choice is often overlooked concerns profits. In a free market, profit and loss derive from consumers exercising their free choice. The consumer is sovereign. He decides whether to buy a Chrysler or a Toyota; to purchase from Mobil, Exxon, or Shell, or to take the bus to work. Both profits and losses are primarily a result of the exercise of free choice by consumers. Ultimately, consumers determine which producers will be rewarded and which will fail.

Assaults on free choice take the form of coercion and conflict. The basis of relationships among individuals becomes compulsion rather than voluntary cooperation.

When wage rates are determined by mutual agreement of employer and employee, jobs open up for all who want to work. Likewise, allowing free choice to determine profit and loss maximizes consumer satisfaction. Allowing individuals free choice to save for their retirement is an effective means to security in old age. And allowing free choice in trade means increased harmony among nations and a higher standard of living for all people of the world.

Freedom of choice is a prerequisite of moral behavior. Herbert Spencer observed that "the ultimate effect of shielding men from the effects of folly is to fill the world with fools." Abridging freedom of choice, even the freedom to make mistakes, will create a world of fools and failing enterprises.

It is important that we respect the freedom-of-choice principle. Governments, whose proper role is to defend this concept, have far too often been the violator of it. The idea that people will be better off if their freedom to choose is restricted is absurd. It leads to the tyranny of 1984 and Brave New World. As Aldous Huxley warned in the latter book:

"Government by clubs and firing squads, by artificial famine, mass imprisonment and mass deportation, is not merely inhumane—it is demonstrably inefficient. A really totalitarian state would be one in which the all-powerful executive or political bosses and their army of managers control a population of slaves who do not have to be coerced, because they love their servitude."

Upholding the freedom to choose is the alternative to such servitude. A two-pronged approach is necessary. Businessmen must emphasize the role of free choice when defending their profits or opposing government interventions. And those quick to proclaim the importance of free choice in the realm of civil liberty—if they desire consistency—must defend a businessman's exercise of free choice. Together these forces can guarantee an increase of freedom throughout society.
Planning for an Emergency—Let the Market Work!

On September 30, 1981, the Emergency Petroleum Allocation Act will expire. Some members of Congress and the Department of Energy are beginning to think about extending the emergency provisions of the law, or drafting new standby plans. The National Petroleum Council’s committee on U.S. emergency preparedness has begun work on a study of the nation’s ability to cope with a cutoff in oil imports between now and 1985. The war between Iraq and Iran makes this entire issue newsworthy, and critical.

The NPC committee is developing a plan to coordinate industry and government in several areas: curtailting demand, substituting other fuels, distributing available supplies to priority users, determining when to tap the Strategic Petroleum Reserve, and relating U.S. emergency planning to obligations under international agreements.

Although several committee members at a recent meeting made strong statements in favor of the free market, there is an emerging danger that any such study or plan will most strongly endorse mandatory allocations, price controls and rationing, and will attempt to prevent profiteering, speculation, and black-market trading. A new study prepared for DOE by Resource Planning Associates of Cambridge, Massachusetts, came to just such conclusions—due to the methodology they used in their study. This is the result of a common prejudice against the free market—the belief that it is capricious and accidental in its operations and that only a deliberately built structure could possibly be “rational” or “equitable” in an emergency.

There are several important economic and philosophical issues that we hope the NPC committee will note as it completes its study. In sum, they involve the nature of dislocation, information, motivation, and equity. Underlying the prejudice against profits is a misunderstanding about market behavior and our society’s basic coordination pro-

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cess. The free market is an example of a coordination system in which millions of people can quickly adjust their activities to one another without the need to know details about who, what, why, where, and the like. If a certain price goes up, consumers are informed, and motivated, to reduce consumption—and producers are informed, and motivated, to increase production. A higher price will also attract new producers or purveyors of substitute products into the market.

An emergency, such as the sudden cutoff of oil from the Persian Gulf, would cause a massive dislocation in the American economy. The OPEC nations have said that their next embargo would not be targeted at any one country because the international oil sharing agreement would blunt the effect; so any oil cutoff would affect the entire industrialized world. The problem for the victims of such a cutoff is to adjust to the smaller energy supply. What is the quickest, most efficient, most adaptable process of economic innovation? The unconstricted free market has proven itself time after time.

Of course, there are political ways for individuals to adjust to a changed environment, and there are economic ways. The political ways are available only to a privileged class of people who have the power to insulate themselves from the problems and force everyone else to bear a double burden. In contrast, the economic ways of adjustment to changed circumstances ultimately benefit all members of society; the poor benefit even more in the long run because economic opportunity and growth are not suppressed by the political authorities in the process of erecting rigidities and special privileges for favored, more powerful groups.

The economic adjustment process is first and foremost an information problem. The issue is how to discover the most efficient path away from the dislocation. Importantly, the information most needed to answer the millions of specific questions is not centralized in Washington; it is not even statistical information. Nobel Laureate F. A. Hayek, in his famous analysis, “The Use of Knowledge in Society,” (American Economic Review, Vol. 35, September 1945, pp. 519–30) demonstrated that each individual’s perception of economic opportunity and knowledge of local supply and demand conditions is actually more important than the kinds of data that government agencies can collect. During an emergency, the least effective thing to do would be to wait passively until some central authority gave instructions.

Only the process of a free market, with scarce resources allowed to command prices that ipso facto communicate important data about the
urgency of needs and the availability of supplies, can make effective and speedy use of the information that each person has. You only have to think about the aftermath of a major hurricane or an earthquake to understand how important are the efforts of every individual, and to appreciate how valuable an effective communications system can be. If the supply of imported oil should be cut off, the price people might be willing to pay in different cities and for different uses of the available domestic supply would be the only effective mode of communication. Our experience with Department of Energy allocation regulations in 1973 and 1979, when motorists lined up at gasoline pumps, testifies to the inefficiency of the bureaucratic non-market.

In planning for an emergency, society will need the help of every capable person. Not only must each individual's particular knowledge be available for use, but the motivation to use it must be there. It is easy for government to take motivation for granted because clichés of duty and patriotism are common coin in Washington. Yet, as every school teacher or office supervisor knows, without real, self-interested motivation, people will only pretend to do what they are supposed to do; real accomplishment will be minimal. Not only should the emergency preparedness study recommend that free market prices be used to allocate oil supplies, but those who deliver oil to the market should be permitted to keep their profits. Without genuine, after-tax rewards for producers and suppliers—and even speculators, who attempt to predict future requirements (and often lose money)—the free-market process won't operate. No amount of wishful thinking about brotherly love and self-sacrifice will help bring energy to the people who may need it most during an emergency.

The dominant theme during an emergency ought to be: Solving the problem. The risk, however, is that greed, envy, and spitefulness will take over. Some people are going to be hurt more than others when the crisis begins. That is the nature of a crisis—it happens during earthquakes and hurricanes, and economic crises are no different. There is a common view that everyone ought to suffer equally, or at least that no one should profit from another's pain. This is the logic of price controls and rationing. It is also the clever façade under which greed, envy, and spitefulness operate.

Economics, as a science, can demonstrate certain regular consequences of policy decisions. The results of price controls and rationing are shortages and misallocations. In the wake of shortages and misallocations, we usually observe bribery and corruption also. When the eco-
nomic process becomes corrupt, it is much less efficient because resources are diverted from solving the original problems that concerned the policymakers, and much productive effort is directed instead toward making the corrupt system work. Nobody in his right mind should want to see corruption and inefficiency, especially during an emergency.

The question of equity, therefore, is the most difficult political issue to resolve. Greed, envy, and spitefulness will have advocates who will worry very little about solving the long-run problems of the crisis—that is, adjusting to the economic changes that are forced upon us. They will concern themselves, instead, with questions about redistributing other people's money and helping particular groups at the expense of others. Politicians love this sort of game; it makes them appear valuable both to special-interest groups and to the innocent, trusting voters back home.

As we have seen, however, the long-run problems of the crisis can only be solved by a free market, and those active in the market who make the right decisions will earn financial rewards. The correct expression of equity, then, is not a matter of redistributing but of protecting the honestly earned rewards of those who contribute toward solving economic problems. After all, ending a crisis has to be a better solution to the emergency needs of the poor than patch-work measures that just make it easier to suffer.

What specific recommendations should the National Petroleum Council make in its report on emergency preparedness? One recommendation in particular would have more impact than hundreds of detailed plans and descriptions of petroleum needs and transportation facilities. This would be the simple declaration of public policy that in an emergency the government will bind itself to respect the private-property rights of its citizens and that the courts would enforce the common law of contracts.

The uncertainties imposed by government make private planning impossible; the expectation that speculative profits would be outlawed makes it impossible for the free market to hedge some of the risk.

There is no happy medium between government planning and private planning for a future emergency. Government planning crowds out private planning, just as a fox in the hen house stops the production of eggs. The only way the United States may survive a major energy emergency between now and 1985 is to open the way for private planning and a free market to prepare for rapid and efficient adaptation to any crisis.
A fresh spirit of change is in the air. It has swept into the Office of President a man who, as the Governor of California, has shown his dedication to the principles of limited government. It has carried into ascendancy in the halls of congress men who by their records have demonstrated their commitment to support constitutional principles which were designed to protect individual liberty.

Let us seek the roots of that spirit. Perhaps we may find the key to curing what the late Dean Clarence Manion termed "Cancer in the Constitution."

An examination of the Declaration of Independence will produce several important clues: "(Men) are endowed by their Creator with certain unalienable rights . . . among these are life, liberty and the pursuit of happiness." "... to secure these rights governments are instituted . . . deriving their just powers from the consent of the governed." Government is to be founded on principles and its powers organized in such form "most likely to effect safety and happiness."

Men capable of expressing thoughts such as these had of necessity developed an inbred sense of self-reliance. They were God-fearing, Bible-reading people who were accustomed to taking responsibility for their own actions. Whence would they likely receive guidance for these ideas of liberty? We know they invariably looked to the Bible as the source of inspiration and direction. So let us follow their steps.

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This article is from an address of November 19, 1980, before the Hawaii Chapter of the Freedom Foundation at Valley Forge.
James, the President of the church at Jerusalem, was eloquent in translating the spirit of the Old Testament law into Christianity. In Chapter 1:25 he wrote: "But whoever looks into the perfect law of liberty and abides in it is not merely a hearer of the word which can be forgotten, but a doer of the work, and this man shall be blessed in his labor." In Chapter 2:11, James admonished those who have broken the commandments: "You have become a transgressor of the law... so speak and act as men who are to be judged by the law of liberty." This clearly denotes that individuals are to be held responsible for their choices and actions. Irresponsible actions are to be judged accordingly.

Paul wrote from Corinth encouraging the Galatians to maintain Christian liberty. Chapter 5:1, "Stand firm therefore in the liberty with which Christ has made us free, and be not harnessed again under the yoke of servitude." In Romans 8:21 we find that servitude is the bondage of corruption. Then in Galatians Chapter 5:13 and 14, "For my brethren you have been called to liberty, only do not use your liberty for an occasion to the things of the flesh, but by love serve one another. For the whole law is fulfilled in one saying that is: You shall love your neighbor as yourself." Underlying liberty is freedom of choice. We are admonished to make only responsible choices. Our actions should focus on service rather than on the accumulation of wealth as an end in itself. To live within the laws of the Commandments also includes the prohibition of making laws which institutionalize greed, envy, lust, or coveting of property. So herein is the spirit of the law.

The Purpose of Law

As to the purpose of law, we may turn to the great English judge, Sir William Blackstone, who said "The principal aim of society is to protect individuals in the enjoyment of those absolute rights which were vested in them by the immutable laws of nature. . . . The first and primary end of human laws is to maintain and regulate those 'absolute' rights of individuals." The Frenchman, Frederic Bastiat, in his pamphlet on The Law wrote: "We hold from God the gift which includes all others. This gift is life—physical, intellectual and moral life. . . . Life, faculties, production—in other words, individuality, liberty, property—this is man. And in spite of the cunning of artful political leaders, these three gifts from God precede all human legislation, and are superior to it.

"Life, liberty and property do not exist because men have made laws. On the contrary, it was the fact that life, liberty, and property existed beforehand that caused men to make
laws in the first place. . . . The law is the organization of the natural right of lawful defense. It is the substitution of a common force for individual forces. And this common force is to do only what the individual forces have a natural and lawful right to do; to protect persons, liberties, and properties; and to maintain the right of each, and to cause justice to reign over us all."

Constitutional Law—Power to the People

In the United States Constitution we find a codification of the Biblical laws. It provided for the protection of life, liberty, property and the pursuit of happiness. It provided for the freedom of choice of individuals with implied self-responsibility for their actions, and the protection of individuals against those who would abridge or infringe those rights. A society wherein individuals are free to choose requires a government supported willingly by the consent of the governed. Individuals who choose to be free must be willing to support laws which protect the rights of all others who choose to be free. This constitutes a free and open society wherein each can choose to serve God and mankind in the ways of his own choice, free from the will of others.

At the same time, the men who drafted the Constitution accepted the fact that individuals are corruptible. They are subject to temptation; they can be envious, and greedy; they may steal, or covet property. As someone has said, each man has his price, and it is indeed a rare individual who is totally incorruptible, given the opportunity to gain power. So their principal concern was how to develop a legal framework that would prevent corruptible individuals or groups from acquiring power to infringe on the rights of other individuals. The key word is power. The division of power, fragmentation of power, and the checks and balances of power extend through the entire fabric of the Constitution. A horizontal division of power was provided in the form of legislative, executive and judicial separation. A vertical division of power appears in the form of the federal, state and local governments. The goal was to limit opportunities to concentrate powers taken from the people.

Limiting the Government

The Bill of Rights includes a set of specific "thou shalt nots" which were designed to constrain the federal government from infringing on specific individual rights. In substance, the Constitution is a document which was designed to hold in chains the powers and authority of the federal government along with those who would use government to further their own ends.
For such a system to survive requires a continual effort toward maintaining the distribution and balance of power at all times. During a speech in Ireland on July 10, 1790 John Curran warned, "The condition upon which God hath given liberty to man is eternal vigilance."

The guarantees of "freedom to"—to choose, to try and to fail—can only be made under a government which is restricted from interfering with individual choices. In contrast, the constitution of the Soviet Union and the United Nations charter are vehicles of unlimited power. Their goals of "freedom from"—from war, disease, want, unemployment and the like—can only be enforced by an unlimited central authority and bureaucracy.

Being aware that neither the Constitution nor statutory law can ever change the nature of man, nor force him to be what he cannot or will not be, we may ask how successful were the framers of the Constitution. We live in an imperfect world. It is an imperfect Constitution and we are imperfect individuals. Yet for nearly two centuries with freedom of opportunity the people of the United States increased their standard of living more rapidly than did those of any other nation in the world. Given the choice, the acid test is whether one would rather live in the United States or somewhere else in the world. The vast influx of legal and illegal aliens speaks for itself.

The Problems of Government—Man Was Made Vain

Yet we are troubled today; inflation, unemployment, economic instability, housing shortages, high taxes, high interest rates, are but a few of our problems. How do the conditions underlying the problems of today compare with the concerns and grievances of the Founding Fathers? Let's look again at the Declaration of Independence. The signers were concerned about "relinquishing the rights of representation in the legislature." Today we are concerned about centralized government and administrative law.

In 1776 they were concerned about being "exposed to dangers of invasion from without and convulsions from within." Increasing numbers are concerned about our defense posture today and the problems of internal unrest.

They complained that "judges were dependent on the will (of the King) for tenure of their offices." Today's judges are political appointees who, to a significant extent, legislate according to their ideologies rather than seek precedent for decisions.

The Founders were concerned about "a multitude of new offices," and we are concerned about burgeoning bureaucracy.

They were concerned about "im-
posing taxes without our consent.” Who isn’t concerned today about high taxes, consent or otherwise?

They were concerned about “deprived . . . benefits of trial by jury.” Today administrative law has gone a long way to the same end, and has altered fundamentally the forms of government.

They complained about exciting “domestic insurrections among us.” Today who is not concerned about crime and personal safety? The very survival of our system is threatened by the encroachment of a totalitarian ideology.

Are we not faced again today with the problems of 200 years ago? We are in fact encountering an ageless collision with a destructive ideology. Paul wrote in his letter to the Romans 8:20, 21, “For man was made subject to vanity . . .” (Definitions of vanity include, “inflated pride of one’s self,” or “emptiness, worthlessness.” We may ponder the significance of this polarity of meaning.) “For man was made subject to vanity, not willingly, but by reason of him who gave him free will in the hope that he would choose rightly. Because man himself shall be delivered from the bondage of corruption into the glorious liberty of the Children of God.”

Or perhaps more clearly, man (of) himself shall be delivered . . . Man only by his own choice of responsible thoughts and actions can achieve the soul growth that is required to achieve grace, and entrance into the Kingdom of God.

But in fact, has he chosen “rightly”? In spite of the commandment “Thou shalt not covet thy neighbor’s property,” we have permitted laws to be passed which, taken all together, confiscate almost half of our neighbor’s property via taxes in the vain concept of doing good. These vain thoughts manifest in a number of syndromes:

• The “welfare” syndrome which enforces the privilege of the few at the expense of the rights of the individuals who constitute the body politic.

• The “free lunch” syndrome which looks on dollars sent from Washington as free. If we don’t get them someone else will.

• The “meddling in the affairs of others” syndrome in which individuals feel compelled to attempt to solve the problems of others rather than minding their own business and concentrating on solving their own problems.

• Similarly, the “let George do it” syndrome considers today’s problems to be too complex to be solved equitably at the state or local level—they must be sent to Washington.

• The “exploitation” syndrome in which the producers in society are held to have victimized those less stationed. Therefore the producers
must be chained with regulations and their ill-gotten profits must be taxed away.

- The "victims of society" syndrome maintains that criminals are the innocent victims of society—they cannot be held responsible for their crimes or misdeeds; therefore they must be pampered and "rehabilitated" rather than punished, while many live in fear that they may be the next victims.

- Finally, the "homogenized milk" syndrome which is destroying all natural affinity groups and is forcing all people to live and work together on the basis of a "social adjustment" formula of equality based on race, color, creed, or whether one fancies dogs, cats, horses or white rats.

These syndromes are all manifestations of an ideology that is anathema to liberty. They reflect the attitude of those who lack faith in the ability of each individual to solve his or her own problems; hence, a forced redistribution of society is necessary to overcome maladjustments.

The thermometer of a redistributive society is what? Inflation. Inflation is a measure of the maldistribution of wealth via government—no more, no less. The underlying motivating forces and the mechanics of inflation are complex and widely misunderstood. Yet no one in good conscience can deny the necessity to help those who are in a condition of misfortune. However, today much redistributed wealth is going to those who have established vested positions of privilege. The consequence is that regardless of how legitimate a given cause may be, the total burden of aggregate causes on the nation has exceeded the carrying capacity of its productive resources to the point where inflation is an unavoidable condition. The problem goes far deeper than any transient federal administration, its roots extend back through decades. Inflation is the manifestation of vain thoughts and ideas applied cumulatively since the Civil War. It represents the misapplication of free will and an accumulation of a vast number of wrong choices.

The Redistribution of Power

What have been the mechanics of change wherein these false doctrines have gained ascendancy?

Dr. Cornellius Cotter, Professor of Political Science at the University of Wisconsin, appeared before a special Senate committee in April, 1973.6 He remarked: "You know, Senator Mathias, it has been said—and, I think wisely so—that if the United States ever developed into a totalitarian state we would not know it. We would not know that it had happened. It would be all so gradual, the ritualism would all be re-
tained as a facade to disguise what had happened. Most people in the United States, in official position, would continue to do the sorts of things that they are doing now. The changes would have all been so subtle although so fundamental that people generally would be unaware.”

Senator Church responded, "That is the way it happened in Rome, is it not?"

Dr. Cotter: "Indeed."

Senator Mathias: "No Roman was more deferential than Augustus."

Dr. Cotter: "Exactly."

Senator Church: "And kept the Senate happy, although the Senate had lost its power."

So this age-old collision of ideas is producing very subtle changes in the power structure of the United States. The mechanism of change involves power, its balance and the concentration. Four simultaneous flows have been underway for a century: (1) Power from the Congress to the Executive Branch, (2) power from the Congress to the Supreme Court, (3) power from the states to the federal government, and (4) power from individuals to the government.

Judicial Abuses

Let's examine some of these flows of power. First, the Supreme Court. The Bill of Rights expressly forbids the federal government to interfere with the fundamental personal liberties of individuals in this society. That's clear enough. As an outfall of the Civil War, the 14th Amendment was adopted in 1868. This amendment forbids the states to interfere with the rights of the people. However, it had a devious intent, namely to give Congress control over the people of the South. But in 1873 the Supreme Court thwarted that intent in the "Slaughterhouse Cases." For half a century an ideal situation prevailed in which both the federal government and the states were constrained by the Constitution and its amendments from interfering with the liberties of the people.

However, in more recent years a subtle but profound change has been effected by the Supreme Court. Dean Clarence Manion wrote, ".... For the 32 years of service together on the Supreme Court, Justices Black and Douglas have been repetitiously citing each other as authority for a gross and gratuitous misconstruction of the First and 14th Amendments."7

"The accumulation of these malignant constitutional misconstructions of the first eight amendments with the 14th has placed a cancer near the heart of our constitutional system which is proliferated with each successive term of the United States Supreme Court."8 Essentially, today the Court has legislated its jurisdiction over the rights of people by effectively merging the
Bill of Rights into the 14th Amendment and reversing its position in 1873.

The specific consequences of the Black and Douglas decision were highlighted in an editorial which appeared in the San Diego Union: "The United States Supreme Court has returned three more decisions drastically altering the pattern of American life.

"For more than 15 years now the Court has been steadily rewriting the laws and reinterpreting the Constitution to suit the ideological bias or judicial whims of its members . . .

"In recent days the Supreme Court has ridden over states' rights abolishing residency requirement for relief, sidestepped a ruling in a case of burning the American Flag, and placed further restrictions on law enforcement by freeing a convicted rapist because the police took his fingerprints in some legal hocus-pocus . . .

" . . . Court majorities in those 15 years have returned more than 30 decisions . . . have brought about basic and often demoralizing changes in the fields of politics, criminal procedure, religion, race relations, subversion and communism, antitrust laws and obscenity.

"The Court has told the states how they are to portion their legislatures, granted avowed Communists the run of defense plants; made a criminal's confession almost impossible to use; approved even secondary school demonstrations against the South Vietnam war; banned prayers or reading of the Bible in public classrooms; ruled that passports cannot be withheld from Communists just because they are Communists; and held that deserters from the armed forces, even in wartime, cannot be stripped of citizenship . . .

"In the notorious Keylishian case, a majority opinion held that a college professor may not be dismissed for teaching and advocating, in college, or anywhere, the overthrow of our government by force and violence . . . The Court, once the ultimate in both prudence and jurisprudence, is now the darling of the liberal radicals; it has done for them what the Congress has refused to do."

This is a most concise summary of the consequences of the Court's abrogation of states' rights and the jurisdiction of Congress.

Courts Take Charge as Congress Forfeits Control

At this point, the more perceptive will grasp the real issue which underlies the polarization of the Nation concerning the Equal Rights Amendment. Under the facade of women's rights, the real objective is to deliver the jurisdiction for defining the rights of all individuals into the hand of a congress which has al-
ready defaulted its jurisdiction to the legislative whims of the Supreme Court. At the heart of the opposition to ERA are those who recognize its passage would give validity to the Supreme Court's abridgement of the Bill of Rights, and encourage further intrusions into the private affairs of individuals.

As a curtain over these actions, a myth has been erected which holds that Supreme Court decisions are the "Law of the land." It presumes that once the Court takes a position on a case, every similar case would be adjudged that way. In actuality, each ruling is the "law of the case." It is possible for a court, made up of the same or different justices, to arrive at a different interpretation if it were to rule on a similar case.

Under a second myth, the prevailing belief is that Congress has no control over the Supreme Court, hence, Congress has no way to redress the sorties of the Court into the legislative arena. Such an alleged lack of control is far from fact. Congress enacted the first Federal Judiciary Act in 1789 and this act has been employed to apply its unquestioned constitutional power over the jurisdiction of all Federal courts.

The Congress by a wide margin recently voted to deny the Supreme Court the right to spend appropriated funds to conduct hearings into school busing cases, in effect, denying the court jurisdiction.

Dean Clarence Manion held that a major step will be taken toward rectifying the consequences of the Court's unconstitutional decisions when the Congress restricts, abolishes or controls selected types of appellate jurisdiction of both the Supreme Court and all other Federal Courts. A federal court system comprised mainly of judges and justices who are committed to upholding the original tenets underlying the Constitution, can do a great deal to curb the judicial misuses and excesses which have prevailed in recent years.

**Legislative Abuses**

For many decades the Supreme Court routinely struck down as unconstitutional various acts passed by Congress which infringed on the Bill of Rights. However, over the last two decades the Congress, taking its cue from the Black-Douglas Supreme Court decisions, has enacted a number of bills which have intruded ever-increasingly into those rights which were originally held to be out of bounds. These intrusions are being felt by the public in their opportunities for employment, work environment, on the highway, in the air, while shopping and banking, in schools, among family relations and in the home. While obviously accomplishing some benefits, the bulk of this legislation has been undertaken in response to the highly vo-
cal, sometimes rowdy, pressure of special-interest groups. In the main, these intrusions have caused vast numbers of people to become outraged, resentful and rebellious.

In its attempts to legislate social justice and equality, the Congress has cut to the core of the mores of the incredibly complex but generally balanced and tolerant American society.

The wisdom of those who insisted on including the Bill of Rights in the Constitution is gradually seeping into the subconscience of all but the most hardheaded advocates of reform by coercion. It would be a wise Congress indeed that undertook to reverse or modify these unconstitutional intrusions which prior congresses have made over the years.

**Executive Abuses**

The scope of the powers of the executive branch has been expanded enormously, particularly in recent years. Authority of the office of the President has increased while departments, commissions, boards and agencies have proliferated.

Professors Cotter and Smith determined that the powers entrusted by Congress to the Executive Branch can be grouped in four categories: (1) Powers over persons, (2) powers to acquire property, (3) powers to regulate property, and (4) control of communications.  

*Executive Orders:* The President normally employs Executive Orders to implement the efficient conduct of the daily routines of the office. However, several presidents have employed Executive Orders to conduct international relations and to effect legislation.

For example, President Roosevelt used an Executive Order in 1933 to establish diplomatic relationships with the Communist regime in Russia at a time when it was unlikely that such action by Congress would have been supported by a consensus of the people.

Under the pressure of time, the President has employed emergency orders properly in the declaration of national emergencies. However, one would believe that matters as basic as the legal framework for the conduct of government under such national emergencies would be given extensive examination by the Congress in the process of passing suitable laws. Such is not the case.

President John F. Kennedy issued a series of Executive Orders in 1962 which established a comprehensive legal framework to deal with any national emergency as defined by the President or the Congress. On its face, this would appear to have constituted an unwarranted intrusion into the legislative process.

On October 11, 1966 President Lyndon Johnson issued Executive Order 11310 which continued the process by transferring the author-
ity granted under the emergency orders from the Office of Emergency Planning to the Department of Justice.

President Richard Nixon also gave attention to updating the emergency orders while in office.

Early in the 1970s Congress became sufficiently concerned about the existence of national emergencies that the Senate established a Special Committee on the Termination of the National Emergency. This led in 1976 to the passage of the National Emergencies Act. This act terminated all existing declared emergencies and established procedures and limits for the declaration of future national emergencies.

The matter took on new impetus when, on July 20, 1979, President Jimmy Carter issued two new Executive Orders:

1. E.O. 12148 Federal Emergency Management, which authorized a thorough overhaul of both civil and war emergency procedures and placed them under a newly created Federal Emergency Management Council.

2. E.O. 12149 Federal Regional Councils, which established councils for ten standard federal regions, their principal function being to implement federal programs.

Taken separately or together these Executive Orders provide wide-ranging ramifications when analyzed from the point of view of the powers delegated to these Councils. While these structures may be thought of as logical provisions for the implementation of federal policy, increasing numbers of states are taking the position that Regional Councils constitute a major intrusion into their autonomy.

Such widespread reaction would lead one to conclude that a deep rift has developed in the power structure as a consequence of the thrust underlying these Executive Orders. As a consequence of these and other Executive Orders, a broad review by Congress of their use and abuses should lead to establishing guidelines which define appropriate uses of Executive Orders by the Executive Branch.

Administrative Law: The myriad of statutes, regulations and codes by which the various departments and bureaus of government administer their operations under the Executive Branch constitute administrative law. In large part they are established to implement details of the broad language of the acts of Congress. These regulations are essential to the smooth and orderly functioning of government.

Nevertheless, the structure of departments which combines executive, legislative, and enforcement or judicial functions, provides a concentration of power and authority which lends itself to potential bureaucratic abuses. Among many
The history of liberty is a history of the limitation of governmental power, not the increase of it. When we resist, therefore, the concentration of power, we are resisting the processes of death, because concentration of power is what always precedes the destruction of human liberties.

—Woodrow Wilson

possible examples, congressional hearings have revealed that the detailed statutes developed in administering the Occupational Safety and Health Act (OSHA) went far beyond the intent of the act, and provided the basis for executive abuses and deliberate harassment, in particular of small business. Many are aware of instances in which the Antitrust Division of the Justice Department, using the charge of conspiracy and restraint of trade, has imposed fines and/or jail sentences though the accused firms and their officers were innocent. These firms chose to make payment under a plea of nolo contendere because the legal fees required to establish their innocence would exceed the fine.

Administered properly, government agencies should facilitate trade and commerce, and protect the various interests of the people. At best, administrative law can only regulate, prohibit, or constrain individuals or groups from imposing on the rights of others. However, in increasing numbers of cases the bureaucracy has gone far beyond its legitimate functions. One may find dozens of magazine and newspaper articles reciting wasteful or counterproductive bureaucratic activities, and arrogant abuses of power.

Today the friction and costs to society of the bureaucracy have reached destructive proportions. These excesses must be brought again under control. The implementation of reforms is too broad a subject to address here. A comprehensive report by the Heritage Foundation16 has recommended a broad platform of reforms to President-Elect Reagan "to roll back big government." Included are specific recommendations concerning Executive Orders and administrative law. Implementation of these recommendations should go a long way in restoring a proper balance of power.

Revitalizing the American Dream

The foregoing are but a few examples of the restructuring of power which has been achieved during the last century. They have been selected to illustrate the vast departure from the spirit in which the Constitution was written some 200 years ago. As a consequence, people in all walks of life—both the providers and the recipients of government aid—are hurting as they have
never hurt before. The thermometer—inflation—shows that the waters of our economic and political environment are approaching the boiling point. Not one amongst us is immune to the heat.

In the face of these adversities, a new spirit is emerging in the land. The new religious revival extending from neighborhoods to nationwide television is a new expression of the old Spirit of '76. People are going back to basics. They are thinking, questioning, and organizing.

The overwhelming choice by the electorate of a new administration dedicated to redressing these abuses of power is a manifestation of the revival of the spirit.

The retirement of many congressmen who have aided and abetted this misdirection of power, together with the election of other congressmen who affirm the original precepts of the Constitution are further manifestations of the spirit.

Yet this is only a beginning. We must not expect miracles from any administration, nor can any of us escape the painful process of readjustment. We are presently in a position to achieve a victory in this battle. But the foes in the ageless war for the minds of men are not to be easily vanquished. It will require years of unrelenting effort to overcome the damages which have been incurred by the Republic.

We know in our hearts that cold, impersonal welfare will never succeed loving charity. Government can never provide security to replace self-reliance. No government can accomplish those things we must do for ourselves if our souls and spirits are to expand. If we are to restore the American dream we must never again become complacent and allow ourselves to be overridden by those who are in a vain quest for false goals.

Let us again restore the balance between spiritual and material values. The institutions of church and state are inseparable, they are as inseparable as two ends of a rope, each is a manifestation of the spirit and substance of society. We may recall that the spirit of liberty was heralded from every pulpit during our Revolutionary War. I maintain that Spirit of '76 has never really disappeared, we have simply allowed it to become encrusted with false doctrine.

Paul offered words of encouragement: "Stand firm therefore in liberty with which Christ has made us free. Be not harnessed again under the yoke of servitude . . . the bondage of corruption." James urged us: "So speak and so act as men and women who are to be judged by the law of liberty." Let freedom-loving individuals prevail by reasserting the Spirit of '76.

See next page for footnotes.

2 *Holy Bible*, trans. George M. Lamsa (Philadelphia: A. J. Holman, 1957). This version is translated into English from the Aramaic, the language of Jesus and is recognized for accuracy and clarity of expression.

3 The law of Liberty within the context of Bible usage expresses freedom of choice with consequences. All thoughts and actions cause reactions for which we are to be held accountable. The Law of Liberty is the Christian counterpart of the Sanscrit term, Karma.


7 Manion, p. 33.

8 Ibid., p. 35.

9 As a consequence of this Supreme Court decision, by 1975 an estimated 2,000 campus "radical economists" who "respect the point of view of Mao" and who believe in "a socialism of affluence" were members of the Union of Radical Political Economists. (*Los Angeles Times*, December 21, 1975).

10 *San Diego Union*, April 28, 1969.

11 Manion, p. 27.


13 Executive Orders are issued by the President, reviewed by the Office of Legal Counsel and published in the Federal Register. They become law unless rescinded by Congress within a specified period of time.

14 Executive Orders including numbers 10995, 10997, 10998, 10999 and 11000, 11001, 11002, 11003, 11004, 11005 and 11051 define procedures during war, attacks or other emergencies for executive control of communications, energy, food and farming, all modes of transportation, civilian work brigades, health, education and welfare functions, housing, public storage and so on.


17 Extensive hearings on regional governance have been conducted by legislative committees in a score of states. The proceedings of these hearings appear in bulletins published by the Committee to Restore the Constitution, Inc., P.O. Box 986, Fort Collins, Colorado 80522.


19 For an example of grass roots organization see "The Pro-Family Movement: A Special Report" in *Conservative Digest* 6 (May/June 1980). Responding to this movement, Senator Paul Laxalt has introduced S. 1808, The Family Protection Act, designed to strengthen the American family and to promote the virtues of family life.

20 Into the artfully contrived rift between church and state has been driven the wedge of Humanism. According to the book *The Assault on the Family*, "As a religion, Humanism demands the end of all religions that are God oriented, and the abolition of the profit-motivated society, so that a world utopian state may be established which will dictate the distribution of the means of life for everyone." See "Our Last Opportunity" in *Don Bell Reports*, November 13, 1980.
There is no need to apologize for the self-interest of human beings and the desire to earn a good living that follows from it. This is simply the way we are.

In a free enterprise system based on private property and the profit and loss system, earning a good living very frequently translates into efficiently performing a service or manufacturing a product which others value and for which they are willing and able to pay.

This was pointed out by Adam Smith more than 200 years ago in *An Inquiry Into the Nature and Causes of the Wealth of Nations*: “Every individual necessarily labours to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it . . . 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.”

In sum, most, if not all, new businesses start with someone motivated by self-interest being alert to some problem that others face. A new business then requires someone with imagination, ability, and cour-

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age to follow through with practical solutions to that problem. This was precisely the case with Roger and Mary Lou MacGregor's business.

**The MacGregor Yacht Corporation**

The time was about twenty years ago. The place was Costa Mesa, California. The "problems" that Roger MacGregor saw were rising sailboat prices and rising docking rentals.

For most of his life, Roger had been around sailboats—building them and sailing them. Sailboats were his hobby. While a student at Stanford University, he conceived a new kind of cruising sailboat with a retractable keel. The boater who owns a cruising sailboat with a retractable keel can tow his boat on a trailer behind his car. Thus, he can store his boat in his own back yard, thereby saving the cost of docking and slip rentals.

Starting a new business requires capital, money with which to buy (or rent) a building and machinery. The MacGregors started their business with $5,000 of their own savings. It is significant that the initial investment was their savings. In a private property, profit and loss system, the owners of private property at risk normally tend to look after that property very closely. Investors proceed cautiously when it is their savings that are at stake, for any losses will be their losses.

There was no guarantee that prospective cruising sailboat buyers would actually buy the kind of sailboat that Roger conceived and that the MacGregors' firm manufactured. As long as consumers are free to patronize whomever they please, there cannot be any such guarantee. In a free enterprise system, it is the consumers who are the ultimate judges of goods and services. Through their buying or not buying a particular product or service, consumers determine which businesses will earn profits and which businesses will suffer losses. The consumer is king. It is not the producer, it is not the wealthy who guide the economy. Rather, it is the consumer who is in the driver's seat.

**A Better Product at a Lower Price**

The MacGregors knew there was competition in the sailboat manufacturing business. They knew that the way to woo customers was to come up with a superior boat at a lower price. And they understood that if a firm is to sell its products for less than the competition, it must have lower costs.

The MacGregors believed that the retractable keel feature of their boat made it a better boat than the competition's. They sought to cut costs, and thus to cut the selling prices of their boats, through the application of assembly line techniques and the standardization of parts in the fabrication of their sailboats. Neither
the assembly line process nor the standardization of parts is new, of course. But the MacGregors made a new application of these familiar techniques, for historically the cruising sailboat manufacturing business has been a custom work business.

Reflect on what is happening here. In pursuing their own interests, the MacGregors were quietly transforming, in a small way, an industry geared to serving a select few to an industry geared more toward serving a less-select larger group. Characteristically, this is how many businesses and industries get started and grow in a free enterprise system.

**Division of Labor**

Initially, only Mary Lou devoted full time to Roger’s hobby that was turning into a business. Roger kept his job at Ford Aerospace and Communications Corporation. But the MacGregors had correctly judged the demand for less expensive cruising sailboats with retractable keels. Consumers bought more and more of their boats. When production reached ten boats per week, Roger quit his job at Ford Aerospace and joined his wife full time. His hobby was no longer a hobby. It became a full-fledged business—the MacGregor Yacht Corporation.

As their business has grown, the MacGregors have split up some of its major functions. Roger has responsibility for production and sales. Mary Lou is responsible for finance and administration. Economists call this a *division of labor*.

The basis for a division of labor is the difference in the abilities and the interests of the individuals involved. Each individual does what he or she is relatively more interested in and better able to do. Such specialization usually leads to each specialist becoming even more proficient in handling his part of the business. The greater proficiency leads to greater productivity. And relatively high productivity is what it takes to survive in a competitive free market.

**Retained Earnings Finance Growth**

The MacGregors’ business is profitable. Thus, it has survived. The profits retained in the business have provided much of the financing for the growth of the firm. This is typical of many businesses.

The bulk of the profits of business do not go for the owner’s personal consumption. Rather, most of those profits go to finance the growth of business. And it is thus that the wealth of many wealthy people gets tied up in assets that provide jobs, in assets that multiply the productivity of the people who use them, in assets that help generate still more goods and services for consumers. In the free enterprise system, much of
the wealth of wealthy people is in forms that serve the masses. And the wealthy person who wants to preserve or increase his wealth has an ongoing obligation to see to it that his wealth continues to be in forms that serve the masses.

But relatively high profit margins are short-lived in a system where there is private property, a free market, and a profit and loss system. The top of the heap is a precarious position. For example, as competitors also adopt the assembly line and standardization of parts techniques that the MacGregors pioneered in the sailboat manufacturing business, the competitors will be able to cut their costs too. Then, they also can cut their selling prices. And so the MacGregors will lose whatever competitive advantage they had because they were the first to apply these cost-cutting techniques to the cruising sailboat manufacturing business.

Thus, to hold, to say nothing of increasing, their share of the market for cruising sailboats, the MacGregors are continuously "under the gun." To maintain relatively high profit margins in a free market, it is not enough to come up with one or two new products. It is not enough to come up with one or two new ideas or new applications of ideas for cutting costs. No, to maintain above average profit margins in a free market, a businessman must repeatedly come up with new products that solve problems or in some other way appeal to consumers. The businessman must repeatedly come up with cost-cutting techniques. And he must do all of this ahead of the competition. Thus we see why the free enterprise system is such a powerful engine for economic progress.

The Uncertainty and Insecurity in Freedom

The MacGregor Yacht Corporation has had a healthy birth and infancy. Will this business continue to prosper and grow? As long as consumers are free to buy someone else's boats (or other goods altogether), no one can say for sure. The MacGregor boats with retractable keels may inspire another generation of sailboats. Who will have the inspiration? There is no way of knowing in advance. The MacGregor cost-cutting techniques may spark another round of cost-cutting. Who will have this spark? There is no way of knowing in advance.

Clearly there is a large element of uncertainty about this firm's future. In a free society, there is uncertainty about the future of all businesses. But this uncertainty and attendant insecurity are simply the consequences of freedom—freedom of the consumer to buy or not to buy from a given business; freedom of existing or potential producers to
begin, expand, or halt the production of any item they believe there is a market for.

Not knowing exactly when or where or from whom the next idea for a new or improved product or new cost-cutting technique will come has been the source of both much mischief and of much good.

Not knowing the source of the next surge of progress tempts some individuals to call for central planning, for government planning of our economic affairs. Some individuals seem to think that not knowing exactly how the next spark of progress will come makes life unnecessarily chancy. Isn’t it, they contend, more rational to “improve” on this chancy situation by methodical central planning? This line of reasoning is the source of much mischief.

History has repeatedly shown us what happens when government central planning is substituted for planning by individual consumers and producers. Central planning stifles the self-interest motive. It constricts the spirit inside us that urges us to strive for the “good life.” This kind of planning is at odds with the nature of man. Although on the surface it appears that in theory political central planning should eliminate some of the uncertainty in freedom and accelerate economic progress, history clearly shows that in fact it is a source of instability and that in fact it retards progress.

Those among us who are tempted to endorse central planning, because it appears to be the more methodical way to progress, might profitably reflect on the life insurance industry. For there is an element of uncertainty in the life insurance industry that is in some ways like the uncertainty of the origins of progress in a free society.

Predictable Results

The most capable actuary cannot specify which particular sixty-year-old men will die next year. But the actuary studies history. Specifically, he studies the history of male deaths. He learns from history. He develops mortality tables. Equipped with the information in these mortality tables, that actuary can very accurately forecast the percentage of sixty-year-old men in a large population who will die next year. Knowing this percentage for sixty-year-old men and the corresponding percentages for men and women of all ages, he can help his company confidently proceed with its business of insuring the lives of men and women whatever their ages.

Similarly, a study of the history of free men and women enables us confidently to proceed in freedom. Although we cannot accurately forecast details of how the free society will progress, we can confidently forecast that it will progress. Free men and women will progress be-
cause of the good feature of insecurity.

The good feature of insecurity is that it is a powerful stimulus. For the best way to cope with insecurity is to become competent. By ably serving consumers day in and day out, productive individuals can do much to reduce insecurity. Then, in a society in which there are large numbers of individuals busy trying to become more competent and more productive, the average level of ability and the average output of the individuals in that society rises tremendously. Indeed, the average ability and output can rise to the point where the “poor” person in a free society is much better off than the “rich” person in a society that is not free.

Can the MacGregors, specifically, sustain their “track record?” Time will tell. But as for the record of free men and women generally, time has already told. That record is decisive. Freedom is a condition required for maximum human progress.

Sharing the Gains

All economic gains must be eventually shared. That is a basic principle of such broad application that it might be called a general “law of economics.”

It works this way:
1. All business is done by agreements of some kind.
2. The agreements are voluntary.
3. Nobody agrees to anything unless he finds it in some way to his advantage.

These add together to make the essential reason why economic well-being is more widely distributed in the United States than it ever has been in any other country.

For in a free economy, everybody gets a share of the values other people have to offer. But they also have to share a part of the values they themselves have to offer.

A million deals, agreements, trades, contracts, and bargains are made every day in this country. They are all voluntary, and go on the same principle as that of the most primitive barter between Indians and fur-traders. Both sides gain, or think they gain.

But because of this principle of sharing, or “letting the other fellow make a profit, too,” the free economy is one of history’s greatest mechanisms for the diffusion of wealth.

HAROLD M. FLEMING
By the absolute rights of individuals we mean those which are so in their primary and strictest sense; such as would belong to their persons merely in a state of nature, and which every man is entitled to enjoy, whether out of society or in it. . . . Human laws define and enforce as well those rights which belong to a man considered as an individual, as those which belong to him considered as related to others.

For the principal aim of society is to protect in the enjoyment of those absolute rights, which were vested in them by the immutable laws of nature; but which could not be preserved in peace without that mutual assistance and intercourse, which is gained by the institution of friendly and social communities. Hence it follows that the first and primary end of human law is to maintain and regulate these absolute rights of individuals . . . .

The absolute rights of man, considered as a free agent, endowed with discernment to know good from evil, and with power of choosing those measures which appear to him to be most desirable, are usually summed up in one general appellation and denominated the natural liberty of mankind. This natural liberty consists properly in a power of acting as one thinks fit, without any restraint or control, unless by the law of nature; being a right inherent in us by birth, and one of the gifts of God to man at his creation, when he endued him with the faculty of free will.

But every man, when he enters into society, gives up a part of his natural liberty, as the price of so valuable a purchase and, in consideration of receiving the advantages of mutual commerce, obliges himself to conform to those laws, which the community has thought proper to establish. And this species of legal obedience and conformity is in-
finitely more desirable than that wild and savage liberty which is sacrificed to obtain it. For no man, that considers a moment, would wish to retain the absolute and uncontrolled power of doing whatever he pleases; the consequence of which is, that every other man would also have the same power; and then there would be no security to the individuals in any of enjoyments of life.

Political therefore, or civil, liberty, which is that of a member of society, is no other than natural liberty so far restrained by human laws (and no farther) as is necessary and expedient for the general advantage of the publick. Hence we may collect [conclude] that the law, which restrains a man from doing mischief to his fellow citizens, though it diminishes the natural, increases the civil liberty of mankind; but that every wanton and causeless restraint of the will of the subject, whether practiced by a monarch, a nobility, or a popular assembly, is a degree of tyranny; nay, that even laws themselves, whether made with or without our consent, if they regulate and constrain our conduct in matters of mere indifference, without any good end in view, are regulations destructive of liberty; whereas if any public advantage can arise from observing such precepts, the control of our private inclinations, in one or two particular points, will conduce to preserve our general freedom in others of more importance; by supporting that state, of society, which alone can secure our independence.

So that laws when prudently framed, are by no means subversive but rather introductive of liberty; for (as Mr. Locke has well observed) where there is no law there is no freedom. But then, on the other hand, that constitution or frame of government, that system of laws, is alone calculated to maintain civil liberty, which leaves the subject entire master of his own conduct, except in those points wherein the public good requires some direction or restraint.

Sir William Blackstone [1723–1780], born in Cheapside, England, trained in the law, taught, practiced law, and served for many years as a Member of Parliament. His four-volume Commentaries became the most famous exposition of English law. Had he designed to do so, he could not have timed its publication for greater impact on America. Published in the 1760s, it served Americans not only in its statement of the natural law doctrine with which to challenge English control but also for many years after the Revolution as the main authority on the common law. Selection extracted from Commentaries on the Laws of England, vol. I (Philadelphia: J. B. Lippincott, 1891), pp. 122–26.
How to Think About Economics

There is no subject that more urgently needs to be understood in the world today than economics. Our well-being, indeed, our very lives, depend on the production of wealth. The production of wealth, in turn, vitally depends on the existence of the division of labor—the specialization of tasks.

As an important illustration of this dependence, consider the fact that to the extent there is a division of labor, there is a multiplication of the knowledge that is used in production. In a division-of-labor economy, such as that of the United States, as many specialized bodies of knowledge enter into production as there are specializations in employment. On the other hand, in an economy with relatively little division of labor, such as that of India, in which the great majority of people live as self-sufficient farmers, practically all producers possess the same body of knowledge; and thus the knowledge that enters into production is limited essentially to what one mind alone can hold.

The great majority of people, including the great majority of presumably educated people, are not explicitly aware even of the importance of the division of labor. Still less are they aware of the fact that the division of labor has definite requirements for its successful functioning, indeed, for its very existence. The division of labor can intensify and flourish, or it can be largely or even entirely destroyed. Examples are provided by the rise and fall of civilizations—such as the Middle Ages, with its minimal division of labor, and the last two centuries or more, with their great intensification of the division of labor.

What happens to the division of labor is the result of human choices, specifically, choices of a political nature. Acting in their political capacity, men have the power to adopt laws and social institutions that make possible the growth and suc-
cessful functioning of the division of labor, or to adopt laws and social institutions that are incompatible with the division of labor. The laws and social institutions of the United States for most of its history provide an example of the first kind; those of the late Roman Empire and the Middle Ages, an example of the second kind.

Understanding the Process

In order for men to make intelligent choices respecting the division of labor, they must have knowledge concerning it. They must know in principle what the division of labor accomplishes, what it requires, and what promotes or impairs it. This knowledge is provided by economics. Economics is the science that studies the production of wealth under a system of division of labor.

Economics is itself a specialization. It is that specialization within the division of labor that studies the division-of-labor system. But along with such subjects as mathematics, natural science, philosophy, history, and the classics, economics is something that deserves a prominent place in the education of every intelligent person. It must be understood not only as an important part of the individual’s comprehension of the universe around him, but in order to make possible the continued existence of material civilization. For in the long run, it is the ideas of the educated public that determine the laws and social institutions a country adopts. Only if the educated public has a serious grasp of economic principles can a country hope to have or maintain laws and institutions conducive to the division of labor.

In the absence of such knowledge of economics, a modern nation like the United States is in the position of an ignorant crowd wandering among banks of computers or other complex machinery and randomly pushing buttons here and pulling levers there. For its people live in the midst of the division of labor, their lives depend on it, yet they do not understand it and are taking actions with respect to it whose effects they do not comprehend. In just this way, our contemporaries feel free to advocate such things as fiat money, price controls, confiscatory taxation, and even the abolition of private ownership of the means of production altogether—all with no comprehension whatever of the effects on the-division-of-labor system.

In the absence of a widespread knowledge of economics among the educated public, it is only a question of time before a nation destroys itself. And that is precisely what the United States is doing today and has been doing for some time.

Over the last two centuries, a number of brilliant books have appeared that provide a more or less
systematic exposition of economics, starting with Adam Smith's *The Wealth of Nations* and continuing up to Ludwig von Mises' *Human Action*, the last edition of which appeared in 1966. Unfortunately, for various reasons, none of these books is suitable for a beginner.

To make matters worse, there are simply no decent textbooks of economics. What passes for economic texts at the colleges and universities are books written in total ignorance of the contributions of the great economists. Today's textbooks are an exposition of the ideas of a relative handful of authors: principally, Marshall, Keynes, and Joan Robinson, often supplemented with a dose of Marx and Veblen. The ideas of the real economists—Smith, Ricardo, Say, the two Mills, McCulloch, Bastiat, Senior, Menger, Jevons, Böhm-Bawerk, and Mises, to name some of the most important—are simply ignored.

And when they are mentioned at all, it is only long enough to dismiss them with ridicule. For example, Adam Smith's demonstration of the existence of a harmony of self-interests in a free society is dismissed as resting on a postulate of divine intervention. Say's Law of Markets, which demonstrates the impossibility of a general overproduction is dismissed as claiming that if refrigerators are brought to Eskimos, they will be demanded, because "supply creates its own demand." All that the great economists have proved with respect to the role of saving, the operations of the price system, the causes of economic progress and decline, of inflation, unemployment, and depressions—all this is simply ignored and evaded in the textbooks. And in its place is presented a loose collection of meandering assertions and illogical connections heavily interspersed with diagrams, equations, and statistics—all tending to the conclusion that economics and the manifestos of the left-wing of the Democratic Party are one and the same.

**A Brilliant Analysis**

It is in the light of this background that Henry Hazlitt's *Economics in One Lesson*, recently published in its third edition, must be appreciated.

Henry Hazlitt is himself a great economist and ranks among those whose names I have mentioned. He possesses a profound and thorough knowledge of the classics of the subject and of all of its principles and finer points. He possesses a brilliantly logical mind and an unsurpassed ability to present the most complex material clearly and simply, so that almost anybody can understand it. All of these qualities shine forth on practically every page of the third edition of *Economics in One Lesson*. (The third edition does
not differ in any fundamental way from the previous editions. The chapter on rent control, added in the second edition, has been extended, and a valuable new chapter has been added reviewing the course of events since the publication of the first edition over thirty years ago.)

*Economics in One Lesson* introduces the reader to economics by a highly stimulating and exciting method. From the very first page, it offers a profound challenge to the ideas that most people hold about economic activity and to their method of thinking about it. For example, most people think of war and destruction as causes of economic prosperity by allegedly creating additional demand and employment. Hazlitt shows clearly and convincingly why this is not so. And in so doing, he immediately begins to captivate the reader by overcoming what must otherwise be horrifying philosophical contradictions, such as the desire for both peace and prosperity.

**Tracing the Consequences**

Hazlitt states that the essential lesson of economics, the key to correct thinking about the subject, is that "the art of economics consists in looking not merely at the immediate but at the longer effects of any act or policy; it consists in tracing the consequences of that policy not merely for one group but for all groups.” In teaching this lesson, Hazlitt widens the intellectual horizons of his readers and teaches them to think of the effects of things on the division-of-labor system, something they would otherwise be unaware of.

In content, *Economics in One Lesson* covers the highly important subjects of unemployment, government spending, taxes, credit, machinery, tariffs, subsidies, the price system, price and rent controls, minimum wage laws, labor unions, inflation, and the function of saving. Its method is always the development of economic principles in relation to major economic problems. There is hardly a page of the book that does not make several important points. A fundamental theme of the book is that the freedom of the individual peacefully to pursue his own interests serves both his interests and the longrun interests of all other members of the economic system. This is always the specific conclusion that we see illustrated when we think as economists.

In my teaching career, I have often used *Economics in One Lesson* as an introductory textbook. Several times, I have used it as practically the only textbook. And despite its brevity, I have had no difficulty in discussing its content for an entire semester. The book is so rich that even after having read portions of it many times, I continue to find points
Economics in One Lesson by Henry Hazlitt
Revised 1979 edition now in paperback.

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in it that I had previously overlooked. Moreover, students actually read the book, understand it, and change their ideas because of it.

Despite its overwhelming virtues, there are a few things that I must criticize concerning the book. Two points of a theoretical nature are its failure to incorporate the insight of the classical economists that the demand for labor comes out of savings, not consumption, and its failure to recognize with Böhm-Bawerk and Wieser that there are important cases in which cost of production is the direct determinant of prices, though never their ultimate determinant. In addition, there are occasional minor and uncalled for concessions made to the opponents of sound economics and capitalism, which have the effect of sometimes undercutting the force of the brilliant arguments advanced, such as the statement on page 141 concerning a need for labor unions to prevent workers from being underpaid in certain cases.

These criticisms notwithstanding, Economics in One Lesson is a superlative book. It is the finest introduction to economics in existence and page for page there simply is no finer book on economics, period. As I have written elsewhere, Economics in One Lesson has been an inspiration and a standard for my own writings. It has been instrumental in teaching me not just a valuable intellectual content, but, no less important, the correct method for thinking about all economic problems. For the sake of the survival of material civilization, one can only hope that the current, third edition of Economics in One Lesson will be read by and will influence the thinking of millions in the years to come.
The dilemma of the libertarian is that, in his revolt against any reliance on the State, he must trust that Marxist states organized beyond his own borders will leave him alone. Laurence W. Beilenson, in a stimulating book, *Survival and Peace in the Nuclear Age* (Regnery-Gateway, Chicago, Illinois, 169 pp., $10.95) has a natural sympathy for the libertarian's position, but he is sure that simple trust is not enough. To keep one's enemies at a distance in the age of the intercontinental ballistic missile requires a canny mixture of what Beilenson calls avoidance and deterrence. Avoidance demands nimble diplomats; deterrence dictates the spending of money, which, of course, brings the hated tax collector into the picture.

Since Mr. Beilenson believes in freedom, he wants to make the best deal for his country that can be managed within the bounds of realism. As the author of *The Treaty Trap* and *Power Through Subversion* he knows that we have always had wars in the past and, presumably, could have them in the future. When wars do occur, the embattled governments may follow conventions up to a point. But nobody is going to forswear the use of a weapon, no matter how hideous, if, by turning to it, one can insure one's survival. The chances are that nuclear weapons would come into play in a war for western Europe the minute that one side or the other was threatened with defeat.

Mr. Beilenson doesn't want to give western Europe to the Communists. But, on the other hand, he doesn't
want to see the United States trapped by its present commitment to pour conventional forces into a theater where reliance on convention would be abandoned practically at the outset.

A Policy of Deterrence

Thinking the "unthinkable," Mr. Beilenson calls for an approach that accepts nuclear war as the norm in the European theater unless some way is to be found to forestall war of any kind. Treaties signed with the Communists won't help—the Soviets used SALT I as a screen behind which they vastly added to their nuclear capabilities. What the United States should do is to match the Soviets in deterrence, but with an effort to develop simpler and cheaper weapons (say the neutron bomb and the cruise missile). Civil defense should come into the picture. Then, having informed the world through our actions that we mean to defend ourselves, we should put it up to the West Europeans to do something on their own behalf.

Mr. Beilenson would share our nuclear knowledge and weapons with the other NATO nations even at the risk of wide atomic proliferation. The West Germans should have nuclear weapons on their own soil. Meanwhile our forward garrisons in West Germany should be reduced over a five-year period. Once western Europe has been persuaded to become a real power center on its own, the United States will no longer be the primary target for Soviet ballistic missiles. Europeans shouldn't object to this, for with two targets to worry about, the Soviets would be less inclined to start anything.

With American ground forces withdrawn from Europe and Asia, and with Washington matching Moscow "nuke for nuke," we would be combining a minimum of forward area provocation with a maximum of reserved menace if, by any chance, our diplomacy should fail. Mr. Beilenson's proposal creates an odd perspective. But the perspective accommodates the two values of avoidance and deterrence.

A Flexible Stand

With the two values in mind, we would be forced to rely on the same type of thinking that has enabled the followers of Lenin to win victories without risk of premature embroilment. The Leninists have followed a double-pronged strategy, mixing subversion with opportunist exploitation of occasional revolutionary situations. Detente and "wars of liberation" are ideologically incompatible, but when they are separated geographically they have not resulted in any world-wide "final conflict." Mr. Beilenson doesn't ask for any foolish consistency from our policy makers as long as the Russians are permitted their inconsis-
tency. His suggested rules amount to what he calls “the Lenin Adaptation in Reverse.” The rules begin with a statement that “we are for peace and we will not go to war to aid communist dissidents.” But if we do not propose to be an “international busybody,” we should nevertheless stand ready to give financial and other aid to dissidents short of sending troops.

Angola would have been a good staging area for the Lenin Adaptation in Reverse. Mr. Beilenson thinks Jimmy Carter acted wisely when he refused to send American soldiers to oppose the Cubans in Angola. But Carter was mistaken when he put his faith in merely deploiring what Castro had done. In Beilenson’s opinion Carter should have “sent American foreign aid for freedom after open announcement. He should have said bluntly: ‘The Cubans are foreign intruders in Africa. To any Africans willing to kill the Cuban intruders, the United States will give cannon. And the weapons we give will match in quality the Soviet weapons.’”

This would be giving the Soviets tit for tat. Our policy of subversion should be conducted in the open, not “covertly.” It should be just as honest as Lenin’s own opportunism.

Mr. Beilenson thinks that much of our so-called strategic thinking in regard to “flanks” and “lifelines” is based on past wars. To be worried about the control of the oil “lifeline” through the Indian Ocean and around the Cape of Good Hope is silly when the real danger is that the Soviets might close the Persian Gulf ports by parachute drops and local coups d’etat. Similarly, it is a waste of time to be concerned with the “northern flank” of Denmark and Norway in Europe when the real menace is a nuclear clash in the West German center.

An Energy Policy

Where Mr. Beilenson’s book lets the reader down is in his failure to tell us what we can do about energy while we are trying to move toward the policy of balancing between “avoidance and deterrence.” It would be futile to see American troops taken out of western Europe and South Korea merely to send them to Sinai or Oman or Turkey or Saudi Arabia. However, that looms up as a dangerous possibility. Threatened with a gasoline shortage, American motorists may shortly be importuning Congress to commit “mobile” forces to the Persian Gulf area.

We need a policy of building quickly to an energy sufficiency within the western hemisphere if “avoidance and deterrence” are to have a real chance. The hope here is that free pricing will lead to the discovery and exploitation of thousands of new gas wells in Louisiana and the beginnings of “tertiary re-
covery” in the oil fields of West Texas. With our cars running and our furnaces working, Mr. Beilenson’s ideas would have some chance of success. But if we don’t have energy we could be led into some disastrous adventure before we have the “deterrence” we need.

THE COMING VICTORY
by Tom Rose and Robert Metcalf
(Christian Studies Center, P.O. Box 1110, Memphis, Tennessee 38111)
192 pages • $6.95 paperback

Reviewed by Roger Ream

This book covers a wide range of subjects, from economics and public policy to religion and tips on how to raise children. The basic theme of the book is that liberty is a gift from God. Men stand as free and self-responsible individuals before God. “The great sin of modern-day America is that the people have made the civil authority their god. Clearly, the proper role of civil government in a society of free and self-responsible God-created beings is to restrain and punish evil.”

To discover the specifics of what government should or should not do, the authors turn to the Bible. A footnote concerning the energy situation provides an example of the methodology used: “America’s real shortage-of-oil problem stems from a faulty theological approach. The problem exists because the people are turning to the humanist state as a secular savior. Only when this false god-image is set aside and statist controls are done away with will individual initiative be creatively released.”

The authors raise some welcome and provocative questions concerning the voting franchise. “As the voting franchise has been broadened and broadened, there has grown an ever-greater demagogic tendency for elected politicians to strive to gain popularity among the broader voting populace. With promises of new ‘benefits,’ politicians find they can, in effect, buy the votes of those citizens who have little interest in maintaining a stable society over the long haul.” The authors suggest that government might stay within its proper limits of protecting life, liberty and property if those who vote have a stake in each, i.e., if ownership of property were a prerequisite to the privilege of voting. They suggest “it is dangerous when the vote is given to non-propertied individuals, for their vote often undermines property rights.” Unfortunately, the general nature of the book permits only cursory examination of this controversial subject.

The methodology of the authors leads them astray in their discus-
sion of corporate responsibility. They accept the popular notion that the limited liability corporation is “a fictitious person created by fiat of the state.” Evidently the authors missed Robert Hessen’s able refutation of this myth in his recent book, *In Defense of the Corporation*.

The authors interpret their belief that man is responsible to God to mean that individuals should not be able to limit their responsibility to other men—that limiting liability in contractual business activities is wrong. They write, “The principle which should guide all business activity is this: Those who stand to reap the profits of enterprise should also stand *all the risks* involved.” Limited liability, like insurance, certainly minimizes personal responsibility for risks undertaken, yet it would exist in any society where government is properly limited since it is based on voluntary contract.

The authors ably diagnose many of the political and economic problems facing the United States. They correctly trace the cause of these problems to a spiritual weakness and suggest a number of ways to overcome the political, economic, and especially the moral problems which plague our civilization.

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ENERGY is the capacity to do work. We use energy to do work which otherwise would have to be done by using our arms and legs and backs. It is through the increased use of inanimate energy such as coal, oil, gas and nuclear power in place of and as an extension of our own human energy that we have been able to achieve continuing material progress. Energy performs an extremely vital function which is just as important today as it has been in the past and will be in the future.

In these times, however, energy is being asked to do many things which it hasn’t been asked to do in the past. It apparently is not enough that energy does an ever-increasing amount of work for us. Now, energy is also being asked to help rearrange our social relationships. In addition, it is being asked to assist in devising a new economic system. Furthermore, it is being asked to contribute to the development of a new political system. Finally, it is being asked in one way or another to practically show us the way to salvation.

With all these demands, it would come as no surprise if energy were to simply throw up its hands and say: “I’m going out and have a nervous breakdown; I deserve it.” Perhaps to some extent, this is what we have been witnessing in recent years.
in the case of energy: a nervous breakdown.

And no wonder. Following the energy crisis in 1973, it seems that every group in the country has come forward with plans and proposals for what energy should or shouldn't be, should or shouldn't do, should or shouldn't develop into. Oftentimes, the basic function of energy to do work has seemingly been ignored, if not completely forgotten, in the rush to use energy as a tool for accomplishing some social, economic, political or moral goal. And, in this rush to capture energy for "our side," religious groups have become increasingly vocal.

The Religious Perspective

The religious approach is on two levels. One is the quite practical level on which all of us operate: How can we reduce the amount of energy we use, or use it more efficiently, in order to hold the line on, or even reduce our energy costs? There are of course many positive and practical things that can be done at this level.

The other level is more of a philosophical one in which the overall role of energy is evaluated from a social, economic, political and, ultimately, theological perspective. Many of the questions asked at this level are ones that weren't asked as little as 10 years ago. The number of people who in 1970 questioned the relative ethical merits of solar energy versus nuclear energy or pondered the moral worth of co-generation were distinctly in the minority. Yet questions like these apparently are of blazing theological significance to many religious groups today.

To develop answers to these questions, we must have some historical perspective on energy and its role in past and present societies. For example, why use energy in the first place? Why not just use our own human energy and forgo the use of other energy forms? Because we human beings are extremely small, inefficient and costly producers of energy.

Working at maximum strength, we might be able to produce enough energy to power a 100-watt bulb—but only for a short time. Some of you may recall Bronko Nagurski who played fullback for the Chicago Bears. Bronko was once asked where he got his tremendous physical strength. He said it came from plowing fields. But they said to him: "Oh, c'mon, Bronko, a lot of people plow fields and don't have a build like yours." And Bronko's response was: "Without a horse?" Just imagine Bronko Nagurski plowing a field without a horse. How much power do you think he was producing? Just about enough to power a 100-watt light bulb, which is an infinitesimal amount in the world of energy.

We human beings are also very
inefficient energy users when you consider the total amount of energy which goes into producing the food we consume to provide our energy. It takes about 10 units of energy in terms of gas to power farm tractors and other energy to produce fertilizer, bring food to market and refrigerate it before use to produce one unit of food energy. So, by the time food gets on the table, it represents an energy efficiency level of only 10 per cent. Then, when we consume the food, our bodies use up about two-thirds of its energy content just to keep our systems going. Only what's left is available for doing work and this comes to an efficiency level of only about 3 per cent. By comparison, a nuclear or coal-fired power plant operates at an efficiency level of 40 per cent or more.

Finally, human energy is very costly. Take, for example, a simple task such as toasting a piece of bread. If we were to use human energy, we could hook up a bicycle to a generator and peddle the bicycle to produce electricity to toast the bread. Now, a typical toaster hits a piece of bread with 1,000 watts for one minute to toast it. But, since we can only produce about 100 watts, we would have to peddle the bicycle furiously for about 10 minutes to achieve the same toasted bread. Suppose we hired somebody to toast this piece of bread for us at a minimum wage of $3 per hour. It would cost us 50 cents to have the worker peddle the bike for 10 minutes. But the electricity which comes out of that hole in the wall to toast the bread would cost only 1/10th of a cent at a rate of 6¢ per kilowatt-hour. In other words, human energy would cost 500 times more than inanimate energy, and this ratio between the costs of human energy versus inanimate energy holds true for other jobs, too.

**Human Energy Is Limited**

Man, therefore, is a small, inefficient and costly producer of energy. Today, there is a highly vocal position which has grown up around the view that this smallness of man is a good thing. The philosophical or theological leader of this movement is the late E. F. Schumacher, and the "bible" of the movement is his book, *Small Is Beautiful*. In this book, Schumacher states that "man is small, therefore, small is beautiful." This view has become the starting point for a whole string of supposedly "moral" positions concerning energy, including the use of so-called "natural" or "soft" versus so-called "unnatural" or "hard" energy resources, operation of decentralized versus centralized energy facilities, and zero versus continuing growth in the use of energy.

However, it should be pointed out that there is nothing "beautiful" about being small to men and women who need energy to improve living
conditions for themselves and their families. So it should not be a source of wonder that not only have people been eager to develop energy but the history of human advancement has been based on the increasing use of larger, more efficient and more economical energy resources in place of the small, inefficient and costly energy provided by human beings.

Primitive man consumed energy only in the form of plant food, and his consumption consisted of about 2,000 kilocalories a day—only enough to keep him functioning from day to day. This more than doubled to 5,000 kilocalories a day when he began to hunt and use fire as a source of energy. Early agricultural man more than doubled energy consumption again to 12,000 kilocalories a day. Another doubling occurred to 27,000 kilocalories a day when agricultural man advanced through the use of better tools and domestic animals. Early industrial man almost tripled his daily energy consumption to 70,000 kilocalories a day around 1870. By 1970, we had more than tripled energy use again to 230,000 kilocalories a day.

This tremendous growth in energy consumption over the last 10,000 years has basically enabled people to do more and more work with less and less human energy, freeing people from the physical slavery of the past. As Roger Revelle, Harvard professor of population policy, puts it: "An old saying has it, 'slavery will persist until the loom weaves itself.' All ancient civilizations, no matter how enlightened or creative, rested on slavery and grinding human labor, because human and animal muscle power were the principal forms of energy available for mechanical work. The discovery of ways to use less expensive sources of energy than human muscles made it possible for men to be free."

**Labor-Saving Devices**

To put this point another way, the historical record of growth in energy consumption provides the most splendid record of energy conservation that we have available to us today. This may seem like a contradiction. How can growth in energy consumption be an example of energy conservation? The reason is that growth has been in the consumption of inanimate energy, making it possible to conserve human energy, thus freeing people for creative, intellectual, organizational, and managerial work which only they are capable of doing. This increased freedom, of course, is especially relevant in the case of women who have been relieved of much of the physical drudgery of housework, while simultaneously being provided increased opportunities for jobs and careers which don't involve heavy physical labor.
What have been the results of this growth in energy consumption? The International Institute for Applied Systems Analysis in Austria studied this question and found that increasing per capita energy consumption is closely associated with increases in our life spans and reductions in infant mortality. In other words, although many other factors are undoubtedly involved, growing energy consumption has made it possible for more people to survive to adulthood and live longer lives after they do. To put it another way, growing use of energy has created an environment more conducive to the health and well-being of people.

Growing use of energy has also created a safer environment for people. Today, the risk of disabling or fatal accidents is reduced because energy has reduced the need for people to do physical work, thus reducing the greatest occasion for accidents. The National Safety Council reports, for example, that "between 1912 and 1977 accidental deaths per 100,000 population were reduced 41 per cent from 82 to 48."

Growing energy consumption has also been accompanied by a long-term reduction in the real cost of energy. As more and more energy has been used, its real cost has become lower. This has not been a constant trend. There have been peaks and valleys along the way, just as we are now in a period when real costs are rising rather than falling. But the long range historical trend has been one of falling energy prices in real terms.

Furthermore, the increasing use and falling cost of energy have helped to narrow the gap between rich and poor. Studies show that inequalities of income between rich and poor become less as energy usage increases. Another way of stating this is that it is only in countries with high energy usage that you find a significant middle class.

**Economic Development Slows Rate of Population Growth**

Socioeconomic advancement, fueled by growth in energy consumption, has also been accompanied by a gradual slowing in the rate of population growth. This is a common and paradoxical occurrence in countries as they economically advance. Even though the advance brings with it expanded longevity and a falling death rate, the birth rate eventually falls even faster, resulting in leveling out of population growth.

Now, for all of these reasons, up until the late Sixties or early Seventies, growth in energy consumption was generally considered to be a "good thing." However, since this time, this assumption has come under increasing attack by many different groups, including religious groups, who claim that continuing
growth in energy consumption is not a "good thing" but a "bad thing."

For example, it is claimed that increasing use of energy is destroying the natural environment. Amory Lovins of the environmentalist organization, Friends of the Earth, expresses this view when he states that "it would be little short of disastrous for us to discover a source of clean, cheap, abundant energy because of what we might do with it." Population controller and environmentalist Paul Ehrlich is more blunt about it, stating that to give society cheap, abundant energy would be "the equivalent of giving an idiot child a machine gun." The testimony of these observers leads to the conclusion that our problems today consist of having too much rather than too little energy. But these views give no credence at all to the observable reality that growing energy use has not only helped to improve the well-being and health of people but helped to create a more habitable human environment.

Many Questions Unanswered

It is also claimed that so-called renewable energy sources such as solar energy, wind power and biomass can provide for any additional increase in energy we may need while eventually replacing our so-called non-renewable energy resources — coal, oil, gas and nuclear power. But no mention is usually made of the fact that the costs of solar energy, wind power and biomass currently are many times those of coal, oil, gas and nuclear power, putting them well beyond the pocketbooks of all but the most affluent Americans.

Finally, it is claimed that energy conservation, plus the use of so-called renewable energy resources such as solar energy, wind power and biomass, will result in improved family
life, better social relationships, greater political participation and more moral lifestyles. But one has to seriously ask if energy, whose basic function is to do work, is really capable of accomplishing all of these other worthy objectives. Or is this simply a case of attempting to use energy as some kind of "magic wand" to solve basically human problems when in fact the problems, as always, reside not so much in the choice between centralized nuclear power plants and decentralized solar energy facilities but in the human heart?

It is difficult enough to discuss much less come to any kind of conclusion concerning questions such as these when all of the facts on energy are completely known and accepted. But it is literally impossible if basic energy facts are unknown or ignored. It is therefore highly important to know and understand the basic facts of energy. And the most basic fact about energy is that its primary purpose is to do work. You or I may come up with all kinds of glorious, utopian schemes on how we can use energy to improve our social, economic, political and moral conditions. But the basic ethical question which must be asked first of any energy proposal is: Will it provide sufficient energy to do the work necessary to not only maintain but advance the health, well-being, safety and socioeconomic progress of all people, poor as well as rich? Any answer to this question which does not come up a resounding "YES" represents an irresponsible and unethical toying with the lives and fortunes of people rather than a legitimate and ethical path of future energy development.

**Life Is Energy**

This entire planet is made up of energy. The atoms of air surrounding it are energy. The sun pours energy upon this air and upon this earth. Life depends on energy; in fact, life is energy.

Every living thing must struggle for its existence, and human beings are no exception. The thin defenses of civilization tend to obscure the stark realities; but men and women survive on this earth only because their energies constantly convert other forms of energy to satisfy human needs, and constantly attack the nonhuman energies that are dangerous to human existence.

In the last analysis, there can be no progress except through the more effective use of our individual energies, personal initiatives, and imaginative abilities—applied to the things and forces of nature.

HENRY GRADY WEAVER, *The Mainspring of Human Progress*
WHEN WATER IS SCARCE

As I WRITE THIS, New York City, Greenwich, Connecticut, and many towns in New Jersey, are faced with a water shortage. Universally their officials are ascribing this shortage to "lack of rain."

That is certainly one cause. But there is another no less important. Water is distributed and consumed on socialistic principles. In New York City water metering is required for all commercial buildings, but not for residential buildings. Water is then paid for by the user not in proportion to what he consumes, but in his general tax bill.

So it is used wastefully. Any number of families let the water run freely, prolong their showers, never think twice before turning on their dishwashers, watering their lawns or washing their cars. They are worried even less about wasting the city water supply. On hot days fire hydrants are opened up, allowed to gush freely all day, so that an occasional urchin can wade and splash in an artificial river of water.

When it is suddenly announced that the water is in short supply, everybody is worried. A few token economies are suggested. But even a conscientious consumer may think something like this: "Of course I intend to economize. But what can my own picayune economies amount to compared with the total consumption? And how can I be confident that others will economize?" While the less conscientious may be tempted to think: "What difference will it make to the total consumption if I continue to use water as carelessly as I have been using it? And how will anybody else find out?"

None of these problems would arise under a metering system, in which the individual or family user pays for each gallon he uses, and saves on each gallon he doesn't use. Then each family has a clear and direct incentive to economize. And in a serious water shortage, a city could raise the price it charged per gallon.

I am aware that this single proposed change doesn't answer all questions. Meters are expensive. It takes time to make and install them. In ordinary circumstances the "free" common use of water may look like the cheapest and most sensible system.

But what happens when water use is socialized helps to explain what happens wherever the socialist principle is adopted.
Reformer watching will probably never catch on as a national pastime. It requires more patience than watching baseball. It is less stimulating than girl watching, more esoteric than bird watching, and has more moves which must be carefully pondered than does chess. As if that were not enough, most of the time you don’t even know what you are looking for.

Reformers are so adept at concealing their intent that even the most skilled observer is apt to become confused. If baseball were played their way, no one would know where the bases are, and the location of home plate would be a deep dark secret. Even so, reformers need watching, for if they are left to their own devices they are capable to doing an immense amount of harm. It has been well said that the price of liberty is eternal vigilance, and the kind of vigilance required for keeping reformers in their place may be likened to that of a pitcher with a runner on first.

I bring considerable experience to these observations. As unpalatable as the undertaking may appear, I have spent a goodly portion of my adult life as a reformer watcher. I have watched them mount their media campaigns, belabor the ills that beset us from this or that or the other source, mobilize their legislative contingent, bring pressure on presidents, make their appeals to the courts, and enact their programs. I have studied the ideas that animate them and sought to uncover the results of their reforms. I have even seen them slip over to join the critics of some reform they had

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Dr. Carson has specialized in American intellectual history. This, he suggests, is what accounts for his expertise at watching reformers.
earlier pushed when the disastrous results had become so manifest that denial would be counterproductive.

I am, then, an inveterate reformer watcher. It is my specialty. From my reading, study, research, and writing I have drawn some conclusions. Even those who lack the stomach for reformer watching themselves may find these conclusions worth their while.

Identifying the Reformer

Before announcing my conclusions, however, it might be well to identify the reformer I have in mind. There are reformers and reformers. My favorite among them is the fellow who sets out to reform himself, leaves others to their own designs, and having accomplished some portion of his purpose allows us to notice the improvement without editorializing about it himself. Another reformer, of sorts, is one who introduces changes, either social or mechanical, which are so superior that others imitate him. However, he is usually thought of, and correctly, so long as he sticks to his own affairs, as an innovator rather than a reformer.

Then, there is the reformer who calls upon us to mend our ways, a variety I find most attractive when he is talking about other people's faults. There have been reformers, too, who have sought to extend individual liberty and voluntary social arrangements by limiting and restraining government. I count myself among these but do admit that we will bear some watching, for not every such change can be accomplished so as to produce salutary results. My own considered view is that all change should be approached warily, for new ills are less easily countered than those with which we are familiar.

But the reformer who needs constant watching, the one who is the focus of our attention here, is of a different breed. That is not to say that in his humanity and foibles he is different from the rest of us. Not at all. On the contrary, the seeds of his vice reside in every human breast. His vice is the conceit that he has been called to straighten out the rest of us. While the conceit may distinguish him, the inclination probably does not. Each of us is equipped with a will to order our surroundings to our own liking, and, so far as people are concerned, we must notice early on that they will just not do to suit us. They pursue their own interests rather than ours, consult their own tastes rather than ours which are more discriminating, and are not overly receptive to our efforts to set them straight.

If that were the extent of the matter, the reformer would be unremarkable. Watching him would be no more than watching the human species in action. The making of the
kind of reformer we have in mind involved much more. It involved the changing of what is recognizable as a vice, meddling into the affairs of others, into a virtue. This, the reformer achieved by imputing to his concern for others an active responsibility for their well-being. Men, in general, had to be conceived as perpetual children, standing constantly in need of direction and supervision by some tutelary power. Once that had been done, the reformer would be virtuous, for he would be looking after those incapable of looking after themselves.

The Reformer Is Utopian and Promises Steady Improvement

More, the reformer who is the center of our attention here is an utopian. He doesn’t usually admit it, but he is. He visualizes a world brought to perfection under the tutelage of the reformer. It will be a world in which politicians have no interests of their own to pursue but are diligently devoted to the general welfare, in which all contraptions work perfectly, in which all risks have been removed from life and everything is safe, in which everyone is vigorously working in concert for the general good. It is a world in which competition has given way to cooperation, in which there is freedom without responsibility, plenty without the necessity for struggle, and full time pleasure with never a pain. His vision is of a land that is nowhere, therefore, an utopia.

Of course, the reformer does not usually profess his utopianism; instead, he promises improvement, albeit steady and, hopefully, continuous. How is all this to be brought about? Now, we are at the nub of the matter. The reformer claims to have discovered a wondrous machine that will bring all this to pass. That machine, or mechanism, is government! The reformer did not discover government, of course; that has been around for some time. What he has discovered, or alleges, is that government can be used to bring about marvelous improvements in our condition.

In view of its antiquity, this is a strange claim to make about government. We might suppose that if government were capable of performing such marvels, many, if not most of them would long since have been vouchsafed to us. Sad to say, that has not been the case. Even the most casual student of history must recognize that the record of government has been quite uneven. Indeed, far from being in much position to improve people, most governments have stood greatly in need of improvement themselves.

Far be it from me to blacken the reputation of government, however, for I perceive it to be necessary, if not a necessary evil then made necessary by the evil that lurks in our
breasts. But the methods of government are not of the sort that would ordinarily inspire in us the belief that they could be generally applied so as to improve our lot. Lest we forget, government has to do with the least attractive of all legitimate human endeavors. The basic business of government is to maintain the peace, and to do so it must resort to force, using it only against wrongdoers, hopefully, but force nonetheless. Its constabulary seizes people against their wills, locks them up, surrounds them with intimidation, and compels them to submit to judgement. Its officers are fitted out with weapons of one sort or another: pistols, sticks, heavy flashlights, rifles, and other death or injury dealing instruments.

The Role of Government

Government is the only body within society charged with the duty of compelling, incarcerating, maiming, and killing, when and as the occasion for it arises. To support itself, government seizes some portion of the substance of the people who live under its sway. At best, government is a considerable burden; at worst, it is the cross which those who are more or less innocent bear for the presence amongst them of the more pronounced wrongdoers.

Of course, the reformers I have in mind do not usually face the problem of the forceful and imperfect nature of government (or of those who govern) head-on. It is not government, the ancient and immemorial user of force, that they profess to have discovered. It is, instead, democratic government. The reformers have, so to speak, stolen first base; they have engaged in some sleight-of-hand. They have set aside the problem of perfecting government and substituted for it the perfecting of democracy. There is little doubt that if perfect democracy consisted of everyone voting, democracy could be very nearly achieved. But how government would be improved, much less perfected, is by no means clear. The proof is lacking for establishing as a fact the view that government is either substantially altered or improved by the expansion of the electorate.

Here is where the sleight-of-hand comes in. In democracy, they will have us believe, the government becomes all of us. Government is no longer that specialized instrument of force that it has ever been; it has been transformed into the general will. It is supposedly purified of its dross by the alchemy of the popular vote. Such a change is not apparent, however, to the skeptical and unbelievers. Government still acts by the police, the military forces, resorts to taxation, and uses coercion to attain its ends.

Even so, the reformers have proceeded toward their goal by stealing
second base. Unable to change the character of government, they have sought, instead, to change its image. They have downplayed its activities having to do with crime and punishment and presented it as a benefactor which provides goods and services to the people. In recent years, reformers have labored with might and main to restrict and limit if not actually to do away with government’s use of force on criminals. They have opposed capital punishment, limited police activity, provided Federal aid to improve the image of the police, attacked the FBI, sought to reform prisons, and opted for probation rather than punishment.

**Expanding the Benefits**

Meanwhile, reformers are ever pressing to expand the supposed government benefits. The government makes grants, loans, pays subsidies, provides Medicare, Medicaid, builds sewage systems, offers aid to schools, props up local government with aid, and in thousands of ways showers benefits upon the populace. It is no wonder that this would be attractive to politicians. Not only can they run for office and bid with one another for who will give the most benefits but also they can largely disassociate themselves from the unsavory business of capturing and punishing criminals, an activity in which the use of force is direct and obvious.

The reformers have stolen third base, too. They are in the process of changing the object of the law. Law has usually been basically concerned with the protection of life and property from trespassers. It still serves that function to some extent, of course, but reformers have shown much more diligence of late in preserving the lives of criminals than of their victims. As for property, they are given to declaring that lives should not be endangered to protect it. Rather, they have been busily advancing legislation for the creation of a host of new crimes. These laws have to do especially with regulating, restricting, restraining, and compelling commercial activity. The government has been becoming the dominant third party in all transactions between employers and employees and buyers and sellers. There is said to be a great increase in “white collar” crime in our day. Small wonder, when every transaction is fraught with the danger of criminal prosecution!

Finally, the reformers are in the process of stealing home plate. They are doing so by changing government from its role as protector of property to plunderer of property. Government is still an instrument of force, but it is changing the focus of its exercise of force and bringing it to bear on the property of the citizenry. What can be bought with a given amount of money is rapidly
declining as government increases the supply. Ever larger amounts are being taken in taxes to pay for the benefactions of government. Even where property is technically left with its private owners, control over it is being taken away by regulations and prescriptions as to how it is to be used.

Who Are They?

Who are these reformers? They are all those who act on the premise that the responsibility for the well-being of each of us is collective, who see government as the instrument for implementing this collective responsibility, and who formulate and support programs of this character. The animating idea behind them is socialism, but they are not usually called by that name in the United States. They have been most commonly called liberals for the last half century or so. They are more apt to be Democrats than Republicans. Their home base is usually some sort of intellectual endeavor: college professor, school teacher, dramatist, journalist, preacher, editorial writer, or what have you. For several decades, their assumptions have held sway in the media of communication.

We should not suppose, however, that the reformers are always victorious, that they are able to move in a straight line toward whatever is their goal. On the contrary, they have suffered many set backs along the way. That is the moment when they require the most vigilant watching, however. For they are quite adept in turning apparent defeat into victory. This is especially the case when the victory is so superficial as to leave their assumptions still in control.

We may be faced with just that set of circumstances at the present time. It is generally believed that the election of Ronald Reagan to the presidency and of a Republican-controlled Senate in 1980 was a considerable set back to the reformers we have been discussing. Superficially, it undoubtedly was, and it may well turn out to be a much deeper change than we can yet know. But there were signs, even before Mr. Reagan was inaugurated, of the reassertion of the assumptions of the reformers. The most prominent sign was the repeated assertion in the media that the newly elected President was going to concentrate on getting the economy functioning well during the early months of his administration.

Beware the Assumption

There is an assumption in this assertion of which we might well be wary. It may not be an assumption of Mr. Reagan's. It may not be an assumption of people in his administration. It may not be the assumption which is widely held in the Congress. But it is an assumption,
nonetheless. The assumption is that it is the business of government to keep the economy functioning well. There is a tacit assumption, too, if I mistake not, that our economic ills are somehow the result of something wrong with our economy. If that assumption be accepted, it would seem to follow that the government has the task of reforming the economy.

The problem, as I understand it, lies in a different direction. The problem lies mainly in a bloated and malfunctioning government, in a government which has assumed a mass of responsibilities beyond its authority and ability to perform. To put it another way, the government is doing its basic task neither well nor effectively, its basic task of keeping the peace and protecting Americans from trespassers both at home and abroad. Its interventions in the economy have indeed done great harm, but the task is not to get the economy functioning but to contain and limit government so that it can perform its functions well. All this may be only a matter of semantics, but that is how assumptions get planted, by words, and it is the assumptions which tend to pull our actions along with them.

At any rate, it is this sort of thing that I mean by reformer watching. Of course, the subject of reformer watching cannot be exhausted in one easy lesson. It is at least as complex as bird watching—ornithology—and I have enough material on hand for a college course on the subject. Come to think of it, it is of such importance and urgency that every college, and most high schools, should promptly require such a course. And, since I doubt that I will be able to persuade all of them to introduce it voluntarily, plus the fact that the effort would take too much time, there ought to be a law passed forthwith requiring the teaching of it in all schools. How would that be as a reform?

If that last paragraph be taken in the spirit in which it was written, it may lead us to the most important variety of reformer watching. I suspect that each of us has a little reformer inside him. It may be undernourished and insignificant in all those going about their own business and shouldering their responsibilities. But as soon as we are ever enticed by the notion of unloading some of our responsibilities on others, and especially on government, the reformer begins to gain hold of us. Most of us have our hands full in watching that potential reformer in ourselves. In fact, if each of us would take care of that particular reformer there would be no occasion for reformer watching at large, even for those who may derive pleasure from it.
A news commentator once observed that "any half-dozen economists will normally come up with about six different policy descriptions."

It certainly does seem that way! If economics is a "science," then why does it defy the precision, the certainty, and the relative unanimity of opinion which characterize so many other sciences—physics, chemistry, and mathematics, for instance?

If laws of economics and human action exist and are immutable, why do we find economists all over the board on matters of critical importance? Economist A champions a tax cut while Economist B favors a tax increase. Economist C argues for tariff protection but Economist D calls for free trade. Another economist proposes socialization and is opposed by yet another who advances the market economy. Indeed, if there is anything which all economists can agree on, it is that, well, they disagree.

Perhaps the cynic will glance at this economic Tower of Babel and condemn the study of anything economic. But that would be unfair to the many eternal truths which do exist in the field of human interaction in the marketplace. Such a view, moreover, is what some would call a "cop-out." It offers no plausible explanation for the confusion and no guides for sorting out what is correct from what is incorrect.

Yes, there are methods to the "madness" of economists. The fact that they do not all think alike is capable of explanation. Where might we start?
First, economics is simply not physics, chemistry, or mathematics. It is the study of human action, and humans are not programmed robots. Yes, certain immutable laws of nature do indeed exist, but one of them is that humans are—each and every one of them—inner-motivated, creative, self-interested organisms. They range from docile to irascible, meek to daring, complacent to ambitious, smart to not-so-smart. As Adam Smith pointed out more than two hundred years ago, "In the great chessboard of human society, every piece has a principle of motion of its own, altogether different from that which the legislature might choose to impose upon it."

This inherent variability can easily give rise to dissent among those observing it and it can just as easily confound the predictions of those bold enough to place a mathematical handle on it.

Being individuals themselves, economists will differ in their value and ethical judgments. One who is a socialist will differ on a policy matter with one who is a libertarian. They may even agree on the outcome of that policy while disagreeing on whether that outcome is "good" or "bad." People who are well-intentioned and truth-seeking yet operating from divergent ethical premises frequently arrive at divergent conclusions.

In addition, economists may disagree because they have different data or insufficient data or no reliable data at all.

These are some, and I am sure not all, of the reasons why good economists may clash. The purpose of this essay, however, is to look for reasons for economic confusion in another direction. In brief, economists clash because, as Henry Hazlitt has so succinctly put it, "Economics is haunted by more fallacies than any other study known to man" (emphasis mine).

Is there such a thing as "bad economics?" You bet there is, just as surely as there is good plumbing and bad plumbing. If one means by "bad economics" the promotion of false reasoning, mistaken assumptions, and shoddy intellectual merchandise, then Hazlitt’s comment ought to be enshrined as a law!

It may be an oversimplification, but I believe that the essence of "bad economics" can be distilled into the following seven fallacies. Each of them is a pitfall which the good economist will faithfully bypass.

1. The fallacy of collective terms. Examples of collective terms are "society," "community," "nation," "class," and "us." The important thing to remember is that they are abstractions, figments of the imagination, not living, breathing, thinking, and acting entities. The fallacy involved here is presuming
that a collective is, in fact, a living, breathing, thinking, and acting entity.

The good economist recognizes that the only living, breathing, thinking, and acting entity is the individual. The source of all human action is the individual. Others may acquiesce in one's action or even participate, but everything which occurs as a consequence can be traced to particular, identifiable individuals.

Consider this: could there even be an abstraction called "society" if all individuals disappeared? Obviously not. A collective term, in other words, has no existence in reality independent of the specific persons which comprise it.

It is absolutely essential to determine origins and responsibility and even cause and effect that economists avoid the fallacy of collective terms. One who does not will bog down in horrendous generalizations. He will assign credit or blame to non-existent entities. He will ignore the very real actions (individual actions) going on in the dynamic world around him. He may even speak of "the economy" almost as if it were a big man who plays tennis and eats corn flakes for breakfast.

2. The fallacy of composition. This error also involves individuals. It holds that what is true for one individual will be true for all others.

The example has often been given of one who stands up during a football game. True, he will be able to see better, but if everyone else stands up too, the view of many individual spectators will probably worsen.

A counterfeiter who prints a million dollars will certainly benefit himself (if he doesn’t get caught) but if we all become counterfeiter and each print a million dollars, a quite different effect is rather obvious.

Many an economics textbook speaks of the farmer who is better off because he has a bumper crop but may not be better off if every farmer has one. This suggests a widespread recognition of the fallacy of composition, yet it is a fact that the error still abounds in many places.

The good economist neither sees the trees and ignores the forest nor sees the forest and ignores the trees; he is conscious of the entire "picture."

3. The fallacy of "money is wealth." The mercantilists of the 1600s raised this error to the pinnacle of national policy. Always bent upon heaping up hoards of gold and silver, they made war on their neighbors and looted their treasures. If England was richer than France, it was, according to the mercantilists, because England had more precious metals in its possession, which usually meant in the king’s coffers.

It was Adam Smith, in The Wealth
of Nations, who exploded this silly notion. A people are prosperous to the extent they possess goods and services, not money, Smith declared. All the money in the world—paper or metallic—will still leave one starving if goods and services are not available.

The "money is wealth" error is the affliction of the currency crank. From John Law to John Maynard Keynes, great populations have hyperinflated themselves to ruin in pursuit of this illusion. Even today we hear cries of "we need more money" as the government's monetary authorities crank it out at double digit rates.

The good economist will recognize that money creation is no short-cut to wealth. Only the production of valued goods and services in a market which reflects the consumer's wishes can relieve poverty and promote prosperity.

4. The fallacy of production for its own sake. Although production is essential to consumption, let's not put the proverbial cart before the horse. We produce in order that we may consume, not the other way around.

I enjoy writing and teaching but I enjoy sunning in Acapulco even more. I have labored to produce this piece and to teach its principles in my classes instead of going to Acapulco first because I know that's the only way I'll ever get out of Michigan. Writing and teaching are the means; sunning in Acapulco is the end.

A free economy is a dynamic economy. It is the site of what the economist Joseph Schumpeter called "creative destruction." New ideas supplant old ideas, new products and methods replace old products and methods, and whole new industries render obsolete old industries.

This occurs because production must constantly change shape to conform with the changing shape of consumer demand. As Henry Hazlitt has written, "it is just as necessary to the health of a dynamic economy that dying industries be allowed to die as that growing industries be allowed to grow."

A bad economist who falls prey to this ancient fallacy is like the fabled pharaoh who thought pyramid-building was healthy in and of itself; or the politician who promotes leafraking where there are no leaves to be raked, just to keep people "busy."

It seems that whenever an industry gets in trouble, some people cry that it must be preserved "at all costs." They would pour millions or billions of dollars in subsidies on the industry to prevent the market's verdict from being heard. The bad economist will join the chorus and ignore the deleterious impact that would befall the consumer.

The good economist, on the other hand, does not confuse ends with
means. He understands that production is important only because consumption is even more so.

Want an example of this fallacy at work? How about the many proposals to prevent consumers from buying Japanese autos in order to "protect" the American auto industry from competition?

5. The fallacy of the "free lunch." The Garden of Eden is a thing of the distant past yet some people (yes, even some economists) occasionally think and act as if economic goods can come with no cost attached. Milton Friedman is one economist who has warned repeatedly, however, that "there is no such thing as a free lunch!"

Every "something for nothing" scheme and most "get rich quick" plans have some element of this fallacy in them. Let there be no mistake about this: if economics is involved, someone pays!

An important note here regards government expenditures. The good economist understands that government, by its very nature, cannot give except what it first takes. A "free" park for Midland, Michigan is a park which millions of taxpaying Americans (including Midlanders) actually do pay for.

A friend of mine once told me that all one needs to know about economics is "What is it going to cost and who is going to pay for it?" That little nutshell carries a kernel of advice for the economist: don't be superficial in your thinking!

6. The fallacy of the short run. In a sense, this fallacy is a summary of the previous five.

Some actions seem beneficial in the short run but produce disaster in the long run: drinking excessively, driving fast, spending blindly, and printing money, to name a few. To quote the venerable Henry Hazlitt again, "The bad economist sees only what immediately strikes the eye; the good economist also looks beyond. The bad economist sees only the direct consequences of a proposed course; the good economist looks also at the longer and indirect consequences."

Politicians seeking to win the next election frequently support policies which generate short-run benefits at the expense of future costs. It is a shame that they sometimes carry the endorsement of economists who should know better.

The good economist does not suffer from tunnel vision or shortsightedness. The time span he considers is long and elastic, not short and fixed.

7. The fallacy of economics by coercion. Two hundred years after Adam Smith, some economists still have not learned to apply basic principles of human nature. These economists speak of "increasing output"
but prescribe the stick rather than the carrot to get the job done.

Humans are social beings who progress if they cooperate with one another. Cooperation implies a climate of freedom for each individual human being to peacefully pursue his own self-interest without fear of reprisal. Put a human in a zoo or in a strait jacket and his creative energies dissipate.

Why did Thomas Edison invent the light bulb? It was not because some planner ordered him to!

Why don't slaves produce great works of art, Swiss watches, or jet airplanes? It's rather obvious, isn't it?

Take a look around the world today and you see the point I am driving at. Compare North Korea with South Korea, Red China with Taiwan or Hong Kong, or East Germany with West Germany.

One would think, with such overwhelming evidence against the record of coercion, that coercion would have few adherents. Yet there are many economists here and abroad who cry for nationalization of industry, wage and price controls, confiscatory taxation, and even outright abolition of private property. One prominent former U.S. senator declared that "what this country needs is an army, navy, and air force in the economy."

There's an old adage which is enjoying new publicity of late. It reads, "If you encourage something, you get more of it; if you discourage something, you get less of it." The good economist realizes that if you want the baker to bake a bigger pie, you don't beat him up and steal his flour.

Well, there you have it—not the final answer to confusion in economics, but at least a start. I for one am convinced that good economics is more than possible. It is imperative, and achieving it begins with the knowledge of what bad economics is all about.

A Dangerous Power

The statesman who should attempt to direct private people in what manner they ought to employ their capitals would not only load himself with a most unnecessary attention, but assume an authority which could safely be trusted, not only to no single person, but to no council or senate whatever, and which would nowhere be so dangerous as in the hands of a man who had folly and presumption enough to fancy himself fit to exercise it.

ADAM SMITH, The Wealth of Nations
The Past as Prologue

THE people of the United States last November clearly voiced dissatisfaction with the results of the massive political intervention of recent years. But a strong vote of protest does not necessarily signify an understanding of a better alternative.

Since 1946, FEE has been exploring the market alternative to coercive political management of our lives.

Names and places may change—the political leaders, the warring factions, the specific victims of intervention. But the patterns and principles and consequences are much the same. This is the sense in which the past is prologue.

Therefore, it seems appropriate at the beginning of a new political administration to carefully reconsider what some of the outstanding spokesmen for liberty have said earlier about these perennial problems.

The prolonged negotiations for return of the hostages from Iran and other current events in the Middle East, Africa, Latin America and elsewhere call to mind what Dr. Hans Sennholz said in 1957 about "Welfare States at War." So, what better advice may we find today with regard to our foreign policy? If we would be at peace among nations, let us act at home in ways that do not provoke violence.

Much that same question was asked in 1957 by Professor Sylvester Petro, "Do Antitrust Laws Preserve Competition?" And he, too, concluded then, as we must today, that not more laws and controls but more freedom of choice is the appropriate solution.

And once again, at the approach of the April 15 tax deadline, it is appropriate to review the background information shared twenty years ago by John Chamberlain. The statistics cited then concerning the impact of "The Progressive Income Tax" need to be modified by the subsequent decades of aggravated inflation. But, again, the message is clear: unlimited government and unlimited taxation are not the terms and conditions of a humane society.
The new international crises sparked in the Middle East, and the constant danger of another world war, need not surprise the student of contemporary international relations and economic policies. The ideology of socialism and interventionism has swayed our foreign relations, and the policies of Welfare States have destroyed international peace and order.

While throwing the blame for the present crises on the doorsteps of "capitalist colonialism," the Welfare States are battling each other. All parties involved in the Mid-East are either socialist or interventionist nations. Israel is a large army camp crowded by people who are given to socialist ideas; Egypt is an interventionist country with a dictator bent upon leading his nation to socialism; France has a socialist government with controls that leave little room for competitive enterprise; and Britain is floundering between socialism and interventionism. In other words, there is little capitalism, in the sense of competitive private enterprise, in any one of these countries.

Absence of individual freedom and free enterprise makes for economic nationalism and international conflict. By fundamental nature and objective, the Welfare State controls private property and limits individual freedom in order to distribute economic spoils and privileges to pressure groups. The Welfare State is a favor state.
Pressure groups of producers expect the government to increase the prices of their products or services, with utter disregard for the economic interests of the vast majority of their own countrymen and of many foreign producers. In most cases of welfare legislation the favored group's foreign competition is either eliminated entirely or severely curtailed. This is economic nationalism, the most important source of international conflict.

Economic Nationalism Creates Conflict

Let us demonstrate how interventionist policies lead to economic nationalism with a few American examples. In order to enhance the price of sugar cane and beets produced by a few thousand American farmers, the federal government not only levies a highly protective sugar tariff, but also imposes severe import quotas. To afford our domestic producers a temporary gain, we partially close our markets to Central American sugar. In other words, we cause domestic prices of sugar to rise and depress foreign prices, subsidizing our sugar farmers at the expense of American consumers and Cuban farmers. This is economic nationalism.

Meanwhile, Soviet Russia takes political and economic advantage of our shortsighted “welfare policies.” She buys Cuban sugar at depressed prices, thus appearing as benefactor to our southern neighbors.

In deference to our cattlemen, we prohibit the importation of cheap Argentine beef. That is to say, we favor domestic producers to the detriment of domestic consumers and South American producers. These and similar acts have earned us the hostility of our Central and South American neighbors. Russia, of course, ably utilizes our trade restrictions for her own purchase policies. Her efficient propaganda then interprets our behavior as capitalist imperialism, and her own as a token of communist friendship.

Similar acts of economic nationalism on the part of our federal government include the recent tariff increases on Swiss watches, the import restrictions on foreign dairy products, and many others. In each instance we severely hurt foreign producers in order to “assist” our pressure groups.

West Sets Bad Example

Of course, the other Western powers are guilty of similar policies of economic nationalism. The United States, Britain, and France embarked upon the welfare road to international conflict after Imperial Germany had shown the way. In the 1880's the German government imposed heavy social costs on the German economy. The logical outcome would have been a loss of sales to
foreign competition, with German unemployment. To avoid these undesired effects, the government created cartels. Behind high walls of protective tariffs these organizations then charged monopoly prices on the domestic market and dumped excess supplies on foreign markets at low prices. This was economic nationalism at its source.

Germany has become the classical example of government omnipotence in economic matters. There is scarcely any restriction on trade that was not practiced and fully developed in Germany. The people in underdeveloped areas, unaware of the meaning of individual liberty and capitalism, have admired this seemingly omnipotent power of the German state and often have endeavored to imitate it.

Britain's economic nationalism dates back to World War I and especially to the Import Duties Act and Ottawa Agreements of 1932. The preferential principle that became the guiding principle of British political action gave "home producers first protection, Commonwealth producers second protection, and foreign producers none at all." Britain imposed substantial duties on most foreign foodstuffs and raw materials in order to grant trade preferences to Commonwealth producers. Consequently, foreign sales in Great Britain declined considerably.

The Churchill government during World War II imposed a multiplicity of restrictions from the armory of socialism. The Labor government then went on to nationalize the "means of exchange," the coal mines, the gas and electricity industries, the iron and steel industries. It vested in a Central Land Board all development rights in land. It did its utmost to eliminate rent, profit, and interest in order to employ the revenue for projects of "national development." In all these acts of seizure of private property, the Labor government showed no hesitancy because of foreign investments. It seized them along with those of its own nationals. All this meant economic harm to foreigners, who watched and learned the lesson in government omnipotence.

Underdeveloped Areas Follow Suit

Can it be surprising, therefore, that governments in underdeveloped areas of the world finally begin to imitate the West's own policies? Can we blame them for feeling free to do what they please provided they enjoy the backing of their own popular majorities? Indeed, they may have learned from us to seize and nationalize private property and arbitrarily to tear up contracts, including their own charters.

Colonel Nasser is a thorough student of Western welfare statism and economic nationalism. He desired revenue for a program of "national
development.” Why should he not seize the Suez Canal Company, this private corporation on Egyptian soil? What does it matter that his government was paid in full for the use of a desert strip before the Canal was built? What of Egyptian signatures to international agreements? What if there were government charters and promises? He enjoys the backing of a popular majority. Does this not make him omnipotent? Does this not lift him above the restraints of moral and ethical laws of human relations?

Can the sovereign state of Egypt be bothered that the private property it seizes happens to be the life line of British Commonwealth trade and controls the flow of Mideastern oil? What does it matter that the well-being of all Europe must deteriorate through his nationalization of the Canal? What other sovereign state considered foreign interests in the realization of its statist objectives? Influenced by such ideas, Colonel Nasser embarked upon his tragic policies of economic nationalism and international conflict.

The next move then was up to those whose property had been seized. Among the victims, the governments of France and Great Britain decided to seize the Canal by force, pending an international conference to discuss the Canal’s internationalization. No party involved wants to return the Canal to its lawful owners. Internationalization and control by several governments, however, merely means collectivism and economic nationalism on a super-governmental basis.

**What Course Freedom?**

The defender of private property and competitive enterprise, observing such an insoluble conflict, is at a loss regarding the question of guilt. Is he to sympathize with the culprit who started the conflict in order to finance various “welfare policies”? Or is he to sympathize with the socialized victims who resort to force, which is evil, in order to alleviate the original evil?

In sharp contrast to the international conflict between socialist governments in this Mid-Eastern affair is the peaceful coexistence of laissez-faire nations, which realize the ideals of personal freedom of choice, private ownership and control of property, and peaceful exchange in a competitive market. Under this concept, the sole function of government is the protection of its own people from domestic peacemakers and from foreign aggressors. Such a government would wage war only to defend the lives and property of its own citizens. This means that it should not participate in foreign wars that grow out of economic nationalism. For such warfare only destroys and does not protect life and property.
While an individual peacebreaker can easily be punished and isolated in a penitentiary, a collectivist nation conducting policies of economic nationalism can be disciplined and subjugated only through a full-scale war and subsequent occupation of its territory. To discipline a nation that refuses to embrace the doctrines of freedom and free enterprise is an endless and hopeless task.

A citizen of a free country who goes abroad should know that he travels at his own risk. Crossing the border of his state and entering socialist or interventionist territory is to leave law and order behind. He risks transgressions by the foreign state upon his life, liberty, and property. A businessman who invests his funds in collectivist territory must consider the risks of expropriation, foreign exchange control, confiscatory taxation, and many other "welfare" measures. He is beyond the protection of his capitalist government. He is on his own.

Despite curbs and checks on its power, and its inaction in a world of conflict, a government designed for freedom is a natural leader. The creative power of a free nation by far excels that of socialist or interventionist countries of similar size. And it is productive strength that lends the position of leadership to a country in a world that is always fighting or preparing to fight.

But true leadership that exerts potent influence toward world peace and prosperity springs from a far more important source than material and military might. True leadership grows out of impeccable behavior and moral conduct. A leading nation that lacks these prerequisites can guide the world only to more chaos and conflict.

Above all, such a nation must refrain from any act of economic nationalism. It must not harm any other nation through "welfare" policies of its own. It must adhere to its own design for freedom. To reprimand other nations for policies of economic nationalism while waging economic war upon its own neighbors would be hypocrisy and sanctimony.

Throughout most of the nineteenth century Great Britain was a true world leader. Her famous open-door policy treated Britishers and foreigners alike. The Empire was a vast free-trade area in which the government merely undertook to maintain peace, law, and order. Most civilized nations soon followed suit in removing their trade barriers and adopting the Empire standard of exchange, the gold standard. The British government indeed led the world during the most peaceful century of human history.

A leading nation must also reject the immoral principle that one act of economic nationalism by one government sanctions the nationalistic
policies of all other governments. This is the principle that crime be­
comes righteousness if a previous crime has remained unpunished. But this very assumption underlies many prevailing notions concerning for­
eign affairs.

**Things We Can Do**

World leadership demands that we should openly judge world events and explain the fallacy of every act of economic nationalism. If a foreign government contemplates or em­
barks upon economic aggression through "welfare" legislation, we should call attention to the inevita­
ble harm inflicted upon other na­
tions. We need not intervene forc­
ibly, for nations cannot be coerced to peaceful coexistence. Only a change in political and economic outlook can bring this about.

Naturally, we would sign no treaty with a government that has disre­
garded its own agreements and torn up its own charters. Nor would we assist any government that nation­
alizes private industries, for then we would be helping to promote collec­
tivism and ultimate destruction. There could be no point in our ex­
tending diplomatic recognition to any government that indulges in eco­

Finally, world leadership requires that we constantly defend the prin­
ciples 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 con­
fiscation by an omnipotent state. Our recent excursions toward the Wel­
fare State endanger our record—and ourselves. But if we will correct that trend, then with pride we can demon­
strate to the warring world that individual liberty is the only dura­
ble foundation for peace and pros­
perity.

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 enter­
prise.

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**W. M. Curtiss**

Trading, when engaged in by individuals, is a peaceful, friendly project. When controlled by governments, it provides opportunity for favoritism, intrigue, and a display of power politics. It cannot lead to other than animosity, suspicion, and unfriendly relations.
Do Antitrust Laws Preserve Competition?

The antitrust laws are commonly thought to be the institutions that distinguish the economic system of the United States from the rest of the non-Soviet world. But for these laws, it is said, we should be plagued with cartelization as in Great Britain, Germany, or France. Many believe, in short, that the antitrust laws are responsible for our having a competitive society.

Preserving competition might have been the objective about 1890 when the basic act was passed. But certainly for the past generation the antitrust laws have not functioned to that end. Rather than preserve, they have through questionable interpretation and administration in fact impaired competition, by subsidizing and preserving inefficient competitors.

By competition, I refer to a situation that exists when the basic rules of the free society are observed—when everyone possesses the basic rights of private property and freedom of contract. Competition is not a mode of conduct that anyone has to promote institutionally. It develops naturally and necessarily among persons who are free to pursue their own interests. Whatever one's personal interest or objective may be—businessman, sculptor, or preacher—the consequence of pursuing it puts him in competition with all who share that objective. That being the case, preoccupation with promoting competition is at best a diversion of effort which could have been used to protect private property and free-

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dom of contract. My thesis is that we have erred in the formulation and application of the antitrust laws of the United States.

**A List of the Laws**

What are these laws? The first is the Sherman Act of 1890. This law makes every contract or combination in restraint of trade and every conspiracy to monopolize the trade or commerce of the United States a misdemeanor.

Next came the Clayton Act in 1914, declaring unlawful specific types of contract, such as a tying agreement or an exclusive sales contract, when the result may be to lessen competition or tend to create a monopoly. The Clayton Act was intended to clarify or make concrete the general proscriptions of the Sherman Act.

Usually included among the antitrust laws is the Federal Trade Commission Act which broadly states that unfair methods of competition shall be subject to prosecution.

Though Fair Trade laws are laws of particular states, they also come under the heading of antitrust laws. All provide that when a contract is made between the seller or manufacturer of certain goods and a retailer, providing for a specific resale price, then all purchasers of these goods with notice of the main contract are bound to observe the price set in that main contract. These state Fair Trade laws all grew out of what I believe to be unfortunate decisions under the Sherman Act prohibiting a resale price maintenance contract between a manufacturer and a retailer.

Though I see no violation of freedom of contract if a retailer is willing to sell at the resale price stipulated by the manufacturer, the Supreme Court thought restraint of trade was involved and held such resale price maintenance contracts unlawful. Conditions in the 1933 depression prompted many states to pass Fair Trade laws, and Congress suitably amended the Sherman Act to validate such state laws. But these laws now go much further than legitimatizing a reasonable contract between a manufacturer and a retailer; they enable that manufacturer and retailer to fix prices for all persons who come into possession of the goods in question. Such binding without consent appears to violate the principle of freedom of contract—a case of having pushed the Sherman Act to reach an anticompetitive result.

The Robinson-Patman Act of 1936 is the last of the antitrust laws worth noting here. This act, in general, provides that the price—including such things as advertising allowances or brokerage fees—for goods of like grade and quality must be the same to all purchasers, subject to these qualifications: (1) A price discrimination is not unlawful if it
can be demonstrated that it has no tendency to limit competition or create a monopoly. (2) If the seller can demonstrate that his costs of selling are lower to buyer A than to buyer B, then he may charge A a proportionally lower price. (3) A seller may discriminate in favor of buyer A if he can show that he had to lower his price in that instance to meet in good faith the offer of a competing seller. Like the Clayton Act, the Robinson-Patman Act was designed to be specific concerning one of the general objectives of the Sherman Act.

The Northern Securities Case

On the basis of this brief outline of the various antitrust laws, let us proceed to examine how these laws have been interpreted and used. I mentioned earlier that one consequence of antitrust action has been to preserve inefficient competitors to the impairment of competition. In other words, the antitrust laws have been perverted from a supposed charter of economic liberty into a demagogic onslaught against large and successful business with a kind of vote-buying subsidy, not for small business, but for inefficient business.

Both historically and doctrinally this process can be traced to a famous case involving Messrs. Hill and Harriman—the Northern Securities case. Hill and Harriman, after what some people called a titanic financial war, decided that it would be to their advantage if they merged a couple of railroads running along the northern tier of states out West. The railroads were the Great Northern and the Northern Pacific. The United States sued under the Sherman Act, charging that this was a violation of both Sections 1 and 2 of that Act—a combination in restraint of trade, and an attempt to monopolize a certain portion of the trade or commerce in the area of the United States that these railroads covered.

The decision was close. A majority of one held that the holding company violated the antitrust act. Justice Harlan, grandfather of the present Justice Harlan, reasoned for the majority along these lines: In prohibiting combinations in restraint of trade, what the Sherman Act intended was to outlaw any impairment of competition. Though these companies did not compete for 74 per cent of their business, there was an overlap of 26 per cent; and when they decided to merge, that 26 per cent was destroyed. Therefore, there was a restraint of trade within the meaning of the Sherman Act.

Holmes Was Right

Justice Holmes, dissenting, reasoned from the fact that the Act does not say that any reduction in the number of competitors is a misde-
meanor; it says that a combination in restraint of trade is a misde-
meanor. He argued that since the words "in restraint of trade" were
used, the Court ought to follow the meaning generally given those words
under common law—the classical theory of interpretation. He was
right. The assumption is, and has to be—except in the case of deliberate
specification to the contrary on the part of Congress—that the words of
any statute are used in the sense of existing law. Holmes went into an
exhaustive survey of the relevant common law and pointed out that
there was nothing whatsoever in its history to imply that such a merger
is a restraint of trade.

Holmes further said in effect: The Court must remember that the rule
it is making in this case is a rule that must be applied equally to all
persons engaged in mergers. If it be said that these two railroads cannot
merge because they compete for 26 per cent of their business, one must
say that two corner groceries who compete for 26 per cent of their busi-
ness cannot merge. It would be the same for other persons. Further-
more, by this case the Court is establishing a precedent to the effect
that if one of these persons should buy out the other, he is violating the
law. Without realizing it, Holmes said, the Court majority is constru-
ing the Sherman Act as destructive of one of the leading principles of so-
ciety in this country, that is the free, inalienable right of voluntary asso-
ciation.

I believe Holmes was right in this case. He was right both as a techni-
cal legal analyst and in his forebodings. Establish the premise that vol-
untary mergers are bad, and you have a basis for challenging normal,
common business procedure in an economy based on freedom of con-
tract. This is the daily fare of business and of capital. If a business
feels that its affairs may be more ra-
tional if it combines with another
firm, it merges or acquires assets or
stocks of another corporation. And
yet, each time this perfectly normal
thing is done, the participants are in
danger of antitrust prosecution.

One must recognize the real na-
ture of the hidden menace here.
The fact is that not every merger
can be prosecuted. It is a physical
impossibility. A market economy
could not function if every such ac-
tion were prosecuted. However, from
the point of view of legal science, the
resulting situation is very bad. In-
stead of having a universal rule of
law applicable equally to all mem-
ers of society in free and open com-
petition, what we have is selective
prosecution.

The Political Test

What is the basis of selection? There isn't any legal basis for selec-
tion, and if you haven't a legal non-
arbitrary basis for selection, what is your basis going to be? The answer is perfectly clear. It is going to be political and ideological. And these two things have tended to merge inextricably over the last 40 years or so.

There is a great preoccupation with timing of antitrust prosecutions; suits are brought against mergers whenever the Democrats, or the Republicans, want to make political hay by showing how rough they are on business. Add to the mix the Marxist theory that business is bound inevitably to get bigger and bigger until we are all at the mercy of the exploiting monopolists, and you have two primary qualifications for antitrust prosecution. First of all, it has to be a big business, big enough to scare people. And secondly, the occasion has to be politically propitious.

What is to happen to a country in which success in the market place is to be a signal for prosecution by politicians anxious to curry public favor? It is a serious question, prompted by the situation which prevails today. Danger of antitrust prosecution threatens any firm that manages to grow and to out-produce its competitors.

It would really be a comfort to know that each business was doing its utmost to get as much of the market as it possibly could, that each firm was striving to put out the greatest possible production at the lowest possible cost, that, in short, it was being directed in accordance with the public good. But because of so many interventionist devices, the measuring sticks provided by a free market are no longer available. You can't be sure that a move or a failure to move on the part of a business is dictated by economic considerations in response to the desires of the people.

**Prosecutions for Price Fixing**

Further insight into the absurdities and frustrations of the antitrust laws is afforded by review of the prosecutions under the Sherman Act for price fixing. The famous Morton Salt case dealt with that issue. And there have been a great many others—perhaps 30 or 40 before the Supreme Court. But what on earth can be the consequence of a judgment that a price-fixing agreement is unlawful? What can anyone do about it if 20 firms have agreed to charge a certain price for a product? Assuming that it is a homogeneous product, how can 20 different firms be expected to sell it at 20 different prices? If A charges 98 cents, B a dollar, and Z $1.26, how is Z to gain a sale?

The point is that such prosecutions are nothing but ceremonial political promotions of the party line: "Watch those businessmen!” We are great at berating the businessman
for doing what is as natural to him as breathing. The function of the market is to find the right price, to bring competing goods toward the same price, and to screen out those producers who can't meet the price.

The Cement Institute case illustrates the point. All over the country, cement manufacturers were submitting bids that were identical to five decimal places; and the Supreme Court thought this was inherently incredible without some evil conspiracy. But if this seems incredible, try to sell cement at as much as a fraction of a cent higher than competitors are charging. When cement prices begin showing variations, it will be time to look for collusion and conspiracy.

The Law Is Guilty

So we find that the Sherman Act itself, the basic antitrust law, has been and is being used, not to promote and maintain competition, but to discourage the able firms from operating to the limit of their abilities. Add to this the Fair Trade and the Robinson-Patman designs to handicap the larger more efficient merchandisers, and there is no escaping the conclusion that the so-called antitrust laws are in fact anticompetitive and antisocial. They are pushing toward a rigid, inflexible, industrial structure which interferes with the free play of market forces.

Why the Market Works

I have already mentioned some important requirements for the functioning of a free society—for the free play of market forces. The right to private property is one. Freedom of contract is another. Beyond these is a need for better understanding of the market process—more faith in it and less fear of it.

The market works because of man's desire to make a profit, to get more out than he puts in. Capital formation and use rest on this premise. People act in order to better themselves, increase their profits, decrease their losses. And the best opportunity for profit lies in the production of things others want—in service to others. This means that the profit motive is morally as well as economically sound.

The free play of market forces also calls for freedom to trade. Free trade policies are the most effective and successful of all possible antitrust actions. Free trade is the best kind of curb on all forms of government intervention, including subsidies to farmers, monetary tricks, or any other interference you could name. One of the grim features of our day is the great preoccupation with international peace and harmony while at the same time we have the erection of all sorts of trade barriers.

On the domestic front we glory in the productive accomplishments of the industrial revolution and freely
acknowledge the advantages of large scale mass production. But we seem bound to try to stop the spreading of such advantages when it comes to distribution and retailing of these goods and services. Our politicians count noses and find more small retailers than chain store operators. So they enact Fair Trade laws and Robinson-Patman acts deliberately designed as barriers to the development of mass distribution methods which could mean better living for all as consumers. Perhaps this simply reflects a general fear of bigness in business—a feeling that the greater the number of competitors, the better.

Exclusion by Force

A free competitive market is not a condition which requires for its existence large numbers of producers. It only requires freedom on the part of all people to produce if and when they wish. If the unlikely situation should exist that in a certain line of production a single firm could most economically satisfy the whole market, then, of course, you would have a condition which might be called monopoly. But this is not the aspect of monopoly that people fear. What really disturbs people about monopoly is not that a single person or firm has control over a commodity but that force, compulsion, or special privilege has been used to keep other people out.

Some history is useful here. Monopoly became a problem in the Anglo-American legal system owing to its origin. Monopoly originated in crown grants to certain people of exclusive privileges maintained by the force of government. Queen Elizabeth granted a monopoly in salt, playing cards, and a number of other things. She did this only because she was dissatisfied with the fact that Parliament controlled the purse strings in England. Parliament had insisted on the exclusive power to tax, but Queen Elizabeth had certain ends and aims of her own, and the money needed to attain them came from the persons or groups to whom monopoly powers were granted.

Why Monopoly is Wrong

It's very plain that this situation has nothing to do with the free market, which grants no exclusive franchise. But the market does not preclude a monopoly. In fact, monopoly in the purely descriptive sense and the right of private property are the same thing. Each of us is a monopolist. We are in exclusive control of our person and all that we legitimately create. If we legitimately create the best and most efficient organization, so productive and so efficient that no one else can compete, we have a monopoly in that descriptive sense. But there is no social harm done as long as everyone else
has an equal right to get into production. There can't be any social harm because the social interest lies in the most efficient production of goods. Monopoly in this sense means only that society has achieved that end. One person, one firm, in a free competitive market, has proved to be more efficient than any other. Anyone else is free to produce, if he thinks he can compete.

We have a pretty good example of that sort of thing in the automobile industry in this country. The industry operates in as free a market as one can have in this imperfect market economy. Unlike some other industries, this one is not plagued by an overweeningly jealous attitude toward patents. Anyone can get into it. But more are getting out than getting in. Is something drastically wrong in that industry in the sense that a social harm is being done? It seems to me, if you are fair about it, you would have to say that the big three in the automotive industry are simply better public servants in this line than anyone else.

There's quite a difference between monopoly in the descriptive sense of being the only producer, and in the exploitative sense of using force or state aid to exclude competition. The latter is something that free men should fear. And they should know that the government itself is apt to be the culprit behind genuinely antisocial monopoly.

A Useful Antitrust Action to Curb Collusion

I want to make clear that one phase of antitrust policy is in my opinion of real social utility. That is the phase concerned with secondary boycotts and other predatory oppressive practices which I consider harmful interferences with the free market. Let us assume that 30 or 40 retailers, with a common supplier, have an arrangement to avoid competing and to split up territories. Along comes an interloper, a true competitor, who wants to buy from the same supplier. If the other retailers then threaten to quit buying unless the supplier refuses to deal with the interloper, they are held to be in violation of the antitrust laws—and I think rightly so.

Though the market eventually would rectify such a situation, substantial harm could be done to the interloper in the interim. Also, such collusion might lead to a generally cartelized economy, to everyone's detriment. So I have no objections to antitrust laws as a curb on secondary boycotts and other oppressive action, though I'd prefer that such abusive practices be subject to prosecution under common law rather than special statute law.

Actually, secondary boycotts are rarely used by businessmen, the most flagrant offenders being the trade unions. However, the unions seem to be immune to prosecution under
that single phase of antitrust policy that could be socially useful.

A Positive Program

If I were responsible for preserving competition in the United States, I should not turn to the antitrust laws for help. The common law affords all the legal action needed, and its great merit is that people in significantly similar legal circumstances have to be treated the same way. Politics are excluded.

A long step toward preserving or restoring competition in this country could be taken by abolition of the discriminatory, anticapitalistic, progressive income tax, which skims off the cream of the risk capital—takes the ammunition away from the competitors. They can't compete without ammunition, any more than boxers can perform with their hands tied behind their backs. So my platform would include a plank for repeal of the discriminatory tax laws.

Another plank in my platform to preserve competition in the United States would involve repeal of the laws which have granted so many special privileges and exemptions to labor unions and other pressure groups. In this, I take comfort from the fact that the greatest of all legal scholars, Sir Henry Maine, drew the same conclusion—an elaborate intricate code of laws is a sign, not of a sophisticated society, but of a primitive society. English law, until toward the end of the eighteenth century, was characterized by a practically solid network of laws regulating the most intimate affairs, especially when they were economic affairs. There were laws fixing the amount of flour in bread. A wheelwright couldn't be a wainwright. There were laws against forestalling, engrossing, and regrating, and so on, and on and on. Someone remarked that forward-looking men toward the end of the eighteenth century and the beginning of the nineteenth century were spending most of their time wiping laws off the books and, as you know, the impetus toward that very helpful form of human conduct was supplied by laissez faire theory.

All people interested in having a free society, I think, should be concerned with spreading ideas of freedom; let the actual, detailed measures take care of themselves, as they inevitably will. The ideas have to come first. The most important thing to a society is that its idea factories are really well run. The scholars, writers, and philosophers of a society have to be good or there is really little hope. How does one bring about a change in the idea factories? I have no answer except that hard one of slow self-discipline, more rigorous and objective pursuit of truth; all the things that take forever. This is mankind's eternal task.
EXPENDITURES, says Parkinson in his famous Law, always rise to meet income.

It is too bad that Parkinson, that canny man, wasn't around way back in 1913 when the progressive income tax was first adopted in America. If he had been on the scene, he might have shocked at least a few people into sobriety by observing that his Law, as it applies to government, must be phrased this way: "The expenditures of the State always rise to meet potential income." In other words, the politico, with the people's total earnings at his potential legal disposal, will inevitably move toward taking it all. In return for votes the politico will, of course, hand most of it back as welfare—or as legalized patronage. But even in handing it back there will be strings attached to it: following Galbraith, the politico will tell the people how the money is to be spent.

Looking back on 1913, one can only be amazed at the incredible innocence of that generation of Americans. When the Sixteenth (the progressive income tax) Amendment to the Constitution was formally ratified, the Congress responded by adding a seemingly quite inoffensive federal income tax rider to the Underwood Tariff Act. The rider called for rates running up to a maximum of 7 per cent on the last bracket of a $200,000-a-year income.

Although the principle of the income tax had been subject to a long controversy (it had been declared unconstitutional by the Supreme
Court in 1894), the legislators took it lightly. When famed attorney Joseph Choate remarked ominously that, in time, the tax could go to 50 per cent or even higher, Senator William E. Borah arose and shook his massive head. The very idea that anyone could ever be taxed at a 50 per cent rate seemed silly to the Progressive Republican from Idaho. Hurling his rhetoric directly at Choate, Borah asked: "Whose equity, sense of fairness, of justice ... does he question?"

As things have turned out, Joseph Choate was altogether too moderate a prophet: today [1961] the top income tax rate is 91 per cent, and the 50 per cent rate begins at the $16,000-a-year level. In 1913 dollars, $16,000 a year is worth a mere $5,350. During World War I the tax took its first swift leap upward, only to fall back after the Peace of Versailles. Ever since the revenue act of 1934 first turned the full fury of a depression-ridden generation on anyone and everyone with an income of $25,000 a year or more, the rates at the top have been deadly.

**Just to Keep Pace**

The change in the tax temperature over the span of the past thirty years can be most graphically perceived if we consider what a Babe Ruth would have to be paid today to give him a take-home purchasing power comparable to his 1931 earnings. Out of a salary of $80,000 in 1931, Babe Ruth had $68,535 after federal income taxes. If "The Babe" were alive in 1961, he would need a salary of about $960,000 to give him as much purchasing power, after inflation and other federal income taxes, as he had in 1931.

Long before Joseph Choate voiced his prophecy, English economists were taking a dim view of what might happen under progressive taxation. Said Ramsay McCulloch in 1845: "The moment you abandon ... the cardinal principle of exacting from all individuals the same proportion of their income or their property, you are at sea without rudder or compass and there is no amount of injustice or folly you may not commit." And he continued: "The reasons that made the step be taken in the first instance, backed as they are sure to be by agitation and clamor, will impel you forwards. . . . Why not take 50 per cent from the man of two thousand pounds a year, and confiscate all the higher class of incomes before you tax the lower? . . . Graduation is not an evil to be paltered with. . . . The savages described by Montesquieu, who to get at the fruit cut down the tree, are about as good financiers as the advocates of this sort of taxes."

It was only three years after McCulloch's warning that Karl Marx and Frederick Engels, in the *Communist Manifesto*, advocated a heavy
progressive tax as a means of de-
spoiling the “bourgeoisie” and soft-
ening middleclass society up for the
dictatorship of the proletariat. Wal-
ter Bagehot, editor of the London
Economist, feared that the Marxi-
ans would prevail: he predicted that
the progressive tax, in combination
with the principle of universal suf-
frage, would result not only in the
destruction of the rich but in the
very dissipation of the productive
capital which gives society (the poor
included) its margins of comfort.

The predictions of McCulloch and
Bagehot have not yet come to pass
in their ultimate direness; maybe
they failed to reckon with the adapt-
ability of man. Psychologically
speaking, there is obviously some
point where the progressive tax must
recoil upon itself, destroying the base
from which it might hope to achieve
a maximum of “take.” Just where
the point is we cannot tell: there is
no way of measuring businesses that
are unborn, or energies and creative
enthusiasms that simply fail to well
up. But when a progressive tax
dampens the impulse to generate in-
come, then the tax base itself must
narrow and diminishing returns set
in.

A Theory of Justice

To make a tax acceptable, it must
be levied in accordance with a the-
ory of justice that is an article of
faith with the majority. When jus-
tice, or the appearance of justice,
fails, revolt is inevitable: the Puris-
tan Revolution in England, the
American Revolution of 1776, and
the French Revolution of 1789 are
all cases in point. The theory of jus-
tice behind the progressive income
tax is that it imposes “equality of
sacrifice”—and as long as this is be-
lieved, the tax will be palatable to a
majority. “Equality of sacrifice” is
the democratic way.

Time was when the progressive
tax would not have been accepted as
equitable even by a majority of the
poor. Traditional equity required that
taxes should be levied proportion-
ately, not progressively. This was in
accordance with the belief that a
man’s property, or his income, was
an index of deserving achievement,
or of value contributed in the mar-
et place to society. True, some men
inherited their property or incomes—
but that was something to be han-
dled or regulated under laws of in-
heritance. In any case the erosion of
time could be counted on to take
care of the inefficient use of inher-
ited fortune—“shirtsleaves to shirt-
sleaves in three generations” ex-
pressed the common wisdom in this
matter of luck in the choice of one’s
parents.

Under the proportional theory of
tax equity, a rich man would pay
more taxes than a poor man, natu-
rally. But every dollar of assessed
property value, or of income, or of
spending, would be taxed in equal amount, at flat percentage rates. Dollars would be treated equally, no matter who owned them, or spent them. Thus the citizens would be accorded the "equal protection of the laws"—and their "privileges and immunities" would be equal, as provided for in the United States Constitution. Any other way of treating taxation was regarded as discriminatory, or as putting penalties on ability, ambition, and success.

It was Marxian socialism—"From each according to his abilities, to each according to his needs"—which fathered the great attack on proportional tax equity: a "heavy graduated income tax" is a salient feature of the Communist Manifesto of 1848. But the Marxians would have made little headway if non-Marxian economists had not come unwittingly to their support with the theory that "it is not equal to treat unequals equally." In cases of charity, this is undoubtedly true, but no comprehensive legal system can be reared on a rule which begins by regarding everybody as an exception.

The Value of the Last Dollar

To rationalize their inapposite view, these economists sought the support of "marginal utility" analysis; they argued that the "utility" of the rich man's "last dollar of income" must be considerably less to him than the utility of the poor man's last dollar to the poor man. To take more of what the rich man valued less was, to these economists, a way of achieving tax justice. They based their theory of tax gradation from bracket to bracket on the old pleasure-pain calculus of the English utilitarian philosophers: obviously, so they said, there must be more pleasure and pain involved in satisfying (or in failing to satisfy) basic hungers than in buying a Rolls-Royce or subscribing for a seasonal box at the opera. By taking more of the supposedly less-valued "Rolls-Royce dollar" than of the highly-valued bread-and-beer dollar, "equality of sacrifice" could theoretically be translated into a law which would satisfy the ethical sense of the majority.

Superficially considered, there is a certain amount of rough practical justice in this way of regarding the "last dollars"—or the upper brackets—of a man's income. If it is merely a question of satisfying the basic hungers for food, shelter, clothing, and the minimal cultural decencies, "last dollars" undoubtedly mean much; they may even mean life and death. But this is an argument for a basic exemption from taxation, not for levying progressively steeper surtaxes in the middle and upper brackets.

Beyond a certain subsistence and cultural minimum, the idea that "last dollars" can be rated in accordance
with a scale of “marginal utility” to the individual becomes a fiction. Since men differ by inherited temperament, by circumstance, by ambition, and by training, every living human being values his “last dollars” differently. If intensity of avarice could be measured, the French peasant clutching his franc of profit and Hetty Green clutching her millions might come out at the same place. A Huckleberry Finn—or an ascetic St. Simeon Stylites seated on his column—will care little enough even for a “first dollar,” whereas a Major Armstrong, intent on raising the money needed to protect his patent rights to a radio amplifier, may desperately value—and need—his “last million.”

Who is to say whether the “last dollar” of a poor man taking a flyer on the “daily double” at the race track is worth more to the individual than the “last dollar” of a biochemist who wishes to buy a year’s leisure to experiment with rare bacterial cultures? Who is to say whether the last dollar spent by a housewife on a new Easter hat is worth more to its owner than the last dollar thrown into the kitty by a Rockefeller to plant Easter lilies or tulips at Rockefeller Center?

“Equality of Sacrifice”

Money has such protean uses that its personal valuation can take a thousand-and-one turns. It can command leisure, freedom, security, adventure, education, veneration, aesthetic gratification, and appendicitis operations—plus the whole economic gamut of ordinary goods and services. It can command both power and the protection of the individual against power. As a cynical wit has put it, though you may be able in some instances to buy happiness with money, you can’t buy money with happiness—which could conceivably give the “last dollar” of income a “one-up” position even to a man in love.

To make the attempt to force “equality of sacrifice” by taking more of what the well-to-do man presumptively values less is, then, to pursue a chimera into a quagmire. The utility of a dollar—any dollar—to an individual is a purely subjective phenomenon, and cannot be measured in any known unit. One cannot multiply quantities by qualities and get a mathematically respectable answer, as Sir Isaac Newton observed long ago. To suppose that anybody values his “last dollars” less than anybody else is to substitute mind reading (and emotion reading) for objective measurement. It puts a self-righteous and wholly tyrannical power into the hands of a majority, or into the hands of the politicians who represent what they think is the majority.

As for the value of an individual’s last dollar to society, this depends
wholly on the uses to which it is put. It is the responsibility, the ingenuity, and the creativity of the individual which establishes the social "marginal utility" of the last dollar of income. But here, also, utility cannot be expressed in a priori terms, by taxing a man because he might waste his tax dollars.

The pleasure-pain calculus is wholly impotent when it comes to comparing a poor man's ticket to the dog races (theoretically of little use to society) and a rich man's investment in a job-creating business. Or, for that matter, the poor man's contribution to the Red Cross and the rich man's evening dissipation at the Copacabana. Even where the comparisons are freighted with seemingly unarguable moral distinctions, there are quicksands within quicksands. A night club might support a struggling musician while he is composing a great rhapsody, and a dog track could conceivably lead to far-reaching discoveries in canine genetics. On the other hand, charity—or a newly-created industry—may result in prodigious waste.

Used in price analysis, marginal utility has something objective to work on: the amount of goods which clear the market when the price is either raised or lowered. By utilizing theoretical supply-and-demand curves, one can even make reasonable guesses about the future. But marginal utility, which is of no use whatsoever in judging the intensity of personal feelings, cannot legitimately be used to give society a right to political dictation of the social uses of "last dollars." To tax possible investment capital on the theory that "society," as represented by government, might invest it better is to indulge in a wild guess. Measurement (via a tax) cannot be undertaken before the dollars are spent. This is why men have traditionally been left the use of their dollars to spend them or to invest them as they please. When the market decides, there is no uncertainty about the comparative rating of men's desires.

An Equality of Misery

Equality is an idea that leads inevitably to contradictions, depending on the values of the individual who advocates it. One can begin with the theory that everyone should start with the same advantages in life: such advantages as equality before God and the law, equal opportunity for education, and a basic subsistence that will keep one from being warped or stunted during the growing period. This is an idea of equality that is firmly imbedded in the American dream; it has also been roughly attainable in American practice. Granted this equality, however, people who are clever, able, persistent, or merely persuasive must soon outdistance the rest. As a peo-
ple we have accepted this, traditionally, as being eminently fair.

It does not, however, result in an equalitarian society. Does true equality consist, then, of pulling everyone who has exceptional abilities back into the pack at stated intervals? Does it entail the consistent discouragement of excellence by means of periodic cancellation or retraction of rewards? If it does, then mankind must automatically be deprived of the benefits normally accruing to it from the natural variation of human beings. With the fostering of a widespread "what's the use" attitude, new inventions, new qualitative changes, new theories, ideas, and fashions, must falter; the standard of living must recede; the birth rate must drop; and the equality thus achieved will be an equality of misery.

Periodic Redistribution, Motivated by Envy

Insofar as it results in "equality," the progressive income tax is a spawn of the second idea. It attempts to pull the exceptional at least part way back into the pack by canceling a good part of the previous year's gain every April 15. Since it is not a tax on capital, the progressive income tax cannot do the whole job of diffusing a more or less complete equalitarianism throughout society. But it keeps newcomers from amassing capital on their own out of savings—and, taken in conjunction with stiff inheritance taxes, it could carry out a revolutionary job of leveling within the space of a few generations.

How "moral" is this approach to equality via the tax collector? If the end to be achieved were a benevolent brotherhood, then there might be something to be said for it. But the means are neither relevant to nor consistent with such an end. Equality via the tax collector operates through the social motive of envy, not love or charity. It begins with the politics of "soak the rich." Soon the definition of "rich" is expanded to include the middle classes. And it all ends with the exaltation of the bureaucrat, who is in charge of spending the spoils. Minorities are inevitably put at the mercy of majorities—and everybody is at the mercy of the politicos, who get first whack at the resources of the state.

A Psychology of Depredation

Instead of fostering brotherhood, then, the progressive income tax introduces a psychology of depredation into society. Pressure groups everywhere go for their share of the spoils. The arid states want big dams—at the expense, not of willing investors, but of the common people who have chosen to stay in greener, though more densely populated, New Jersey and Connecticut. Everyone has his pet scheme for spending other
people's money, and empires grow in Washington as the politicos cater to the schemers. As money income is taxed away, there is a tremendous competition to get income in terms of social services (untaxed). The state is called upon to provide more money for schools, medical services, pensions, what-not. Producers, who have their own corporate income taxes to worry about, struggle for special tax write-offs; every different productive group, from agriculture to labor, wants exemptions. The result is an intense materialism which is rendered all the more ugly because it puts guns into the hands of any group which thinks it has a chance of transforming a minority into a majority by the mere offer of a trade in votes.

The depredation psychology has its reflex within voluntary associations which are compelled to sly expedients in order to retain assets, earning capacity, or mere utility. Businesses are diverted from thinking about productivity; decisions are often made with a primary eye to "tax advantage."

**Capital Gains as a Way Out**

Take the case of a small sponge rubber company in Connecticut's Naugatuck Valley, for example. It has been built up by hard-working partners. But the partners find their only way of cashing in on their creation in their old age is via capital gains. So they sell their business to a big Akron, Ohio, rubber company, with their sons receiving stock as their inheritance instead of a going share in a family business. A somewhat similar instance of a small business firm disappearing into the maw of a larger, forms the substance of Cameron Hawley's novel, *Cash McCall*.

Many a small businessman is tempted to sell out for capital gains rather than continue to work for an annual income. The result is that big companies grow as small family businesses disappear. In the big companies salaries are paid partly in cash, partly in "future income" via such things as pension rights, commitments to retainers for "advisory aid" in the years after retirement, and stock options leading to capital gains. Expense allowances go up as entertainment, housing, car use, medical examinations, and vacations-cum-business trips are all allocated to "business costs." For its own part, labor devotes a great deal of its organizational energy into fighting for "fringe benefits" that will not appear on the ordinary tax forms as income. "Fringe benefits" result in an uneven diffusion of gains among the workers, for, while everybody foregoes a possible raise in order that the company may finance a fringe benefit, not everybody collects on the benefit to the extent of his due.
Undistributed Profits

As a defensive reflex against the depredation psychology, high individual tax rates result in the retention of earnings by corporations. The proof of this is objective: undistributed profits made up some 30 per cent of corporate profits after tax in 1929 and some 50 per cent in 1959. By leaving potential dividend money in a business, the investor gets a capital appreciation that is taxed at 25 per cent of income limit if he chooses to sell his stock. In addition to helping the shareholder stay out of a higher tax bracket, this also provides a method whereby ownership can duck the effects of double taxation of dividend money. While it may be immaterial to a given company that it chooses to finance its future growth out of retained earnings (or undistributed profits) instead of going into the market for share capital, this method of financing robs the investor of his flexibility of decision. The investor sticks, perforce, to his "old company" instead of surveying the field for new options. And the "old company" may do the diversifying which the investor used to do for himself; it may branch out into unrelated lines, which can have good or bad effects depending on the ability of management to handle diversification within a single corporate set-up. In any event, business must pay some cost for being tax-oriented, not production-oriented. Some efficiency is lost if only because tax lawyers come high.

Tax Avoidance

If the need to defend against a depredation psychology has its subtle effects on voluntary associations, it also puts a premium on slyness as practiced by the individual taxpayer. A well-known book company advertises a "Federal Tax Course" and offers a special report guaranteed to show what deductions can legally be claimed for business expenses such as transportation, entertainment, lodging, gifts, theatre tickets, club dues, and bills, and "your wife's expenses if she travels with you." Another special report is advertised as showing how "men in the $20,000 to $100,000 class can virtually cut their tax in two" by dividing income among the family. Income can be transferred to minor children; property used in a business can be turned over to a member of the family and leased back (at a rent deduction); income-producing property can be sold from one member of a family to another to gain a depreciation advantage; and so on. All of this comes under the heading of "tax avoidance," which is perfectly legal. Nevertheless, a great deal of energy is necessarily diverted into the business of defending oneself against the government—a loss of energy which might
be put to far more productive purposes, with society the richer for it all around.

**Tax-Exempt Securities**

Finally, to protect against deprecation psychology, the rich seek refuge in tax-exempt bonds. Thus potential risk capital disappears into the sink of dead-horse debt. This is the ultimate commentary on progressively taxing “last dollars.” Ironically, it would take a “degres­sive tax,” i.e., one that taxed “last dollars” least, in order to bring money from tax exempts back into the pool of risk money that should be available to the man with a new idea.

The late Professor Henry Simons of the University of Chicago economics faculty argued that the case for drastic progressions in income taxation “must be rested on the case against inequality.” If the human race has a natural interest in human variation, then the case for progressive taxation is indeed “uneasy” (to use the phrase of Walter Blum and Harry Kalven, Jr.). But if equality (in the leveling sense) can by any stretch of the imagination be considered the touchstone of the good society, then the progressive tax falls into place as a relevant means to the achievement of social justice. But it is only one relevant means, and if it is left to operate alone it will not achieve its leveling end.

For better or worse, the progres­sive income tax in America has obviously not achieved an equalitarian result. This does not mean, however, that it should be written off as socially innocuous. Instead of introducing a leveling principle into society, it has resulted in some strange distortions of the social pyramid. While it has not produced equality, it has resulted in a very practical denial of the old American ideal of “equality of opportunity.”

The reason for this is that it tends to stratify classes as they are. Since it is a tax on income, not a capital levy, it leaves old ownership intact without encouraging new—or additional ownership. The rich (within inheritance tax limits) tend to keep their fortunes. But Joe Doakes can hardly aspire to amassing a fortune—or even a sizable nest egg—on his own if he attempts to do it out of saving for investment purposes. (The fact that millions have risen into “middle income status” since the time of the income tax amendment has been due to the fecundity of American production, with its fantastically efficient machine development, not to any “redistribution” effected by the tax.)

**The System Favors Present Owners of Large Fortunes**

What the progressive income tax cannot do is to cut down the money mobility of the rich. A man with a fortune can protect his equity by
moving money about on the board of opportunity. He can invest his money in supermarkets in Venezuela, or buy oil rights in Western Canada, or become a partner in swiftly growing industries such as plastics, electronics, or aviation. Thus he can circumvent the ravages of inflation and expand his fortune via capital gains.

But while the well-to-do have a continuing access to opportunity (which they can also open to their sons by making them partners in expansive situations), the middle classes are denied the chance of building fortunes in the first instance to protect. Under progressive taxation an Averell Harriman, a Joseph P. Kennedy, a John Hay Whitney can keep their financial status (and even become ambassadors to the Court of St. James). But the deck is stacked against the emergence in our times of new ambassadorial material. During the past generation the “middle condition of man” has been ground between the upper and nether millstones of inflation and steeply rising progressive tax rates. Reckoned in terms of “disposable income” in “1939 dollars,” the purchasing power of the $18,000-a-year man in 1961 is no more than that of the $6,000-a-yearman of 1935. If the middle income man has been committed to insurance payments, his equity in saving has been cut in half. But the rich, who have invested in the insurance companies, have preserved their equities intact.

Soak the Middle Class, Penalize the Erratic Earner

The fairness of the tax even within its own “ability to pay” rationalization is entirely questionable. The tax exempts the poor—or taxes them at such a low rate of progression that it is negligible. And, as we have seen, it tends to exempt the rich, who have ways of compensating for loss of dividends by the capital appreciation route. It is the people in the middle income brackets who do most of the paying. Thus what started as “soak the rich” has become “soak the middle class.”

Moreover, the tax bears down with peculiar cruelty on the erratic earner, who may be compensated in a single high-tax spurt for years of patient effort. An author or a playwright may struggle for a decade to master a technique (or a subject) and then produce a single best-seller. But the gains for which the years have been preparing will not be commensurate with the effort and dedication involved. A doctor spends his young manhood in medical school, internship, and building a practice: then, relatively late in life, his income may hit the stratosphere without leaving him much after taxes for his old age. To gain crude equity for himself, the doctor will, in turn, grade his fees on an “ability to pay”
basis, taking more from the rich and less from the poor.

Then there is the case of the public performer whose income is clearly related to the state of his muscular reflexes, or the youthfulness of his (or her) face and figure. Ballplayers are lucky to last in the big leagues (and the big money) after the age of 33 or 34. A Joe Louis may earn millions in a brief heyday as heavyweight champion—and then spend his middle age in irretrievable hock to the government for back taxes for the mere sin of having depended on altogether-too-sanguine income tax accountants. A Sugar Ray Robinson may be forced back into the prize ring after retirement to recoup a fortune which will prove to be just another mirage when the tax collector is satisfied. In the case of the professional tennis player, a single year in the big money is the most to which the average-good-amateur-turned-pro can aspire. Once the crowds have seen him on one round of the circuit, he is through.

As for movie stars and Broadway performers, they may be able to make the jump from ingenue charm or youthful agility to middle-age character parts. But not every starlet becomes a continuing star—and in such an event the high earnings of youth will never afford the basis for a middle-age income.

Since the onerousness of the present progressive tax rates are becoming obvious to too many voters, a trade has been proposed: let the many present legal "loopholes" (big expense accounts, the oil depletion allowance, and so on) be closed in return for an across-the-board cut in the progressive rates. Vain delusion! The closing of the "loopholes" will mean more income for government. But (to invoke Parkinson once more), expenditures rise to meet income. So why should the state give any of that "loophole" money back in the form of a tax cut? The "loophole" money will support lots of bureaucratic job holders—and as Parkinson's Other Law says, work expands to fill up the time of those available to do it.

No, we as a people are on the rack for having accepted an unjust Constitutional Amendment in the first place. We will remain right where we are until a limitation is placed on the principle of the progressive income tax itself.

IDEAS ON LIBERTY

F. A. Hayek

If a reasonable system of taxation is to be achieved, people must recognize as a principle that the majority which determines what the total amount of taxation should be must also bear it at the maximum rate.
Labor Unions Aggravate Inflation by Lowering Wages

It is commonly believed that labor unions generate inflation by increasing the wages of workers. This is not the case. Labor union activities do aggravate inflation, but they do it by reducing the real wages received by workers, not by increasing them. An understanding of why this is true requires, first of all, a brief explanation of the cause of inflation.

We are currently experiencing inflation for the same reason that any economy, at any time, has ever experienced inflation: the money supply has been growing more rapidly than the growth in production. Assume, for example, that the production of goods remained the same but the number of dollars we have to spend on these goods doubled. We would all be willing to spend approximately twice as much on each good as before. But this means that the price of goods would also double, as would the general price level. Increase the growth in the money supply and reduce the growth in productivity and inflation will result.

Since monetary growth is subject to much larger changes than productivity growth, it is a rapidly growing money supply that explains most of our inflation. It is the federal government that controls the money supply, so the major blame for inflation can be placed on government activity. Labor unions aggravate inflation however, by engaging in practices which impair economic productivity.

It is only by imposing restrictions on the economy which reduce productivity that a union can provide.
an economic benefit to its members. In a free and open labor market a worker will be able to receive a wage that reflects his productivity and which is no higher than what comparably skilled workers are receiving elsewhere in the economy. A higher wage would attract additional workers thus driving the wage back down to the competitive level. Of course, this competitive process increases the productivity of the economy by directing workers into those employments where their contribution is greatest. And it is productivity that has increased over time in response to the incentives and direction provided by competitive markets that, at least until recently, made U. S. workers the best paid in the world.

But union leaders cannot attract dues-paying members by getting them a wage rate that they could earn without a union. And the only way unions can provide their members with higher than competitive wages in some occupations is to restrict the competition from non-union workers. While this may increase union wages in the short run, it does so at the expense of lower wages for other workers. Higher union wages and prices in one sector of the economy are effectively offset by lower wages and prices elsewhere in the economy.

In order to realize this relative wage advantage for its members, organized labor has consistently fought for legislation which reduces, if not eliminates, the opportunity for non-union workers to secure jobs that would otherwise be available to them. Organized labor's struggle for the closed shop (only union members can be employed) and their bitter opposition to state right-to-work laws (which eliminate union membership as a requirement for employment) are clear examples of union attempts to protect their workers against competition. Other examples are union efforts to restrict imports and obtain legislation restricting the movement of large employers from the unionized Northeast to the less unionized Sun Belt states.

**Competition Reduced**

To the extent that organized labor has been successful in these restrictive activities, the economic competition and mobility that is a major source of increased productivity has been reduced. And strong evidence of the success of unions in protecting their members against productive competition is seen in the featherbedding practices they are able to impose, practices which could never survive open competition. Unions have long inflicted costly featherbedding practices on the railroads, with the requirement that firemen remain on diesel locomotives being a well-known example. The build-
ing, theatrical and oceanshipping industries, as well as many others, also suffer from union featherbedding requirements.

A typical example is that of a construction job which required the use of several very small gas-powered generators. Because of union requirements, each generator had to be attended by an operating engineer, an electrician, and a pipefitter. The engineer had to start the engine a few times each day, the electrician pushed wire plugs in the generator’s sockets if they were moved, and the pipefitter was there, “just in case.” Obviously, such practices further the negative effect organized labor has on our economy’s productivity.

It is this impact on productivity that explains why the overall effect of organized labor is to reduce real wages. Productivity is the source of all income, including wages. Real wages depend on the wage earner’s ability to buy goods and services. It cannot be purchased unless it is first produced. Furthermore, for a given rate of monetary growth, the lower our productivity the higher the inflation rate. So unions have an inflationary impact by reducing productivity and thus lowering, not raising, the general level of real wages.

**Market Efficiency Hampered**

The best way to increase productivity, improve the living standard of all workers, and help retard inflation is to allow competition in free and open markets. Unfortunately we can expect little support in this direction from organized labor. Union leaders cannot tolerate the efficiency of competitive markets because what they have to offer their members comes from their ability to reduce the free market opportunities of others.

The very existence of organized labor depends on its ability to use its political influence to sabotage the efficiency of the free enterprise system. If allowed to operate freely, the market process would simply circumvent union efforts to impose inefficiencies on the economy. This would leave union leaders with little to justify their healthy incomes, but also with little ability to undermine productivity, aggravate inflation and thereby reduce, in the long run, the real incomes of us all, union and nonunion workers alike.

**Unionized Unemployment**

UNEMPLOYMENT prevails where a person who wants to work for the wage an employer is willing to pay is prohibited from doing so by some outside power. So fewer hours than wage earners would prefer of their own free choice amounts to the same thing as forced unemployment.

F. A. HARPER, *Why Wages Rise*
In its reiteration of home truths, Ronald C. Nairn's *Wealth of Nations in Crisis* (Bayland Publishing, P.O. Box 25386, Houston, Texas 77005, 288 pp., $12.95) is a simple book. The title harks back to Adam Smith; the "lesson" is that State incursions into the economic process work only toward the impoverishment of people. But simplicity is not enough in a world that has succumbed to illusions. So, as a means to establishing his basic point that the individual must be allowed to make his own decisions if human productivity is to be revived, Mr. Nairn has been at back-breaking pains to illustrate what has been happening all over the world to inhibit the three-billion-strong peasant populations whose farming activities keep a billion city dwellers alive.

The virtue of Mr. Nairn's book resides in its incredibly learned detail. Nairn's own experience in life has given him a unique perspective. He was born in Ireland, and raised on a cattle and sheep ranch in New Zealand. In World War II he enlisted as an RAF fighter pilot, and after the war he gravitated to Asian countries where he became fascinated by the ways which peasant societies adopted to cope with the problems of monsoons, drought, and the knowledge that bureaucratic governments dominated by city-bred mandarins could be more terrible than tigers. In between his Asiatic assignments he took degrees at Yale University, and he established himself as an expert in agricultural management in Arizona.

In his own way Mr. Nairn is an
intellectual cousin to the French physiocrats. He believes that the abolition of poverty begins with a proper individual respect for the soil which, in conjunction with the sun and water, is the source of human energy. Technology is important, money—or credit—is important, but the human being, faced with the need to outwit the caprices of nature on the land, is, as Nairn puts it, "the alpha and omega of all that happens to this planet."

Where tradition has been supportive of free farming, whether by individuals or family units, the land has always yielded plenty. Land doesn't even have to be good to keep people alive if they make the right choices and are willing to work. Nairn, as befits someone who was born in Ireland, knows about the Aran islanders, who have literally created their own soil by mixing kelp and sand and using it to raise calorie-rich potatoes.

**Freedom and Abundance**

In America, where the government desisted from the temptation to impose continuing bureaucratic conditions on individuals who took advantage of the Homestead Act, enough people have made wise decisions to create an agricultural abundance capable of feeding the world. But where ideologues have held sway, peasant populations have been unable to use native common sense to the end of keeping both themselves and their dependent city cousins alive.

It is the human being as a power seeker that prevents the creation of an agricultural plenty sufficient to sustain even the wildest sort of population explosion. Wars, provoked by politicians, are the cause of continuing instability—and farming can't "take off" when the rules of land tenure are in continual jeopardy. The other big "inhibitors" in the agricultural equation are ideology, politics and bureaucracy. Culture itself can be an inhibitor, but it is not necessarily so where family tradition does not frown on individual experiment.

The ideologue, supported by politicians and bureaucrats, thinks that mankind can be made over. But the peasant, who has to outguess the heavens and deal with nature's recalcitrance, knows better. Mr. Nairn has been a fascinated watcher of events in the two Chinas, the one that is limited to the small island of Taiwan and the bigger mainland territory that was conquered by Mao Tse-tung's Marxist-derived ideology. The Taiwanese Chinese, rejecting ideology, solved their productive problems by deciding to refrain from creating continuing economic bureaucracies. They used government in the first instance to finance the purchase of land from big landlords, selling it in turn to individual farm-
ing families. The landlords were paid off in industrial securities, which satisfied their capitalistic instincts. Thus the problem of setting up a nation of free farmers was solved without the class warfare that has wrecked the polity of the mainland Chinese.

The ironical thing is that the mainland Chinese are now coming to recognize the superior wisdom of the Taiwanese. After all the debilitating spasms of the Cultural Revolution and the Great Leap Forward, which produced only a misery that killed millions, the ideologues in Peking have been forced to rehabilitate the primacy of the family on the soil. Family teams have been constituted as social and marketing units, and some seven per cent of the farmed land has been allocated to individual families for private gardens.

Smothering Productivity

In Soviet Russia, Stalin and his successors were forced to permit some private gardening and the peasant retention of a few cows, pigs and chickens in order to put food on the tables of Communist Party functionaries in the cities. But the persistence of ideology in Soviet Russia leads to chronic grain shortages and deficient meat supplies. The low productivity of the state farms keeps half the Soviet population chained to the countryside.

In the western world it is the growth of bureaucracy that threatens to inhibit the agricultural producer. In 1975, so Nairn tells us, more than 8,000 new regulations were added to the U.S. regulatory lexicon. Simple arithmetic shows that no human being can keep up with this output. A dairy cattle feed additive was approved by one agency, but milk drawn from the cattle was condemned by other regulations. Milk was poured down the drains for almost a year until the conflict was resolved in favor of the additive.

Luckily, says Nairn, a “benign neglect” of the law has kept American agriculture from coming to a halt. But much damage has been done by the regulators. The development of natural biological pesticides (insect-attacking bacteria and hormones) was halted by stupid rules—and so we have had to go back to using chemicals that do have undesirable side effects.

Nobel Prize-winner Friedrich Hayek has been quoted as saying that Nairn’s book is one of the most important economic treatises of recent years. It raises a host of fascinating questions, such as why is only 22 per cent of Africa’s arable land farmed? The answers are political, not economic.
THE POLITICIZATION OF SOCIETY
Edited by Kenneth S. Templeton, Jr.
(LibertyPress, 7440 North Shadeland, Indianapolis, Indiana 46250), 1980
541 pages ■ $10.00 cloth; $4.50 paper-back

Reviewed by Tommy W. Rogers

THE POLITICIZATION OF SOCIETY consists of fourteen essays, plus an introduction by Dr. R. M. Hartwell of Oxford, which focus on the central problem of modern society—the growth of the state—and its significance for the individual. Politics, Dr. Hartwell observes, has become the modern religion, with the state being the arbiter of major decisions relating to working, living, and believing.

Some highlights: Felix Morley's essay demonstrates cogently that state power, no matter how well disguised by seductive words, is in the last analysis always coercive power. Murray Rothbard advises that since the natural inequality of ability and of interest among men makes elites inevitable, the only sensible course is to abandon the chimera of equality. The objective would be to permit the rise of what Jefferson described as "natural aristocracies," but not the artificial aristocracies of coercive oligarchs who rise to power by invading the liberties of their fellowmen. In such a free society, all would be equal only in liberty, while diverse and unequal in all other respects.

In an essay titled "The New Despotism," Dr. Robert A. Nisbet reminds us that large-scale government, with its passion for equalitarian uniformity, has prepared our minds for uses of power, for invasions of individual privacy, and for the bureaucratization of spirit. "Very commonly in ages when civil rights of one kind are in evidence—those pertaining to freedom of speech and thought in, say, theatre, press, and forum, with obscenity and libel laws correspondingly loosened—very real constrictions of individual liberty take place in more vital areas: political organization, voluntary association, property, and the right to hold jobs, for example."

Michael Oakeshott outlines the rise and fall of individualism since the Renaissance era; Donald Dozer and Herbert Butterfield warn against official history. An example given by Dozer is "the so-called China White Paper, prepared under the supervision of the chief of the historical division of the state department in Washington and published in August 1949. Its egregious omissions, its inaccurate paraphrases, and its tendentious editorializing expose it to be nothing but a propaganda document."

The final essay is F. A. Hayek's "Kinds of Order in Society." He ar-
gues that a civilized society is not the deliberate result of conscious human design; it is a spontaneous order which emerges naturally in consequence of the peaceful actions of individuals. It is therefore not surprising, he concludes, that the consequence of modern democratic legislation is probably the most irrational and disorderly arrangement of affairs ever produced by the deliberate decisions of men.

Although these essays were written independently and at different times, they share common themes of focus on the origin of the state, why modern society has become politicized, and the consequences of the growth of the state.

**FUGITIVE ESSAYS: Selected Writings of Frank Chodorov**
Compiled, edited, and with an introduction by Charles H. Hamilton
(LibertyPress, 7440 North Shadeland, Indianapolis, Indiana 46250), 1980
416 pages • $9.00 cloth; $4.00 paperback

Reviewed by Edmund A. Opitz
I never sat in a class under Frank Chodorov, but he was nevertheless one of my more memorable teachers. It began in 1947 with the Nock Memorial issue of *analysis*, given to me by a friend who knew of my interest in A.J.N. I subscribed to the paper, a monthly four page broadsheet written, edited, and published by one Frank Chodorov. Each issue contained a lead essay in prose as cerebral as Arnold’s, but more visceral, pungent commentary on passing political foibles, a book review or two, occasional letters to the editor. I was hooked.

Frank was a man with a cause, as dedicated as any prophet of old to the ideal of individual liberty and the free economy. Reading and experience had stocked his mind, teaching and debate had honed his rhetorical skills, his prose was polished, and his go-for-broke commitment to his beliefs energized his words.

He called himself an Individualist, for every person in his eyes possessed a supreme worth no group could diminish. “One is a crowd,” he would say, and thus he entitled one of his books. He appealed to all kinds of audiences, enjoying especially the give and take he had with students. Speaking to clergymen, he came on like an Old Testament prophet. He charmed them by his salty account of Joseph as the Pharaoh’s secretary of agriculture; he gave them a lesson in political philosophy by retelling the story of Saul’s anointing as king of Israel. We shall not see his like again.

It is too late to meet Frank in person, but the reader will get to know
the man in the pages of this book. The editor has selected wisely and virtually every theme of Chodorov's work is represented; God and natural law, the economic origin of the state, the erosion of social power by political power, the importance of private education, the evils of the progressive income tax, the insanity of war, the idiocy of socialism, the fundamentals of economics, the exhilaration of joining the fight for freedom. And there is a fine introductory essay by Mr. Hamilton.

Chodorov reads well and, as I will attest, he rereads well. This collection will be welcomed by Frank's old friends, and I predict it will make new ones.

THE COUNTER-REVOLUTION OF SCIENCE: STUDIES ON THE ABUSE OF REASON by F. A. Hayek (LibertyPress, 7440 North Shadeland, Indianapolis, Indiana 46250), 1979 415 pages • $9.00 cloth; $4.00 paperback

Reviewed by Bettina Bien Greaves

The late professor Ludwig von Mises, leading spokesman for many years of the "Austrian School" of economics, used to emphasize the importance of analyzing seriously any economic "fashion" or "fad," no matter how unrealistic or utopian it might appear. Mises' fellow-countryman, economist and personal friend, Nobel Prize Laureate F. A. Hayek, has carefully analyzed one of the most "fashionable" and yet one of the most destructive doctrines of modern economic thought—the idea that the methods of the physical sciences are applicable also to the study of society.

In his The Counter-Revolution of Science, first published in 1952 and now reissued in a beautifully printed and bound new edition, Hayek carefully dissects and systematically analyzes positivism and historicism—two sociological doctrines which helped provide the basis for modern socialistic theories. This critique is profound and well worth the while of anyone seriously interested in the methodology of the social sciences and the history of economic thought.

Many Social Scientists Turn Reason Upside Down

Hayek's concern is with the way reason has been turned upside down by many social scientists. The predecessors of modern socialism, whose ideas Hayek criticizes, were writing in the early 19th century. Scholars had by then pretty well freed themselves from the restrictions and taboos of mythology and medieval religious superstitions. Knowledge
about the physical world was being expanded by leaps and bounds. The "industrial revolution," with its many new inventions, was improving production, communication and transportation. With goods and services more readily available, living conditions were improving noticeably for everyone, especially the "common man" and the poor. More babies were surviving and people were living longer and healthier lives. The increasing population furnished eloquent testimony to the advances that could be made by applying the methods of the physical sciences to mechanics and technology. It is not very surprising, therefore, that it became fashionable to try to adapt the physical science methods to almost every discipline. However, they are completely inappropriate to the study of human action and society. Explaining why this is the case is the subject of Hayek's book.

Hayek points out that all science starts with classification. In the physical sciences, objects are classified by unchanging characteristics that are both measurable and distinguishable by controlled and objective tests. But not in the social sciences. The social sciences deal with the actions of men. And men are not automatons. Men think. They have different values, varied goals and many purposes. Men choose among alternatives. They act purposively. Their actions cannot be classified without reference to their subjective (personal) ideas, values and goals. The results of their actions cannot be quantified, measured or predicted in advance. Moreover, changes are always taking place. The ideas, values, aims, choices and actions of men vary from time to time, depending on actual conditions and the knowledge available to them.

**Individuals Ignored**

Modern socialists, and their intellectual predecessors whose doctrines Hayek examines, sought to analyze and plan society as a whole. In doing this, they ignored individuals and their ideas, values and purposes. And they also overlooked the inevitability of change. Yet many professors and authors, whose teachings and books are widely respected today, are still influenced by the fallacies Hayek criticizes, which stem from the belief that society may be analyzed and planned by using the methods of the physical sciences—observation, experimentation and measurement.

Hayek devotes more than half of this book to several little known Frenchmen who originated and advocated this theory. He considers their ideas influential in the intellectual development of Karl Marx and, thus, responsible for practically all varieties of modern socialism. He examines, in some detail, this par-
ticular phase in the history of economic thought because he hopes that it may "help us become aware of much that governs our own thought without our explicitly knowing it... and perhaps assist us to purge our minds from influences which seriously mislead us on questions of our own day."

In addition to analyzing the errors in the methods of those whose doctrines led to modern forms of socialism, Hayek also explains the origin of social institutions such as the market, prices, money, language, etc. Hayek points out that society itself, which provides many benefits to its individual members is the unplanned outcome of the actions of many individuals. Their separate, independent, purposive and voluntary ideas and actions led unintentionally to its formation. And changes are now going on that will be responsible for society's evolution into something very different in the future. Those who seek to reform society and cope with social problems must learn to appreciate the role of freedom in the evolution of useful, if unplanned, social institutions.

This book should help readers recognize the impossibility of successful central planning and of trying to create social institutions by design. It will also explain to serious scholars the important distinctions between the methodologies of the physical and social sciences.

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SOCIAL SECURITY: THE INHERENT CONTRADICTION
by Peter J. Ferrara
(CATO Institute, 747 Front Street, San Francisco, CA 94111), 1980
484 pages • $20.00

Reviewed by Tommy W. Rogers

Social Security absorbs one-fourth of the federal budget. Its sacrosanct nature and mythology makes it virtually immune from serious criticism. It has long been misrepresented and deceptively described by welfarist politicians and liberals to create a false impression among voters about the shortcomings of the program. As Milton Friedman has expressed it, social security is the only institution that could take a tax structure no one would support on its own and a benefit structure no one would support on its own, slap them together, and emerge with a combined tax-benefit structure that is often highlighted as the showpiece of America's welfare state!

Nevertheless, the glitter has been penetrated somewhat by the realities which have become apparent in recent years. Social Security is a pay-as-you-go system, not a system whereby "contributions" are saved or invested—the government's assertion that "contributions" are invested in interest-bearing securities means only that the government...
writes itself a promise to tax future production to cover benefits as they become due.

A pay-as-you-go scheme in its initial phase will run huge surpluses because there are many current taxpayers but few or no current beneficiaries entitled to payments. Meeting the obligations of the program is not a cause for concern because there are few obligations to be met. The system appears to be financially sound. However, after the first generation of beneficiaries, the program builds up huge liabilities which require accelerated extractions from current production. The focus of concern is then switched from paying out surplus benefits to the raising of taxes to meet the ever-accelerating benefit obligations.

In 1977 Congress passed one of the largest tax increases in U.S. history to save the system from bankruptcy. Social Security taxes—amounting to about sixty dollars annually for the first fifteen years of the program—had turned into a monster gobbling up $3,000-$4,000 dollars yearly with escalations already built into the structure. To pay benefits currently being promised, tax rates will have to be raised to 25-33% of the taxable payroll, contrasted to 12% today.

The rate of return from a pay-as-you-go system comes not from increased output but from increased taxes. Social Security is sometimes described by its proponents as a "compact between generations." Here is what really happens. When a social insurance plan is first imposed, the current retired generation makes a deal to share a portion of the wealth produced by the current working generation, which saddles the next working generation with the responsibility for paying the resulting indebtedness. When the next working generation becomes the current working generation, they face a huge debt owed to the now current retired generation. Since they have to make good on these liabilities regardless of whether they continue in the program, they decide to keep the program and vote to tax the next generation even more to finance ever-greater benefits to themselves. Future generations have no way to prevent this "compact between generations" being imposed upon them.

As Ferrara observes, it is not surprising that the decision to tax future generations to provide benefits to current generations can easily lead to the imposition of a program that makes all future generations worse off than it makes the current generation better off!

The social security compact between generations is, Ferrara writes, corrupted by self-dealing wherein the first generations take unfair advantage of the generations to come. "Under traditional principles of equity, therefore, the social security
compact between the generations is unfair, immoral, fraudulent, and voidable.” As the number of retirees increases in the future, the strain to meet the obligations will become enormous, and could provoke serious taxpayer resentment if not support for programs of euthanasia.

It is hardly questionable that the time is ripe for significant reform of the social security program. Ferrara advocates that the entire insurance portion of the social security program be turned over to the private sector. Individuals would be allowed to provide for their old age and other contingencies by investing in private insurance, savings, and pension plans with the funds they would have paid in social security taxes. The stark reality of the current program, the author contends, is that it “is simply not working” and that, as the public has already been warned in the words of the Wall Street Journal, “The social security program will return like Banquo’s ghost until really serious and courageous efforts are made to solve it.” There is no reason to believe that social security, with the persistence of the Egyptian sphinx, must remain in its present form for all time to come. It can and must be changed in manner which is consistent with greater individual choice and autonomy.
Tensions in Poland
Hans F. Sennholz
Of what significance to us is the revolt of Polish workers against
Communist domination?

Natural Law and the American Tradition
Davis E. Keeler
The rights of individuals vs. the supremacy of Parliament.

Utopia Lost: A Refutation of
Human Responsibility
William M. Manoogian
Socialist policies lead to the breakdown of families and social co­
operation.

Help Wanted: Laborers
Dennis L. Peterson
Great Americans tell how work leads to success.

De-Industrializing the Future
Joseph P. Martino
Freedom is the way to assure future use of resources in the best
interest of all concerned.

“Planning” vs. the Free Market
Henry Hazlitt
Instead of bureaucratic control, leave the individual to his choices
in the market.

Adversary Unionism
John O. Nelson
The legal and moral incoherency of adversary unionism in govern­
ment or private sectors.

Book Reviews:
"The Lifelong Learner" by Ronald Gross
"My School the City: A Memoir of New York in the Twenties" by
Mortimer Smith
"The Birth of the Transfer Society" by Terry L. Anderson and Peter
J. Hill

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THE WORKERS' REVOLT in Poland raises momentous questions not only about the future of communism as a political-economic system, but also on its many implications for the West. Does it signal a terminal ideological crisis that in due time will bring about changes in communist thought and practice? Is it shaking the foundation of communism as a system of political rule and oppression? Is it damaging the engine of Soviet power and influence? And how can and should the West respond to the proletarian revolution in Poland? The answers may be found in the thoughts and aspirations of the Polish workers who are voicing their frustrations about the economic order and the humiliating role they are playing in that order. In final analysis, we must search for our answer in diverse political and economic philosophies that are creating insoluble tensions and conflicts.

Communism is the most extreme form of totalitarianism. It is the root and prototype of all others, such as Nazism and Fascism that sprang from it. Since the destruction of German Nazism it is the only surviving power that constitutes a real danger to the West. In fact, it is far more dangerous than its other variations ever have been because, at this very moment, it is conquering the hearts and minds of millions of people around the globe. For Nazism and Fascism it was surely a difficult task to convince the peoples of Africa or Asia of the superiority of the Aryan
race or the rejuvenation of the Roman Empire. But it is rather easy to indoctrinate them with the slogans and potions of communism.

Subjugating and Sacrificing the Individual to the State

Communism bears little resemblance to the despotic regimes of kings and dictators who continue to make their brief appearances in many parts of the world. It is totalitarian, all-comprising, subjugating the individual and sacrificing him to the State. It is the total politicization of life that permits no exceptions or limits, no sphere without the state. It is a secularity faith, a religiously fervent atheism. (The writings of Alexander Solzhenitsyn are a living memorial to the untold millions of Soviet victims.)

It is built on the socialistic economic order. Economic life hinges around the omnipotent and sovereign center that can tolerate neither private property in production nor individual enterprise. Every economic transaction becomes a political transaction that aims to sustain the omnipresent state. Every trade is used to strengthen the regime and, if at all possible, to weaken the capitalistic world. Its lack of prices and markets makes it a chaotic system that stumbles through waste and corruption, from crisis to crisis.

If it were not for the capitalistic production structure and Western technology that are copied or imported, the Soviet economic order would operate in utter darkness, unable to sustain its hapless population. In fact, living conditions in the Soviet Union that always have been on the level of underdeveloped countries have worsened considerably in recent years. Death rates are rising for almost every age group. There is not a country in Europe in which individual lives are so short and children's death rates so high as in the Soviet Union.

People Try to Escape

Wherever communism comes to power, a peculiar law of population and trade takes effect: the people seek to escape wherever and whenever they can; but the authorities forcibly keep them in the country by means of high walls and barbed wire, mine fields, tanks and machine guns. While many individuals lose their lives in desperate attempts to escape, a few succeed every day in reaching safety in the capitalistic West.

The flow of goods proceeds in the opposite direction, from the capitalistic countries to communist areas. They flow as alms or extortions, through lies or deception, or as the result of credits and loans that are repayable in the distant future.

The communist economies are straining and reaching the breaking point in a desperate effort to sustain
the ruling class and build a powerful military machine. While the masses of people under communist rule linger in hopeless poverty, a bloated state bureaucracy enjoys all the perquisites and privileges the system can provide. The manifest disparity between the lifestyle of the working population and that of the party establishment is a source of chronic discontent. Despite all the impudent boasts of the Soviet leaders, there is no hope whatever that socialism will ever provide the amenities of life to which the working people in the capitalistic countries are accustomed.

And yet, two circumstances come to mind that may actually give substance and truth to the communist boasts. If the West, in utter blindness and stupidity, were to destroy its own economic order by adopting the methods and policies of socialism, or by ravishing its own productivity through currency and credit destruction, the West may actually sink to Soviet levels. Moreover, if the West, for any reason, were to transfer its productive capital and technological know-how to the Soviets and modernize communist production along capitalistic lines, new life could be imparted to the barren system.

It is an undeniable fact that in incredible blindness the West actually has moved in this direction, giving new hope and comfort to world communism. It has severely weakened its own currency and credit structure through rampant inflation and extended massive loans and credits to the Soviet Empire.

**The West Is Financing Soviet Oppression**

In recent years, mostly since 1970, Western governments and financial institutions loaned the Soviet bloc countries at least $88 billion. According to some estimates that include the credits granted by suppliers and other lenders, this amount may actually exceed $113 billion. The West is bailing the socialistic countries out of their inherent difficulties through massive transfusions of capital. It is buying the bread for the restive masses and capitalist technology for socialized industries.

Why are we propping up the socialistic economies and their dictatorial regimes? Three factors may have contributed to this awful blunder: Western ignorance about the nature of communism; rampant inflation, especially in the U.S., that triggered the outflow of funds to all corners of the world; and, finally, Western euphoria about detente.

It is gross ignorance to view the relationship of a communist government and its people as normal and healthy. Communist governments are not the representatives of the people, and the people are not the constituency of the government.
When we are dealing with communist officials we are not dealing with the people, but with the political agents of a monolithic apparatus of oppression that lacks any legitimate claim to represent the people. To grant a loan to a communist state is to join cause with the oppressors, to see them through their difficulties and preserve intact the dictatorship, which the people are risking their lives to dismantle. And yet, in their incredible confusion the big banks in the capitalist West, encouraged and goaded by equally confused government officials, supported the regimes to the tune of $88 billion or more.

**Banks Pressed to Invest**

Surely the banks were under severe pressure to invest huge funds rolling off the printing presses and credit systems of their respective governments. The 1970s were years of rampant inflation as Western governments were indulging in massive deficit spending that was financed primarily by currency and credit expansion. Commercial banks were the happy depositories of these new funds that needed to be invested securely and profitably.

To the eager bankers it was a pleasant coincidence that the communist governments were ready to receive those funds in large and convenient blocs. Moreover, the banks were obliged to “recycle” the massive influx of O.P.E.C. petrodollars that were flowing from the oil-consuming countries to Arab producers and back to commercial banks in the consuming countries. Some deposits found their way from the banks to the national treasuries that spent them on massive deficit schemes. Third World countries in Africa and Asia managed to borrow a total of $365 billion, the communist countries no less than $88 billion. Of course, this grant of loans constituted a huge transfer of real wealth from the capitalist West to socialist and communist governments all over the globe. It sustained and supported the oppressors and mortal enemies of capitalism at a rate and magnitude unprecedented in history.

**Moscow Continues Psychological War Against the West**

The euphoria that followed the detente blinded many Western leaders. Although Moscow continued its psychological warfare with all available methods, aiming at the political attrition of the capitalist West, Western neutralists and appeasers rejoiced about the detente and eagerly promoted the wealth transfer. The Kremlin continued to wage its war at alternating fronts, either psychological or economical, or military, or all together; the West simply disregarded the challenge and acted as if the incessant blows and
contemptuous injuries simply did not exist.

By now the banks probably have come to realize the full meaning of lending to the Soviet bloc. But it is too late for them. The Communist debt has long since passed the point at which it could simply be written off. The magnitude exceeds by far the banks' capital and surplus, the loss of which would bring instant ruin and bankruptcy. As they cannot cut their losses they are likely to make every effort to protect their old loans through new loans. As long as they finance the interest falling due, they can live by the fiction that the loans are realistic and secure. But the protection of loans implies the protection of the debtors, i.e., the communist states. The banks as creditors thus become partners of the communist debtors and the loans become political intervention on behalf of the communist regimes. When seen in this light, the $1 billion bank loan extended to the Polish government by West German and American banks during the present crisis is political intervention on behalf of communism.

If the Polish government should default on its debt because Western banks cease to finance it or because the Kremlin decides to rattle the financial structure of the West, the 400-500 billion dollar pyramid of debt built on the ability and willingness to repay may come crashing down on the gullible West. A communist default, which appears inevitable to this observer, would have a domino effect on those debtor countries that have virtually no chance of ever repaying their debts. It is almost certain that sooner or later the Soviets will use this threat of default to gain political concessions from the West.

**Subsidizing the Banking System**

Given the financial structure of the West and the dominant role of governments in those structures, it is doubtful that such a default would actually crush the debt pyramid. But it probably would alter its color and nature. No Western government would permit its banking system to collapse as a result of foreign default, with the inevitable consequences of severe depression and mass unemployment. Instead, the governments of creditor countries could be expected to issue instant guarantees for the defaulted obligations and thus assume the communist and Third World debt. The crisis would be averted by Western governments through the assumption of another $400-500 billion of debt, which in time would exert its powerful influence toward more inflation and credit expansion in the West. It would contribute its share to the gradual and ultimately total destruction of the world monetary order. Unfortunately, such a de-
struction would devastate the capitalistic countries without a single shot being fired.

Socialism Has Lost Its Appeal

The Polish workers’ revolt reveals the tremendous problems, tensions, and weaknesses of the communist empire. Behind the impudent speeches and boasts of the Soviet rulers lies the hopeless reality of the socialist economy, the misery of living conditions and the despair of millions of people who are chafing under harsh conditions.

The people have to stand in line for hours to buy food that is in scarce supply or for shoes and clothing that are rationed. They walk miles to work—public transportation is most unreliable, and private transportation, except for the bicycle, virtually does not exist. The private automobile lies beyond the reach of most Poles; it is reserved for members of the communist party and the ruling elite. Most amenities of life to which the workers in capitalistic countries are accustomed are not offered by the government distribution system; they may be available on “black markets” that are supplied through countless illegal channels of trade and manufacture. The frustrations that are felt everywhere continue to lead to labor protests and walkouts although, last summer, Polish workers were permitted to join an independent labor union, Solidarity.

The existence of an independent labor union violates the basic structure of monolithic communism and, therefore, is viewed with alarm in the Kremlin. It raises the crucial question of how much decentralization the Soviet system can tolerate and yet be centrally controlled. Does it constitute a serious challenge to the communist empire?

The Anomaly of Unions

To the Western observer the union movement in Poland constitutes a curious fruit of socialist thought that promises protection from employer exploitation—protection through organization and collective bargaining. In the capitalistic West, it is aimed at the private owners of the means of production whose bargaining power is said to exceed by far that of individual workers. In a communistic country that claims to represent a nation of working people, the union movement confronting the communist state obviously contradicts this claim. If a labor union is the legitimate representative of the working people, where then is the legitimacy of the state? By casting serious doubt on the philosophical and moral foundation of the communist state, this question makes the union movement a genuine threat to communism. The union will have to be crushed forcibly, or it will, in time, erode the monolithic nature of communism.
The Polish workers who courageously confront the state may be dimly aware of the philosophical implications of their challenge, as are most people who labor and suffer under a totalitarian regime. But they are grossly mistaken in their belief that a labor union can actually improve the living and working conditions of the workers.

Rising Productivity Is the Key to Progress

It is an economic error deeply imbedded in popular thought, even in the capitalistic West, that labor unions can raise the wage rates and improve the working conditions of the working population. Only rising productivity can bring this about. A labor union that raises production costs and disrupts production, tends to lower productivity and income. Through coercion or threats of coercion it may allocate larger slices of a shrinking pie to workers with union seniority—always at the expense of junior workers. But it cannot improve the economic conditions of all the people.

The Polish people will have to learn in the coming months that shorter work days, slow-downs and strikes do not raise living standards, but lower them. Economic conditions will deteriorate visibly and markedly because the socialist production order by itself is basically chaotic and unproductive. Adding militant union tactics to socialistic bungling is adding havoc to confusion. Polish standards of living will continue to fall, which may lead to more rebellion and confrontation with the communist state.

The only hope for genuine economic betterment lies in a return to the private-property competitive order, i.e., to capitalism. All means of production would have to be returned to private ownership, and economic production be guided again by costs and prices freely established in competitive markets. But those words cannot be spoken with Soviet commissars lurking around the corner. Moreover, it is doubtful that the Polish workers are thinking in those terms. They are watching with envy the economic conditions in the West where working people are free to unionize and engage in collective bargaining. Because there are unions there are high standards of living, most workers strongly believe, which is a logical error as old as the union movement itself.

Independent Farmers’ Union

The drive for Rural Solidarity, an independent farmers’ union, adds yet another dimension to the conflict. A consistent communistic order that tolerates no private property in the means of production has no place for independent farmers. It uses farm workers who labor from dawn to dusk
on government estates or community cooperatives. The very existence of privately owned farms in Poland is a rare exception to the Soviet rule that was suspended temporarily because of transitional difficulties. But the government is asserting its ruthless control through its monopolistic position as the sole buyer of all farm products. It is setting its own prices and forcing farm producers to deliver their output to the state. Disobedience is denounced as "black marketeering" and punished severely and mercilessly.

The farmers' drive for an independent union is an open affront to the communist order. The farmers' union would want to bargain for higher food prices and the freedom to sell farm produce in open markets. It would press demands that are utterly unacceptable to the holders of communist power. The confrontation is ideological and therefore insoluble. It is all the more menacing to the communist state as it is supported by the workers' union whose economic interests do not call for higher food prices. The strange alliance of workers' and farmers' union, therefore, is signalling a serious challenge to communist principle and authority.

What are the motive powers of this challenge? This observer is fully convinced that it is Polish nationalism that is rising in defiance of Russian rule and supremacy.

**Nationalism vs. Empire**

Nationalism is a guiding principle or creed that permeates political thought and policies throughout the world. It undergirds all modern societies and legitimizes their claim to authority and sovereignty. It makes the nation-state the ideal form of political organization, and provides the framework for social and cultural activities. Unknown before the eighteenth century, it swept through Europe during the nineteenth century and conquered the world as a political ideology during the twentieth.

In its most popular garb nationalism raises the demand for a government of the same ethnic composition as the majority of the citizenry. Its goal is national self-determination, to be separate, independent, and equal to other nations. Seeking "national" or "popular" foundations for cultural and intellectual life, it rejects the supranational and universal elements of social life. Extreme versions of nationalism tend to drown the quest for individual liberty and seek to crush the rights and interests of other people not of the race and language of the majority group. Such has been the primary ideological force that plunged the world into its major wars.

After World War II the spread of nationalism to Africa and Asia brought an end to the European colonial empires and gave birth to a
The same forces of nationalism are felt in the communist empire, giving rise to conflicting national interests and creating acute tensions that are gnawing at its foundation. Yugoslavia asserted her independence from Soviet Russia as early as 1948. All other satellite countries sought to regain it in vain. The popular uprising in Berlin, the revolt of Pozen, the Hungarian revolution, the Czech rebellion, and now the Polish workers' revolt, all reveal the tremendous tensions and conflicts between the people and their communist masters.

**Polish Nationalism**

Polish nationalism, which during the 19th century had merely been an upper-class movement and therefore had failed to achieve national independence, is the primary political credo in Poland today. It probably received its impelling force and momentum from the immense suffering which German and Russian nationalism inflicted on many Poles during and after World War II. In 1939, Polish independence was crushed by Nazi Germany and communist Russia, acting in concert, leading to another partition of Poland. During and after the war, more than one-third of the Polish population was driven from its homes and resettled ultimately in formerly German territory that was emptied of German-speaking inhabitants. The suffering inflicted by foreign nationalism has left a deep mark on the present generation of Poles, especially in the resettled areas. It is no coincidence that the workers' revolt started in the Gdansk area and from there quickly spread to Silesia, areas settled by Poles only thirty years ago.

Nationalism is a powerful divisive force in the communist world, a force capable of producing bitter tensions and conflicts. It is resisting the centralization of all power in the Kremlin and preventing it from establishing its deadly uniformity throughout the empire. In the satellite countries it creates a wide rift between the people and the governments which receive their orders from Moscow. The Polish people reject and scorn their own government and the ruling class of communist party members who are catering to their Russian masters.

**Growing Tensions of Nationalism Within Soviet Union**

The Soviet Union itself consisting of nearly 180 different nationalities and tribes is suffering from growing tensions of nationalism. The Russians or Great Russians, as they are often called, merely comprise some 58 per cent of the Soviet population. Sizable minorities include the Ukrainians, Byelorussians, Georgians, Armenians, Estonians, Latvi-
ans and Lithuanians, who are praying for their day of deliverance.

When, in 1941, the German armies invaded the Soviet Union, millions of people welcomed the German invaders as their liberators. A volunteer army of Soviet subjects under a former Red Army general, Andrei Vlasov, fought side by side with the Germans to the bitter end. If the German conquest had not been marred by countless Nazi atrocities and the Hitler regime had not proven to be even worse than the Stalin reign, the national minorities might have risen in unison against their Kremlin masters. After the war, four Soviet republics and one national region were dissolved as a punishment for their defection and their inhabitants dispersed over the Union.

Behind the Iron Curtain nationalism probably constitutes the greatest challenge and danger to the communist empire. This is not to deny that in Third-World countries communism and nationalism may become uneasy allies in their attempts at overthrowing the old order. A government with nationalistic ambitions, eager to "liberate" an ethnic group or reclaim "lost territory," may meet resistance by the Western powers, but find eager support by the Soviet Union. The Kremlin encourages and assists the national liberation movement and, whenever successful, reaps its rewards in the extension of Soviet power.

Conquer or Perish

Why are the Soviets so intent upon conquering and extending their sphere of power? Why this unflinching aspiration for unlimited world supremacy?

The communist politicians and sympathizers throughout the world have a ready answer: the need for self-defense. The decaying capitalist democracies, they proclaim, are bent on extending their spheres of exploitation. Russia is merely defending her own independence. Of course, such an answer has justified all aggressions from the beginning of time. Louis XIV and Napoleon, Hitler and Mussolini invaded foreign countries only in self-defense. For the same reason Russia annexed Estonia, Latvia, Lithuania, Bessarabia, a province of Czechoslovakia, a part of Finland, a great part of Poland, and Chinese and Japanese territories. Russia created a ring of satellite countries for which it claims exclusive concern and interest. They include the rest of Poland, East Germany, Czechoslovakia, Rumania, Hungary, Yugoslavia, Bulgaria, Korea and, since December 1979, also Afghanistan. In these countries only "friendly" governments, i.e., puppet communist regimes, are tolerated.

If the U.S.A. were to seek territo-
rial aggrandizement in Soviet fashion, it would have annexed Canada, Mexico, and Cuba long ago, and converted all other Latin American countries to “friendly” neighbors. But that would be “capitalist imperialism” in communist terminology. When the Soviet Union embarks upon aggression it is “self-defense.”

**Toward World Revolution**

Russia’s aggressiveness actually is the poisonous fruit of the communist dogma that the Soviet Union is entrusted by destiny to keep the death watch of capitalism. By laboring toward the final world revolution, the Kremlin is paving the way for the new order. The Russian intelligentsia and many thought leaders who afford strength and support to the regime are flattered by the thought that they are the leaders of the world revolution. They are ready to support the Kremlin as long as the world revolution is advancing and showing promise of final success. To them the spread of communism throughout the world offers cogent proof that Marx and Lenin were right in their foreknowledge of a new order.

The Kremlin, therefore, is under continuous pressure to produce new evidence that communism is on the march and the revolution is proceeding on schedule. It must take ever new initiatives of aggression and launch new attacks in order to retain the vital support of the intelligentsia. Any break in the Kremlin momentum is inviting disillusionment and disapproval. Any setback is threatening the very foundation of the political order. Only unflinching aggression and visible success can appease the Marxian intellectuals.

And yet, reason and virtue have not perished in the satellite countries, nor in Russia itself. To the intelligent and sensitive minds communism has ceased to constitute a faith that satisfies their souls. Many millions of victims of communism tear at the hearts and weigh on the consciences of those who still can feel and think. Other millions of victims who endured sadistic brutality in labor camps are finding their moral strength to resist the darkness. Although still imbued with the doctrines and theories of Marxism or other brands of socialism, many thinkers are rediscovering the intellectual and moral roots of Western civilization. A large number of Russian writers are consciously Christian. To them Christianity is often perceived to be the alternative and main competition to Marxism-Leninism. They are emerging *From Under the Rubble*, as Alexander Solzhenitsyn and a group of intimates describe it in a ringing testament.

When given the opportunity, the great minds of Russia are escaping to the West. The communist regime
kept in place by brute force is suffering from ideological subversion that is gnawing at the foundation of the empire. The entrenched ruling class of the Soviet Union as well as those in all its satellites have much to fear from their long-suffering subjects. Chronic discontent with working and living conditions are sparking sporadic rebellions. The Polish troubles are an early indication that the Soviet system is weakening in its ideological and moral foundation.

It would be wishful thinking that the communist regime in Poland is about to collapse, pulling down communist rule throughout the world. But it is certain that whatever is happening in Poland is shaking the empire and frightening the Soviet rulers. They may have to call on the Soviet armed forces for their "defensive" service in the name of the socialist world order. But the effectiveness of the armed forces depends on their fidelity and loyalty to a system that is decaying in its core. It is not surprising that the Kremlin is hesitating to order the Red Army to march.

**How Can the West Respond?**

Recent events in Poland reveal the tremendous tensions and paradoxes of the Soviet system. They manifest again that the empire structure is resting precariously on a decadent foundation that is crumbling bit by bit. When a few thousand desperate slaves are rattling their chains the whole slave plantation must brace itself for an earthquake. The Polish workers who, with incredible courage, are tearing at their shackles, are speaking louder than the gibberish of Marxist-Leninist propaganda that pours from the Kremlin. They may fail in the end because the Red Army may yet hold together in a skirmish with ancient neighbors, the Poles. But their sacrifices may reveal and widen the fractures and ruptures of the whole system. For the final day of liberation they may have to wait a little longer until the whole structure comes tumbling down.

To the West, the Polish unrest may serve as a timely occasion for re-evaluating its basic position and policy. Should we continue to come to the support of the communist states through the transfer of massive capital and modern technology—in return for a few more moments of detente? Should we help the ruling classes of the Soviet empire to weather one crisis after another? Or should we pursue a policy of containment that affords new hope and strength to the countless millions of communist oppression? If we have faith in the intellectual and moral values of the West, the answers are very simple.

The Kremlin leaders are devoting all their energies to the building of armed forces of a size the world has
never seen before. Counting their
numbers many Western observers
are despairing, talking about defeat
and surrender and preparing for the
worst. They are alarmed about our
"missile gap," the "fighter gap," the
"bomber gap," and so on, which we
are urged to bridge at once. All their
facts and figures may be true. But
they are completely ignoring the
moral coefficient that is most impor­
tant in the determination of who is
superior. According to a famous dic­
tum by Clausewitz, we must multi­
ply the military strength of the en­
emy by his moral coefficient in order
to arrive at his strength in battle.
That is, we must multiply the Soviet
legions by the universal tyranny and
oppression of the Soviet system in
order to estimate its actual strength.
Such a calculation must fill us with
new hope and confidence in the ul­
timate outcome of a collision.

Surely we must not allow our­
selves to be lulled to sleep, act cow­
derly, be confused and indecisive.
We must be strong not only politi­
cally and militarily, but also intel­
lectually and morally. We must have
faith in our values, in the intel­
tlectual and moral heritage of the West.

To Gain Respect

HEAVEN knows there is no virtue in bankrupting ourselves as we pour
huge revenues into supporting other nations, even allowing them to
reduce their own taxes at our expense. They will value this "charity of
friends" at precisely nothing. Worse still, it will break their will to earn
their own way and undermine their dignity. In the end, our govern­
ment's dole to them will put them in the almshouse along with us.

By hard work and thrift, integrity, and intelligence under the free,
private, competitive enterprise system, the United States grew from a
small, poor republic to its present power and economic potential. As a
result, our private capital, during the last century, and especially from
1900 on, has gone abroad, bringing with it managerial and technical
resources and skills. It has brought to underdeveloped areas all over the
earth enormous advantages and such a development as no bureaucrats
or governmental agencies ever have or ever could approach.

SPRUILLE BRADEN
LEGAL and political philosophy came to America with the first New England colonists. These Puritans were not concerned with politics itself but treated upon it as it was involved with their religious problems. Outside of New England, though the colonists were also taken up in the problems of establishing governments and framing laws, there was virtually no writing dealing with the philosophy of politics or laws.

In those first years, the Puritan conception of law was quite clear: the only true law was that of God’s making. It was only when the rules of man were based squarely on the revealed will of God that they attained the dignity of law. The concept of natural law was completely absorbed in divine law. An English lawyer in Boston wrote in 1642 that the colonial tribunals ignored English Common law and sought to administer Mosaic law.

Although the colonies did not produce legal philosophy, they avidly consumed the two monumental writers of English law: Coke and Blackstone.

Lord Coke was a product of the Seventeenth Century, which saw not only the ascendancy of the doctrine of natural law as a restriction on the sovereign’s relations to his subjects, but in England saw it established
that there were certain fundamental common law rights which the courts would enforce even against the king. To Lord Coke, the common law limitations on royal authority became natural limitations on all authority; the common law rights of Englishmen became the natural rights of man.

Because of the inexact manner in which the common law was developed and handed down, in his expositions of the content of these natural rights of Englishmen Coke seldom rested solely upon the Magna Carta or other authority but would invariably invoke "common right and reason" to justify his position.

Yet however these rights might be discovered, it is clear that they transcended both parliament and king. In Bonham's Case (1610), Coke said: "And it appears in our books, that in many cases, the common law will control the acts of Parliament, and sometimes adjudge them utterly void; for when an act of Parliament is against common right and reason, or repugnant, or impossible to be performed, the common law will control it and adjudge such an action to be void."

In 1765, William Blackstone published his *Commentaries on the Law* and within a short time he became as well read in America as in England. These quotations are from an American edition published in Philadelphia in 1771: "When the Supreme Being formed the universe and created matter out of nothing, he impressed certain principles upon that matter from which it can never depart and without which it would cease to be . . . This then is the general significance of law . . . But laws in their more confined sense, and in which it is our present business to consider them, denote rules not of action in general, but of human action . . . that is the precepts by which man . . . endowed with both reason and free will, is commanded to make use of those faculties in the general regulation of his behavior . . . So when He created man . . . He laid down certain immutable laws of human nature . . . and gave him also the faculty of reason to discover the purport of those laws. The Creator . . . has been pleased so to contrive the constitution and form of humanity that we should want no other prompter to inquire after and pursue the rule of right but our own self-love, that universal principle of action . . . God has not perplexed the law of nature with a multitude of abstract principles . . . but has graciously reduced the rule of obedience to this one paternal precept that man shall pursue his own true and substantial happiness."

Though Blackstone speaks of the natural liberties and absolute rights of man, he adds a reservation: "I know it is more generally laid down more largely, that acts of Parlia-
ment contrary to reason are void. But if parliament will positively en­
act a thing to be done which is un­
reasonable, I know of no power in
the ordinary forms of the Constitu­
tion that is vested with the author­
ity to control it.”

In that he was right, for in Eng­
land the Revolution of 1688 had es­
tablished the supremacy of Parlia­
ment and in the Mother Country
Lord Coke’s fundamental rights of
Englishmen could no longer prevail
over the will of the legislature.

Whatever reservations Black­
stone may have had about the ulti­
mate supremacy of natural rights,
they were not shared by the colo­
nists who eagerly consumed Black­
stone on the rights of Englishmen
and ignored Blackstone on the su­
premacy of Parliament.

And this was what the Revolution
was about. The Declaration of Inde­
pendence was a statement of these
principles. Far from being an ex­
travagant rallying cry for a difficult
cause, it was a simple statement of
the general political and legal con­
sensus of the colonists. When the in­
furiated colonists denounced the
Stamp Tax and demanded the rights
of Englishmen, they were not de­
manding those rights which Parlia­
ment had from time to time granted
its subjects but rather those imme­
morial rights of Englishmen granted
by God and manifest in nature which
no parliament however representa­
tive may take away or alter.

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**Man to Man Justice**

It is in the direction of a more acutely developed sense of individual
conscientious responsibility that we must constantly look for any per­
manent improvement in the ordered general welfare of our society.

It must be remembered that ninety-five percent of the peace, order
and welfare existing in human society is always produced by the consci­
entious practice of man to man justice and person to person charity.
When any part of this important domain of personal virtue is trans­
ferred to government, that part is automatically released from the re­
straints of morality and put into the area of conscience-less coercion.
The field of personal responsibility is thus reduced at the same time and
to the same extent that the boundaries of irresponsibility are enlarged.

CLARENCE MANION, *The Key to Peace*
"When goods increase, they are increased that eat them: and what good is there to the owners thereof, saving the beholding of them with their eyes?"

This biblical verse, *Ecclesiastes* 5:11, was the inspiration of that most famous of anti-utopians, Thomas Robert Malthus, who became a clergyman in the same year (1798) he published his famous *Essay on Population*. Malthusian pessimism will always be flawed by its clumsy and rather foolish predictions on food-producing and birth control technology, but it will always be a powerful tradition because the ultimate refutation of human perfectibility does indeed derive from a theory of human numbers, one which is far more complete than anything conceived in *Ecclesiastes* or elaborated by Mal-

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economies, more refined division of labor and leisure, and so on.

But growth is no unmixed blessing any more than is depopulation. The deceptively simple truth of the matter is that when a group decides to increase its numbers it collectively moves away from the advantages and disadvantages of demographic sparsity and toward the blessings and curses of growth. From the beginning of time we have stood in crowded cities and yearned for the peace of the countryside, then fretted on lonely farms in nostalgia for the human beehive of the city.

But a specifically mathematical truth stands behind this casual observation: We simultaneously desire two demographic conditions, contraction and dilation, which cannot simultaneously occur. Whether it is increasing or decreasing in number, every human society is moving toward one set of desiderata and away from another. The human group can dilate or contract toward one and only one set of universal human goals at a single given time. Man is demographico-mathematically imperfect and imperfectible.

A second, more informal way to consider human imperfectibility is the best preparation for a direct and definitive refutation of history’s most revered utopians, Plato and Marx. It concerns the impossibility of a just deployment of wealth upon the death of a creator of wealth.

At that time, two parties have claims to the wealth: the person’s heirs, meaning almost always his children, whose very existence announces population growth; and his government, whose very existence is justified by the prevention or minimalization of crises which diminish human numbers (wars, climatic catastrophes, and the like). Neither claim is perfectly just, since neither the heirs nor the government’s tax collectors have made the same innovations, taken the same risks or performed the same labor which created the wealth. But neither claim is completely refutable, either.

A Dilemma

The growth claimant, the heir, is correct to point out that he is genetically and geographically closer to the decedent, and the latter does almost always prefer his own sons and daughters as beneficiaries; but the non-growth claimant, the government, is also correct in pointing out that its power provided the creator of wealth with the physical security indispensable to the orderly creation of prosperity and innovation. Certainly, if society were perfectible, a perfect method of doing something so simple as assigning wealth upon the death of its creator would be possible or at least conceivable. It is not.

The hereditary conveyance of wealth has frustrated utopian
thinkers for thousands of years, and for good reason: even a "perfect" state must begin somewhere, and begin equally for everyone, but everywhere the utopian turns he sees that inheritances "aggravate" the inequalities of wealth and position which make utopia seem so unattainable. It is no wonder that almost all believers in human perfectibility call for an end to the bequeathing of wealth to heirs. Plato and Marx are not exceptions.

In all of political theory it is difficult to find two more dissimilar political thinkers than the most famous ancient and the most famous modern utopians. What could the patrician Athenian visionary, steeped in literature, music and athletics, have in common with the sarcastic German journalist, arch-materialist and agitator? The simple answer is a common call for the end of individual inheritances.

In all of political theory it is difficult to find two more dissimilar political thinkers than the most famous ancient and the most famous modern utopians. What could the patrician Athenian visionary, steeped in literature, music and athletics, have in common with the sarcastic German journalist, arch-materialist and agitator? The simple answer is a common call for the end of individual inheritances.

Toward the end of the Communist Manifesto, Marx and Engels present ten points toward the transformation of society. Point three reads succinctly enough: "Abolition of all right of inheritance."1

Plato seems wiser and therefore far less optimistic about sweeping away the very essence of the human family by mere fiat. He knows that to eliminate or, more realistically, to minimize the effects of the hereditary conveyance, one must hack at its deepest roots without fear or favor. The fifth book of the Republic does just that, and the lives of the elite guardians of the Platonic state are regulated not only before their birth, but before their conception: "The number of weddings is a matter which must be left to the discretion of the rulers, whose aim will be to preserve the average of population."2 The future guardians, "offspring of the good parents," will never know these parents. Anonymous nurses "will provide for their nurture, and will bring the mothers to the fold when they are full of milk, taking the greatest possible care that no mother recognize her own child."3 The hereditary conveyance of wealth within a family of guardians will be abolished because the guardians will know no family at all.

Declining Population

It is of course beyond the scope of this article to refute Plato or Marx line by line, volume by volume. The point is that this is unnecessary to our logic, since neither system has passed the first and most important test of any social blueprint, pragmatic or utopian: is the proposed government one under which human beings will consistently continue to increase their numbers (i.e., have three or more children) or at least maintain them (by having two)? In logical sequence, no other issue is reached if the answer to this ques-
tion is negative. Even utopia needs people, and even the slightest and most well-intentioned interference with the hereditary conveyance of wealth can induce catastrophic demographic declines, as shall be seen below. If no one in a state works for the long-range enrichment of anyone but the state, human reproduction becomes a form of tribute to the state and to its majority politicians, and human numbers eventually shrink in retaliation.

Perhaps most importantly, neither Plato nor Marx in all their voluminous works ever bothers to address the ultimate question: how do you make the state everyone's heir without giving its politicians an ominous vested interest in the death of their most productive and wealthy citizens? A private heir is virtually always forbidden by the state from killing his future benefactor to hurry his inheritance, but who will forbid the forbider? Stalin's murder of millions of relatively wealthy Russian peasants has been denounced even in the communist world, but it is an inescapable result of Marx's and Engels' explicit and absolute hostility to the hereditary conveyance, their implicit rejection of the only conditions under which human populations seem to consent to maintain themselves.

But what historical evidence can be cited to support the thesis that the freedom to bequeath wealth to one's children is the necessary precondition of demographic growth and national survival? Utopias, by definition, can never be wholly refuted by history because they can never be totally placed in the arena of historical reality. But certain policies based on utopian assumptions always seem to manage to creep into the histories of the most innovative nations, provoking anti-utopian reactions, like the depopulation of France under its inheritance law, which confirm our demographic logic.

Trouble in France

Almost consistently from the days of Caesar to the late nineteenth century, France was the most populous nation in western Europe and therefore the society most likely to risk social experiment within the security which only superior numbers can provide. Then, relatively suddenly, its population growth stalled and virtually ceased. Aggravated, of course, by the First World War, deaths in France exceeded births during the 1930s. The country which had been almost five times as populous as Spain in the latter's golden age and over twice as peopled as Victorian Britain in the nineteenth century fell behind the Italians, the British and above all the Germans in population, virtually assuring German domination of Europe until 1945. Even today, under many government programs to increase French
population, France has twice the territory of West Germany and is in many ways richer, but cannot match German economic performances. What had happened?

In 1793, the French revolutionary legislature, the Convention, abolished primogeniture, the feudal law which directed the estates of persons toward their first-born child. This abolition of a restriction on the hereditary conveyance was consistent with demographic growth and therefore correct, but the Convention did not proclaim the right of all persons to bequeath what they want to whom they want. It replaced the feudal directive with a far more extensive one by mandating that all property must be willed in equal shares to all legitimate and acknowledged illegitimate children.

Napoleon incorporated this principle into his Code Civil, and it remained the law throughout the turbulent nineteenth century, blissfully untouched by "liberal" and "conservative" governments alike. The Germans and British had no such law, and generally allowed the freedom to bequeath. A popular historian sums it up concisely:

This legislation had important results, moral and economic: reluctant to condemn their heirs to poverty by periodic divisions of the patrimony among many children, the French cultivated the old arts of family limitation. The peasants remained prosperous, but the population of France grew slowly during the nineteenth century—from 28 million in 1800 to 39 million in 1914, while that of Germany rose from 21 to 67 million. Prospering on the land, French peasants were slow to move into towns and factories; so France remained predominantly agricultural, while England and Germany developed industry and technology, excelled in war, and dominated Europe.

In 1911, a great French demographer cried out against France’s depopulation and inheritance laws:

Few know it! Hardly anyone thinks of it! The French see their country’s suicide without attempting a thing to prevent it. The death of France, which will be one of the major events of the nineteenth and twentieth centuries, astonishes foreigners and leaves us indifferent!

We have seen that in all the major countries of the world, legislation is designed to reconcile man’s two most natural ambitions: the desire to survive himself in his wealth and work, and the desire to survive himself in his children. In France, the law prevents theconciliation of these two ambitions; it forces a man to choose, and experience proves that he makes the choice most harmful to his country: he sacrifices the conservation of his nation to the preservation of his family wealth.

If even this subtle restriction on the hereditary conveyance—French revolutionary legislators might have almost been justified in calling it a theoretical extension of it to younger siblings—could result in the demographic eclipse of the most peopled
and powerful state in Western Europe, what would an outright abolition of the conveyance do to an otherwise "perfect" state? The younger children which the French law was designed to protect were never born and never lent their economic productivity or their military manpower to the task of holding back the prolific, prosperous Germans. The statist, utopian assumption in all this is that people are so perfectly subservient to the state that they will have many children and create much wealth for their government regardless of its attitude toward the physical and economic continuity of family life. People are not and they do not.

**Depopulating the Soviet Union**

Revolutionary France has not been the only demographic colossus committed to utopianly naive restrictions on the freedom to bequeath. Marxist orthodoxy, as we have seen, envisions not merely a restriction on, but a total abolition of private inheritances. Accordingly, Marx and Engels are depopulating (and de-Europeanizing) the Soviet Union just as French revolutionary naivete penalized France. The Great Russian ethnic majority which stabilized the identity of tsarist Russia has disappeared under the communists; Stalin's genocides and wars have left catastrophic deficits of males; and infant mortality is skyrocketing to such an extent that China can seriously relish the possibility of an end to Soviet population growth.

Two American demographers, basing their study only on figures put out by the Soviets themselves, have concluded that the average Soviet woman has from six to eight abortions in her lifetime. Soviet feminists claim that the figure is closer to ten, with the inevitable probability of uterine damage. Infant mortality is up to the levels of underdeveloped countries and Soviet life expectancy, having risen impressively in the 1950s, is edging down. Western experts on Soviet affairs are astounded at this "health crisis" and cite alcoholism and health expenditure cutbacks, but these factors could be more of an effect than a prime cause of sagging familial morale in the U.S.S.R.

**Breaking Family Ties**

The overall problem is that a still theoretically utopian Soviet state, despite tacit concessions to the reality of minor family possessions staying within a family, remains faithful to Marx's and Engels' suppression of the essence of familial continuity, the hereditary conveyance. The Kremlin is reputed to be coldly realistic, but what more urgently real duty do the Soviets face than the peopling of that immensely rich Siberia which faces a billion hostile Chinese, and how can this crucial
goal be achieved with the average Soviet woman undergoing at least half a dozen governmentally performed abortions during her childbearing years? The U.S.S.R. has already become predominantly Asian in population: how can it best resist the Asian nation par excellence, a China with Marxist pretensions of its own?

"The Sixties and Seventies have proved devastating to Soviet society," writes demographer Nick Eberstadt. And indeed they have, but did not the Soviets enjoy a certain demographico-economic growth up until that time? The growth-indifferent communist state could spur its people to grow when its patriotism could point to Japanese or German militarism or to the fact that only the United States had the power of nuclear attack. But those days are gone forever, and when did they leave for good? At the dawn of the devastating sixties and seventies.

Soviet citizens are now free to see that the most dangerously self-deluded opponent of their familial continuity is not Hitler, but communism itself, as freely expressed in the 1848 Manifesto. Once the Soviets became a nuclear superpower, their leadership lost its most precious or perhaps its only tool for persuading the Soviet family to grow: Russian nationalism and military vulnerability. Soviet women will bear children to defend the "motherland of socialism" but not to prove the utopian theses of two nineteenth century German pseudo-scientists.

So it is that most utopias may be generally defined as the fruits of an intolerance for the hereditary transmission of wealth, an intolerance which, once international circumstances calm down long enough for families to take stock of it, provokes the disastrous retaliation of depopulation. The Soviets must repudiate Point Three of the Communist Manifesto or continue to face a demographic decline of incalculable consequences for the whole world. If the demographic decline of France opposite Germany was the most ominous event of the nineteenth century, the de-Europeanization and slow population growth of Soviet Russia is among the most disconcerting phenomena of the twentieth.

Beneficiaries of Great Wealth Often Oppose Such Transfers

Along with this new definition of utopianism as an assault on hereditary transmissions of wealth should come some theory of who the serious opponents of family wealth are. They could be anyone, but the deliciously paradoxical fact of the matter is that some of the most famous ones were the direct beneficiaries of great, unearned family wealth. At the very beginning of Plato's Republic, Socrates asks Cephalus whether the latter's wealth is self-acquired or in-
herited, and rejoices upon learning that it is inherited:

... the makers of fortunes have a second love of money as a creation of their own, resembling the affection of authors for their own poems, or of parents for their children, besides that natural love of it for the sake of use and profit which is common to them and all men. And hence they are very bad company, for they can talk about nothing but the praises of wealth. 12

This passage fits in well with evidence indicating that Plato was of a patrician family and his leisurely, rambling dialogues the fruit of more leisure than any ordinary person could afford in his day. As to Marx and Engels we are far better informed. They shared not only friendship and a belief in "scientific" human perfectibility, but a common source of income, the Engels family fortune:

To support both himself and Marx, [Engels] accepted a subordinate position in the offices of Ermen & Engels [senior] in Manchester, eventually becoming a full-fledged partner in the concern. He again functioned successfully as a businessman, never allowing his communist principles and criticism of capitalist ways to interfere with the profitable operations of his firm. Hence he was able to send money to Marx constantly, often in the form of five pound notes but later in far higher figures. When Engels sold his partnership in the business in 1869, he received enough for it to live comfortably until his death in 1895 and to provide Marx [who died in 1883] with an annual grant of 350 pounds, with a promise of more to cover all contingencies. 13

Birthrights Rejected

The point is not, certainly, that a social thinker has to inherit great wealth in order to mount a utopian attack on the very conveyance which enriched him, but it could hardly be a coincidence that the two most famous and revered assaults on family wealth have come from among the heirs most gorged on its benefits. Dynastically wealthy persons constitute less than one per cent of all the humans who have ever lived, yet they have produced most, perhaps almost all of the utopian social blueprints which have distracted mankind from the real task of improving, not "perfecting" society. Nor is it being said here that major heirs are absent from the ranks of libertarian, individualistic thinkers: the task is not to predict the future political behavior of the dynastically wealthy, but to classify and analyze their past thoughts and attitudes as well as the nature of the political majorities which have accepted them as leaders.

Finally, it should always be remembered that dynastic wealth is virtually never a political factor outside of the world's wealthiest nations because only the latter produce politically significant amounts of it. It is in the Germany and Britain of
Marx and Engels, the America of Franklin Roosevelt, or the France of Jean-Paul Sartre that the partisan functions of family wealth must be sought. Did not Sartre, France’s most eminent twentieth century Marxist, admit that his mother once paid about $24,000 in taxes for him?14

The material poverty of a Lenin or a Mao Tse-tung disproves none of all this: penniless terrorists have always sought justification with the economically illiterate rich, who, like them, are too small a group to impose utopia and tyrannize the masses alone. The inescapable conclusion is that the most popular enemies of free market economies are those who never had to enter those economies on their own in the first place.

A Theory of Marxist “Progress”

From this principle a very logical theory of Marxist “progress” can be induced. It derives not from any socialist logic, but from the successes of free market economies: as more wealth is created by productive people like Engels’ father and his workers, more direct and indirect heirs like Marx and Engels are free to denounce the market logic which enriched their fathers and themselves. This is inevitably most evident in the recent history of the nation which has produced more anesthetizing dynastic wealth than any other in history, the United States, whose floundering welfare state is of course the creation of its most politically successful heir to great wealth, Franklin Roosevelt.

But the American experiment is beyond the scope of this indictment of human perfectibility, and rightfully so, for the heartbeat of our constitutional government, the separation of powers, is specifically anti-utopian: if the framers of the Constitution had been naive enough to think a single individual (philosopher king) or group (the urban proletariat) perfectible, they would not have perpetually separated the powers of demographico-economic growth, which are legislative in nature, from the executive power whose legitimate functions derive from and should be limited to the real or imminent emergencies which lessen human numbers. This institutionalized mistrust between legislators and the executive can minimize human greed and arrogance because it concedes that they exist. All governmental schemes which reject the separation of powers are doomed to be devoured by the selfishness and imperfectibility they deny.

So it is that our demographically based logic does not refute “scientific” utopia and leave nothing in its place. American history, before the 1930s at least, is the most real refutation of utopia, but also the proof that man has a choice between pursuit of an impossible perfection and the cynicism which would deny “im-
provability.” The United States, apparently bent on returning to the “growthist” ideals which made it great, and the self-depopulating Soviet Union respectively illustrate the Greek pun through which the jesting Thomas More gave utopia its name: the “good place” (eutopos) opposed to the “noplace” (outopos) of utopian pseudo-science. 3

—FOOTNOTES—

3Ibid.
5Will Durant, The Age of Napoleon, page 125.
6Jacques Bertillon, La Depopulation de la France; Paris, 1911, page one.
7Ibid., page 150.
8Christopher Davis, Murray Feschback, “Rising Infant Mortality in the USSR,” Bureau of the Census, Series P-95, No. 74, page 13.
9Ibid.
10Ibid., page one.

Edmund A. Opitz

Socialism, as mood, theory, and practice, is a result of the material abundance made possible by the industrial revolution. Millions of people had toiled close to the soil for millennia, only to be rewarded by a bare subsistence, at best; at worst by plague and famine. Until the modern era, poverty was hardly more attributed to human arrangements than to cosmic setting; one seemed about as fixed as the other. Generations toiled, fed, bred, and died and, because of the general conviction that such was man’s fate, entertained little hope of bettering their circumstances. The expectation of unimaginable progress was released by the revolutionary changes which mark the modern period, a period characterized until recently by expanding political liberty, invention and technology, capitalist production, and relative material abundance. Men ceased to yearn for compensatory delights in the world to come and began to dream of getting their New Jerusalem now in “England’s green and pleasant land.”
Among the old books at the local thrift store I came across a two-volume set entitled *Little Visits with Great Americans*. I scanned the pages, always searching for useful materials to share with my junior high history students. Here was a treasure indeed! I could hardly wait to purchase the find and examine the first-hand accounts of how these several persons had achieved success.

From the yellowed pages of those old books came a handful of recurrent principles which, if applied in our own generation, could produce not only more great men but also an even greater and stronger American nation. Such greats as Thomas Edison, Andrew Carnegie, John Wanamaker, Theodore Roosevelt, John Philip Sousa, Helen Keller, and Philip Armour shouted to American youth through the printed page the requisite characteristics for success and prosperity.

Perhaps the principle or characteristic most often mentioned by these examplars was work—hard, persistent, dedicated work.

Edison: "Genius is one percent inspiration and ninety-nine percent perspiration."

Armour: "You cannot give the world anything without labor, and there is no satisfaction in anything but labor that looks toward doing this, and does it."

T. Roosevelt: "The ability to work hard is, perhaps, the most valuable aid to success. One can't have much success without it."
Such talk often is plentiful, but it is seldom transformed into real action. A look into the lives of the men interviewed in those two rummage-sale books, however, revealed that they did possess such desire and character as to enable them to become successes in their specific fields.

For instance, the more than one thousand inventions of Thomas Edison did not come from any exceptional bursts of creative genius or intelligence. Rather, they were the results of long, arduous hours spent with assistants in laboratories.

Edison made hard work a habit. He rose early each day, was scanning the newspapers by 6:30 a.m., and began his labors in the laboratories by 7:30 a.m. In order to direct the 50 to 75 different subjects being researched by his assistants, Edison would often spend his evening hours at home preparing instructions and activities for the next day's work. He did his own share of work in the laboratories, too, spending sometimes as much as 60 hours at a time experimenting with a single problem or idea.

Work to many people is a nasty expletive, something to be avoided at all costs. This is not unusual, for since time began man has been searching for ways to eliminate work. Each of us daily strives to get things accomplished with less effort than before. This is commendable and has led to many great inventions. But the attitude is growing that work is bad.

As a teacher of junior high school students, I become more aware of this growing attitude each school year. Not a few students are forgetting (or were they ever taught?) that school, and life, is made up of work. School work. Seat work. Board work. Written work. Homework.

Labor unions, ostensibly to protect the worker from exploitation, limit the number of hours one may work, or establish a ceiling on the amount one may produce in a given time period.

Government, by increasing taxes to burdensome levels, encouraging inflationary practices, and opening wider the doors of the welfare dole, kills what little incentive many individuals might have. Why work hard if the reward for that effort is confiscated? Why labor when one can make as much from Uncle Sam without working?

These obstacles, coupled with a lazy streak, present workers with a difficult, uphill battle. Despite these enemies, formidable as they seem, each can win his own battle if permitted the freedom to try, to fail or succeed, and to suffer the consequences or reap the benefits of his attempts.

Work is required of man. The first man, Adam, was commanded by God
after the Great Fall to work: "In the sweat of thy face shalt thou eat bread, till thou return unto the ground" (Genesis 3:19). Since that day work has been man's portion on the earth. Deep within man is placed an innate desire to achieve, an urge to accomplish. The method provided by the Creator for the fulfillment of this urge is work.

Successful men, as we have seen already, recognize the importance of persistent hard work to their achievements. It was said of Andrew Carnegie, the great man of steel, that "he was full of the notion of thrift and its twin brother, hard work." The revered Henry Wadsworth Longfellow intoned this principle when he penned:

The heights by great men reached and kept
Were not attained by sudden flight,
But they, while their companions slept,
Were toiling upward in the night.

Work is also fulfilling and satisfying. There is nothing more rewarding than working, sweating, toiling over a task and then gaining the satisfaction of knowing that the job has been completed and that one has done his best. Experiencing such satisfaction is an incentive for further work. Success and accomplishment breed more of the same.

Each of us should think carefully of the words of the one who wrote, "There is no work, nor device, nor knowledge, nor wisdom in the grave..." (Ecclesiastes 9:10). The work we have to do, the tasks we have before us, the jobs large and small we would like to see done—all of these things, if they are to be done, must be done now. It is too late after time has stopped for us. As Philip Armour said, "Every man can do something, and there is plenty to do."

W. M. Curtiss

Not many decades past, practically every working hour was required just to provide the food, clothing, and shelter necessary to keep alive. Most people were farmers. There was precious little besides the products of the farm available to families, for the simple reason that eight or nine out of every ten families had to work as hard as they could to feed and clothe the ten families. Specialization? Yes, they had it in a limited way. But today in the United States it requires little more than one family in ten to produce enough food and fiber for all ten families. The other nine families can make television sets, automobiles, household furnishings; they can be teachers, doctors, clergymen, or producers of a host of other goods and services.
ERNST SCHUMACHER'S 1973 book, *Small Is Beautiful*, popularized the term "appropriate technology." He argued that the purpose of technology is to lighten the burden of work, but modern technology has replaced creative, useful work with fragmented work which the worker does not enjoy. He argued that instead, technology should produce methods and equipment which are: (a) cheap enough so that they are accessible to virtually everyone; (b) suitable for small scale applications; and (c) compatible with man's need for creativity.

The "appropriate technology movement" has grown beyond Schumacher. Many "futurists" have offered definitions which are compatible with Schumacher's ideas, but extend them considerably.

Why should we adopt Appropriate Technology in the industrialized nations? There are several inter-related arguments offered by futurists. These include shortages, changes in the relative scarcity of capital and labor, and the industrial threat to the environment. These lead to a call for "voluntary simplicity." Let's look at each of these arguments.

**Shortages**

Futurists argue that centralized mass production, mass distribution and mass consumption are based on the availability of large amounts of cheap energy and materials. These
features of our present society cannot last in the face of energy and materials shortages. Therefore we must alter our lifestyles away from these things.

Several futurists have written that our industrialized society is a historical anomaly, based on the unusual circumstances of cheap energy and abundant resources. According to Ezra Mishan: "The advance of technology in the West over the past 200 years might well be attributable to especially favorable circumstances. Certainly there was no problem up to the present of limits to the assimilative capacity of the biosphere. Nor was there a problem of the availability of cheap fossil fuels."

The argument that industrialization is an anomaly, arising from favorable circumstances, is simply false. This argument is based on failure to recognize what is a natural resource. Whether some material constitutes a natural resource depends on the kind of technology available. In the early 19th century, crude oil which contaminated salt wells was nothing but a nuisance. The coal deposits of England were of no value until the late Middle Ages, when it was realized that coal could be burned. Even then, coal was not important industrially because it was full of impurities which reduced the quality of pig iron smelted with coal. It was not until 1750 that a process was developed which overcame the effects of the coal impurities. Pennsylvania coal was not recognized as a "resource" until even later, since it is a "hard" coal which is harder to ignite than was English "soft" coal. Only in 1828 was a process developed which could use Pennsylvania coal in iron-making.

Thus the apparently "abundant" resources which seem to have been responsible for the growth of industrialization during the 19th and 20th centuries were not even recognized as resources until the beginning of the 19th century. Industrialization succeeded, not because resources were abundant, but because people learned how to convert abundant but useless materials into resources.

Any analysis of industrialization which is based on the assumption that it developed only because of "abundant resources" is suspect. Moreover, if that analysis leads to the conclusion that eliminating industrialization would be a good thing, and that individual freedom should be restricted in order to achieve de-industrialization, the conclusion is even more suspect. In particular, industrialization may continue if presently useless materials can be converted to "resources." The crucial point, however, is not whether industrialization continues. The crucial point is that we do not need to restrict people's freedom in order to de-industrialize.
Relative Scarcity of Capital and Labor

Another argument is that there will be changes in the relative scarcity of capital and labor. With formerly cheap capital becoming more expensive, and formerly scarce labor becoming more plentiful, capital-intensive industrialization must come to an end. We must therefore alter our lifestyles which are based on capital-intensive industrialization. We will have to adopt lifestyles which are instead based on labor-intensive production processes. These will in general require smaller-scale, decentralized forms of industrial organization.

A stronger form of the same argument calls for Appropriate Technology as a means of increasing employment. It is argued that manufacturing processes utilizing Appropriate Technology require more labor hours and less capital per dollar of output. They thus not only conserve scarce capital but provide more employment than do processes requiring few labor hours per unit of output.

Let us first look at the issue of shifts in the relative scarcity of capital and labor. Has this ever happened before? Is today’s shift something unprecedented since the industrial revolution?

In fact, such shifts have been quite common during the past two centuries. The history of American agriculture, during the last half of the Nineteenth Century, involved using technology to allow a worker to farm more and more acres. Land was plentiful and labor was scarce. Between 1840 and 1911 the yield of grain per acre remained almost constant, but the acres per worker grew significantly. Over half the increase in output per worker was due to the increase in acreage per worker through mechanization. In England in the early Nineteenth Century, farmland was in fixed supply and therefore relatively scarce compared to both labor and capital. The English farmers adopted techniques which resulted in greater output per acre, by farming more intensively. During the Napoleonic Wars, however, labor became scarce compared with capital, and farmers shifted to more machines and less labor. When the wars ended, the English farmers shifted back.

Lumber Industries Compared

A comparison of the American and European lumber industries in the 1870s presents the same kind of contrast. In America, labor was scarce and costly. Wood was plentiful. Firms in the lumber and woodworking industry utilized machinery on a large scale to substitute for scarce labor. The result was a great deal of wood “lost” in the production process as sawdust and chips. In Europe, wood was scarce and costly, whereas labor
was comparatively less costly. The European lumber industry used highly labor-intensive manufacturing techniques which resulted in almost no loss of the wood. One European observer was quoted as describing the American lumber industry as being criminally wasteful of wood. But in fact it was not. The American and European lumber industries were responding to different relative scarcities of labor, capital and materials. In America, industry economized on scarce labor at the expense of plentiful (and renewable) wood. In Europe, industry economized on scarce wood at the expense of more plentiful labor.

These examples show that in different places at the same time, and in the same place at different times, the relative scarcities of labor, capital and materials differed. In response to these differences in relative scarcities, industries employed different production processes. The production processes were always designed to economize on the scarce items at the expense of more plentiful items.

But granted that historically production processes have shifted to follow significant shifts in relative scarcity, what about the idea of increasing employment by utilizing labor-intensive technology? Would we benefit from a deliberate shift in the direction of Appropriate Technology regardless of shifts in relative scarcity of labor, capital and materials?

The notion that labor-saving machinery reduces employment is one of the oldest fallacies known. The Roman Emperor Vespasian is reported to have refused the services of an engineer who offered to transport some huge columns up to the Capitol using a mechanical device. Vespasian stated, "I must always ensure that the working classes earn enough money to buy themselves food."

**Bastiat Exposes Fallacy**

The French economist Frederic Bastiat offered what is perhaps the strongest refutation of this argument ever written, by presenting an example to show how absurd it is. He described Robinson Crusoe on his island, having to make planks for constructing a shelter. He makes them by cutting down trees, and hewing them flat on two sides. Now, Bastiat says, suppose a plank is washed up to the beach. Should Crusoe salvage it and use it? Not at all. If he salvages the plank, he will be employed only to the extent of walking down to the beach and returning with the plank. However, if he ignores it, he will be employed to the extent of cutting down a tree and hewing another plank out of it. His axe will become dull, so he is assuring himself more employment in sharpening it. He will consume
food during the time he is manufacturing the plank. Thus he assures himself of more employment in replacing that food. Finally, he can assure himself of yet more employment by walking down to the beach and kicking the plank back into the sea before starting on the manufacture of another one.

When expressed in this way it is clear that Crusoe is not interested in providing himself with employment. He is interested in providing himself with manufactured products. He wants to get them with as little labor as possible. It would be absurd to reject a "gift from the sea," on the grounds that it reduces his employment. But the same holds true for a complex economy. Our interest is not in maximizing the amount of labor done. Our interest is in providing consumers with the goods they want, at the lowest possible cost.

However, the issue of replacing capital-intensive production with labor-intensive production goes deeper than simply the total wealth produced. If capital goods (machines) are deliberately not used, then employment in the machine-tool industry is reduced. Since capital represents the savings of a large number of people, it represents the fruit of their time and labor, diverted to productive purposes instead of consumption. Advocating the replacement of capital with labor is to ignore all the labor and other resources which went into the capital currently being employed. The experience of two centuries of industrialization is that extensive use of capital actually increases total employment. But this is true only if the capital is used efficiently. If capital is used where available labor would actually be cheaper, the total wealth produced is less. Say's Law then comes into play. Since less wealth is produced, there is less to be offered in exchange for the production of others. Thus a demand which might have existed never appears, and employment suffers.

Clearly then the issue is not whether one should emphasize capital intensive manufacturing technology as opposed to labor intensive technology. Neither is right as a matter of policy. The mix of capital and labor which minimizes production cost should be used. Those who emphasize labor intensive manufacturing, that is, more labor intensive than the minimum cost mix, are in fact advocating higher cost production. Or equivalently, they are advocating less production for the same cost, which means a lower standard of living.

Why the Big Deal?

Even granted that energy is going to be more expensive and materials scarcer, why the big deal? Why the fuss over de-industrialization? This sort of shift in relative scarcity of
the factors of production has taken place before. Whenever it has happened, industrial processes have adjusted without great difficulty. Rather significant differences in relative scarcity have been accommodated at different places in the world, at the same time and therefore with the same level of technological capability. These geographic differences, and the transitions from one configuration of relative scarcity to another have never caused major upheavals in society.

Moreover, we have seen shifts from one major energy source to another within recorded history. Wind, running or falling water, the tides, wood, coal, petroleum, whale oil, and uranium have all been important energy sources at various times and places. The transition from one energy source to another has taken place time and again without major dislocations to either society or the economy.

**Saving the Environment**

Another argument offered in favor of de-industrialization is that of saving the environment. Phrases such as "soft energy" and "alternate energy" are commonly used. The implication is that "hard energy" is environmentally damaging, while soft energy is benign. Solar energy is offered as the ultimate in soft energy. It is allegedly non-polluting, cost-free, and indefinitely renewable. But as Donald C. Winston has written in *Newsweek*, "Solar energy is potentially the most polluting and ecologically threatening form of commercial power being proposed in the world today." Why does he make such a statement?

Solar energy is said to be democratic, in that it falls on everyone alike. But the reverse side of that coin is that solar energy is dilute. The global average for solar energy intensity, taking into account sun altitude and length of day, is 160 watts per square meter. Taking into account cloud cover and other losses, only about 5 to 10 per cent of this can be converted into electricity. Thus solar energy will be available at about 25 megawatts per square mile. The entire projected power consumption of the U.S. in the year 2000 (assuming continuation of historical growth) would require that an area the size of the state of Oregon be covered with solar collectors. The collectors to replace only existing and projected nuclear power plants would cover the state of West Virginia. Since effective coverage can be only about 50 per cent, to allow workers to have access to the collectors, those areas really should be doubled. But that is only part of the story. There are worse threats to the environment than simply covering vast areas with solar collectors.

Suppose the electricity is to be generated using photovoltaic cells.
This will require enormous tonnages of cadmium, silicon, germanium, selenium, gallium, copper, arsenic, sulfur, and other exotic materials. The entire 1978 world production of cadmium would suffice only to replace 10 per cent of the world's installed capacity for electricity generation. And the U.S. imports over 60 per cent of its cadmium. Thus not only is this material in extremely short supply worldwide, but the U.S. would be even more dependent upon foreign sources than it is for petroleum.

Unseen Risks

If the electricity is to be generated using thermal conversion, then enormous tonnages of glass, plastics, and rubber will be required for the collectors. In addition, heat transfer fluids such as Freon, ethylene glycol, or liquid metals such as mercury or molten sodium will be required. A Freon spill would do more damage than all the deodorant sprays ever manufactured. A mercury spill would be catastrophic.

Finally, regardless of whichever type of collector is used, it must be produced. That means enormous tonnages of coal or petroleum must be burned; enormous tonnages of ore removed from mines, shipped and processed; and enormous tonnages of pollutants generated in the manufacture of these solar collectors. But the futurists will claim that they don't want to install enough solar collectors to supply the projected U.S. energy demand. On the contrary, they not only want to keep demand from growing, they want to cut energy consumption below what it is today. If that is done, then the task of building enough solar collectors is reduced significantly.

This is still not a sufficient answer. Even cutting total energy consumption to half of today's level will result in significant environmental damage if it all comes from solar. The critical issue is that despite its apparent advantages, solar energy simply is not benign. Because it is so dilute, collecting it requires a great deal of effort and involves large areas. This alone affects the environment. Using exotic materials only compounds the environmental damage.

Free Sun and Free Coal; The Cost of Using What Is Free

Perhaps the most important point about solar energy is that the de-industrializers are wrong when they call it "free" energy from the sun. Coal under the ground costs no more than does sunlight falling on the ground. No human action is required to produce either one; both are free gifts of nature. The costs for solar energy, just as for coal, are the costs to make that "free" energy usable. Currently, it costs more to make "free" solar energy usable than it
costs to make "free" coal usable. Moreover, a significant part of the cost of solar energy is environmental damage.

But there is more to this than solar energy. Is it true that industrialization destroys the environment, while non-industrialized societies don't? Let's examine, then, what a world might look like which was based on soft energy and appropriate technology.

In the flood-plains of the Chao Phraya river, north of Bangkok, Thailand, the land appears absolutely flat. Close examination shows that in an important sense it is flatter than any comparable area in the U.S. In most places in the world, even flat-appearing land will be cut up by small watercourses. But in Thailand the creeks, the brooks, the rivulets have all been obliterated. Only the major rivers remain. Hundreds of square miles have been formed, by low earthen dikes, into small rectangular rice-fields. Every drop of rain passes over somebody's rice-field before it reaches a major river.

The countrysides of England and France show the effects of man to the same degree. The hedgerows of Normandy cut the land up into little rectangles just as do the dikes in Thailand, although there is not the same concern with water. The farm plots of England, looking as though they had been manicured, also cover the countryside as far as one can see.

To the casual observer, it may appear as though the residents of these areas are living in a natural setting. The countrysides may appear rustic and pastoral. But in reality the countrysides are man-made structures, as artificial as is Manhattan Island. As Roderick Nash writes in Next: "There may be woodsmen in Europe, but there are no backwoods-men. The woodcutters and the shepherds of neighboring villages meet at the top of the ridge. The Alps today are a large garden—pastoral, but not wild." He goes on to point out that the same sort of thing is true in Africa and South America. Even though the countrysides may not be as neat-appearing as is the case in Europe, they are dominated and shaped by man.

**Even the Most Primitive Cultures May be Man-Made**

But the point is that these countrysides, even in Thailand, England and France, were fabricated by people living in a soft-energy, "appropriate technology" lifestyle. In Africa and South America, the fabricated countryside is still inhabited by people living this lifestyle.

Indeed we might be fortunate if a low-technology culture produced merely fabricated landscapes like those of Thailand and Europe. In many parts of the world, primitive
peoples still practice "slash-and-burn" agriculture. This leads directly to loss of forest cover, destruction of wildlife habitats, erosion of hillsides, and silting-up of rivers. Such a landscape may be truly "fabricated," but it is hardly a desirable one, and it belies the notion that "soft technology" is environmentally benign.

Thus whatever reasons there may be for de-industrializing and re-shaping our society into the model offered by "alternative communities," saving the environment isn't one of them. Soft energy and appropriate technology are perfectly capable of creating a fabricated countryside. Wherever they have been employed on a wide scale and for any length of time, such as in Thailand and in Europe, the natural environment disappears completely and is replaced by a man-made one. To the casual observer this environment may appear natural. But that is only because the observer can't compare it with what it was like several hundred years earlier, before the hand of man reshaped it.

Is there something wrong with a fabricated landscape? Is there something undesirable about converting a wilderness into neat rectangular patches of human-dominated farms and gardens? Not at all. But it is only a value judgment that such an artificial landscape is any more desirable than is a neat and clean urban setting. And not everyone would agree with such a judgment. One is just as artificial as the other, and each has its supporters. It would seem more desirable to allow people a free choice of which kind of artificial landscape they want. But it is absurd to refer to the results of filling a continent with soft energy, appropriate technology farmsteads as "preserving the environment."

**De-Industrializing by Free Choice**

Much of what the futurists say in support of de-industrialization is simply wrong. There is no need to de-industrialize to protect the environment. In fact, de-industrialization may do at least as much damage to the environment as industrialization has. What is needed to protect the environment is a better definition of property rights in the environment. Ultimately, pollution hurts people, and people must be recognized as having the right not to be victimized by pollution.

Nor does the existence of shifts in the relative scarcity of capital, labor and materials require de-industrialization as such. Our industrial society has reacted to shifts in the relative scarcity of factors of production many times during the past two centuries. It will undoubtedly do so again. What is needed to cope with those shifts is freedom on the part of producers, workers, investors and consumers to make the best choices.
they can, given the relative scarcities they see or forecast.

But if none of the arguments offered by futurists for de-industrialization hold up, does that mean we shouldn’t de-industrialize? What about the people who sincerely do choose voluntary simplicity? What about the people who like living in “alternative communities,” some of which are quite successful and self-sufficient, rather than depending upon grants and gifts for survival? Doesn’t the fact that some people voluntarily abandoned an affluent lifestyle support their argument that there is more to life than the production of wealth? Should they be required to abandon their goals of simplicity and alternatives?

Freedom the Key

Of course not. The key to the whole thing is freedom. In a society which protects people’s rights while otherwise letting them alone, each may have his own choice. Those who wish to adopt voluntary simplicity may do so. Those who prefer “un-simple” lives may enjoy as much of the world’s material goods as the availability of resources permits. And perhaps most important, those now in involuntary simplicity can escape from that state through economic growth. They may then have a choice about whether or not they will live simply.

Thus the most fruitful course for those advocating de-industrialization is to support greater freedom for all. Their goals would be better served by a society in which all are free to make their own choices, subject to the limits imposed by the rights of others and the constraints which result from the scarcity of the world’s resources. Attempting to force all of society into any particular mold, whether industrialized or de-industrialized, would be unwise. First, the choice may turn out to be wrong, in which case the future would be much worse than necessary. Second, that would prevent the free search for alternatives which might turn out to be more desirable than any of those which are being debated today. Freedom for themselves and for others will achieve much more than the de-industrializers can hope to achieve through imposing their views on everyone else.

IDEAS ON

Ed Lipscomb

FREEDOM rests, and always will, on individual responsibility, individual integrity, individual effort, individual courage, and individual religious faith. It does not rest in Washington. It rests with you and me.
When we discuss "economic planning," we must be clear concerning what it is we are talking about. The real question being raised is not: plan or no plan? but whose plan?

Each of us, in his private capacity, is constantly planning for the future: what he will do the rest of today, the rest of the week, or on the weekend; what he will do this month or next year. Some of us are planning, though in a more general way, ten or twenty years ahead.

We are making these plans both in our capacity as consumers and as producers. Employees are either planning to stay where they are, or to shift from one job to another, or from one company to another, or from one city to another, or even from one career to another. Entrepreneurs are either planning to stay in one location or to move to another, to expand or contract their operations, to stop making a product for which they think demand is dying and to start making one for which they think demand is going to grow.

Now the people who call themselves "Economic Planners" either ignore or by implication deny all this. They talk as if the world of private enterprise, the free market, supply, demand, and competition, were a world of chaos and anarchy, in which nobody ever planned ahead or looked ahead, but merely drifted or staggered along. I once engaged in a television debate with an eminent Planner in a high official posi-
tion who implied that without his forecasts and guidance American business would be "flying blind." At best, the Planners imply, the world of private enterprise is one in which everybody works or plans at cross purposes or makes his plans solely in his "private" interest rather than in the "public" interest.

Now the Planner wants to substitute his own plan for the plans of everybody else. At best, he wants the government to lay down a Master Plan to which everybody else's plan must be subordinated.

It Involves Compulsion

It is this aspect of Planning to which our attention should be directed: Planning always involves compulsion. This may be disguised in various ways. The government Planners will, of course, try to persuade people that the Master Plan has been drawn up for their own good, and that the only persons who are going to be coerced are those whose plans are "not in the public interest."

The Planners will say, in the newly fashionable phraseology, that their plans are not "imperative," but merely "indicative." They will make a great parade of "democracy," freedom, cooperation, and noncompulsion by "consulting all groups"—"Labor," "Industry," the Government, even "Consumers Representatives"—in drawing up the Master Plan and the specific "goals" or "targets." Of course, if they could really succeed in giving everybody his proportionate weight and voice and freedom of choice, if everybody were allowed to pursue the plan of production or consumption of specific goods and services that he had intended to pursue or would have pursued anyway, then the whole Plan would be useless and pointless, a complete waste of energy and time. The Plan would be meaningful only if it forced the production and consumption of different things or different quantities of things than a free market would have provided. In short, it would be meaningful only insofar as it put compulsion on somebody and forced some change in the pattern of production and consumption.

There are two excuses for this coercion. One is that the free market produces the wrong goods, and that only government Planning and direction could assure the production of the "right" ones. This is the thesis popularized by J. K. Galbraith. The other excuse is that the free market does not produce enough goods, and that only government Planning could speed things up. This is the thesis of the apostles of "economic growth."

The "Five-Year Plans"

Let us take up the "Galbraith" thesis first. I put his name in quotation marks because the thesis long
antedates his presentation of it. It is the basis of all the communist “Five-Year Plans” which are now aped by a score of socialist nations. While these Plans may consist in setting out some general “overall” percentage of production increase, their characteristic feature is rather a whole network of specific “targets” for specific industries: there is to be a 25 per cent increase in steel capacity, a 15 per cent increase in cement production, a 12 per cent increase in butter and milk output, and so forth.

There is always a strong bias in these Plans, especially in the communist countries, in favor of heavy industry, because it gives increased power to make war. In all the Plans, however, even in noncommunist countries, there is a strong bias in favor of industrialization, of heavy industry as against agriculture, in the belief that this necessarily increases real income faster and leads to greater national self-sufficiency. It is not an accident that such countries are constantly running into agricultural crises and food famines.

But the Plans also reflect either the implied or explicit moral judgments of the government Planners. The latter seldom plan for an increased production of cigarettes or whisky, or, in fact, for any so-called “luxury” item. The standards are always grim and puritanical. The word “austerity” makes a chronic appearance. Consumers are told that they must “tighten their belts” for a little longer. Sometimes, if the last Plan has not been too unsuccessful, there is a little relaxation: consumers can, perhaps, have a few more motor cars and hospitals and playgrounds. But there is almost never any provision for, say, more golf courses or even bowling alleys. In general, no form of expenditure is approved that cannot be universalized, or at least “majoritized.” And such so-called luxury expenditure is discouraged, even in a so-called “indicative” Plan, by not allowing access by promoters of such projects to bank credit or to the capital markets. At some point government coercion or compulsion comes into play.

**Austerity Leads to Waste**

This disapproval and coercion may rest on several grounds. Nearly all “austerity” programs stem from the belief, not that the person who wants to make a “luxury” expenditure cannot afford it, but that “the nation” cannot afford it. This involves the assumption that, if I set up a bowling alley or patronize one, I am somehow depriving my fellow citizens of more necessary goods or services. This would be true only on the assumption that the proper thing to do is to tax my so-called surplus income away from me and turn it over to others in the form of money, goods, or services. But if I am allowed to keep my “surplus” income, and am
forbidden to spend it on bowling alleys or on imported wine and cheese, I will spend it on something else that is not forbidden. Thus when the British austerity program after World War II prevented an Englishman from consuming imported luxuries, on the ground that “the nation” could not afford the “foreign exchange” or the “unfavorable balance of payments,” officials were shocked to find that the money was being squandered on football pools or dog races. And there is no reason to suppose, in any case, that the “dollar shortage” or the “unfavorable balance of payments” was helped in the least. The austerity program, insofar as it was not enforced by higher income taxes, probably cut down potential exports as much as it did potential imports; and insofar as it was enforced by higher income taxes, it discouraged exports by restricting and discouraging production.

**Bureaucratic Choice**

But we come now to the specific Galbraith thesis, growing out of the agelong bureaucratic suspicion of luxury spending, that consumers generally do not know how to spend the income they have earned; that they buy whatever advertisers tell them to buy; that consumers are, in short, boobs and suckers, chronically wasting their money on trivialities, if not on absolute junk. The bulk of consumers also, if left to themselves, show atrocious taste, and crave cerise automobiles with ridiculous tailfins.

The natural conclusion from all this—and Galbraith does not hesitate to draw it—is that consumers ought to be deprived of freedom of choice, and that government bureaucrats, full of wisdom—of course, of a very unconventional wisdom—should make their consumptive choices for them. The consumers should be supplied, not with what they themselves want, but with what bureaucrats of exquisite taste and culture think is good for them. And the way to do this is to tax away from people all the income they have been foolish enough to earn above what they themselves want, but with what bureaucrats of exquisite taste and culture think is good for them. And the way to do this is to tax away from people all the income they have been foolish enough to earn above that required to meet their bare necessities, and turn it over to the bureaucrats to be spent in ways in which the latter think would really do people the most good—more and better roads and parks and playgrounds and schools and television programs—all supplied, of course, by government.

And here Galbraith resorts to a neat semantic trick. The goods and services for which people voluntarily spend their own money make up, in his vocabulary, the “private sector” of the economy, while the goods and services supplied to them by the government, out of the income it has seized from them in taxes, make up the “public sector.” Now the adjec-
tive "private" carries an aura of the selfish and exclusive, the inward-looking, whereas the adjective "public" carries an aura of the democratic, the shared, the generous, the patriotic, the outward-looking—in brief, the public-spirited. And as the tendency of the expanding welfare state has been, in fact, to take out of private hands and more and more take into its own hands provision of the goods and services that are considered to be most essential and most edifying—roads and water supply, schools and hospitals and scientific research, education, old-age insurance and medical care—the tendency must be increasingly to associate the word "public" with everything that is really necessary and laudable, leaving the "private sector" to be associated merely with the superfluities and capricious wants that are left over after everything that is really important has been taken care of.

If the distinction between the two "sectors" were put in more neutral terms—say, the "private sector" versus the "governmental sector," the scales would not be so heavily weighted in favor of the latter. In fact, this more neutral vocabulary would raise in the mind of the hearer the question whether certain activities now assumed by the modern welfare state do legitimately or appropriately come within the governmental province. For Galbraith's use of the word "sector," "private" or "public," cleverly carries the implication that the public "sector" is legitimately not only whatever the government has already taken over but a great deal besides. Galbraith's whole point is that the "public sector" is "starved" in favor of a "private sector" overstuffed with superfluities and trash.

The Voluntary Way

The true distinction, and the appropriate vocabulary, however, would throw an entirely different light on the matter. What Galbraith calls the "private sector" of the economy is, in fact, the voluntary sector; and what he calls the "public sector" is, in fact, the coercive sector. The voluntary sector is made up of the goods and services for which people voluntarily spend the money they have earned. The coercive sector is made up of the goods and services that are provided, regardless of the wishes of the individual, out of the taxes that are seized from him. And as this sector grows at the expense of the voluntary sector, we come to the essence of the welfare state. In this state nobody pays for the education of his own children but everybody pays for the education of everybody else's children. Nobody pays his own medical bills, but everybody pays everybody else's medical bills. Nobody helps his own old parents, but everybody else's old parents.
Nobody provides for the contingency of his own unemployment, his own sickness, his own old age, but everybody provides for the unemployment, sickness, or old age of everybody else. The welfare state, as Bastiat put it with uncanny clairvoyance more than a century ago, is the great fiction by which everybody tries to live at the expense of everybody else.

This is not only a fiction; it is bound to be a failure. This is sure to be the outcome whenever effort is separated from reward. When people who earn more than the average have their "surplus," or the greater part of it, seized from them in taxes, and when people who earn less than the average have the deficiency, or the greater part of it, turned over to them in handouts and doles, the production of all must sharply decline; for the energetic and able lose their incentive to produce more than the average, and the slothful and unskilled lose their incentive to improve their condition.

The Growth Planners

I have spent so much time in analyzing the fallacies of the Galbraithian school of economic Planners that I have left myself little in which to analyze the fallacies of the Growth Planners. Many of their fallacies are the same; but there are some important differences.

The chief difference is that the Galbraithians believe that a free market economy produces too much (though, of course, they are the "wrong" goods), whereas the Growthmen believe that a free market economy does not produce nearly enough. I will not here deal with all the statistical errors, gaps, and fallacies in their arguments, though an analysis of these alone could occupy a fat book. I want to concentrate on their idea that some form of government direction or coercion can by some strange magic increase production above the level that can be achieved when everybody enjoys economic freedom.

For it seems to me self-evident that when people are free, production tends to be, if not maximized, at least optimized. This is because, in a system of free markets and private property, everybody's reward tends to equal the value of his production. What he gets for his production (and is allowed to keep) is in fact what it is worth in the market. If he wants to double his income in a single year, he is free to try—and may succeed if he is able to double his production in a single year. If he is content with the income he has—or if he feels that he can only get more by excessive effort or risk—he is under no pressure to increase his output. In a free market everyone is free to maximize his satisfactions, whether these consist in more leisure or in more goods.
But along comes the Growth Planner. He finds by statistics (whose trustworthiness and accuracy he never doubts) that the economy has been growing, say, only 2.8 per cent a year. He concludes, in a flash of genius, that a growth rate of 5 per cent a year would be faster!

There is among the Growth Planners a profound mystical belief in the power of words. They declare that they "are not satisfied" with a growth rate of a mere 2.8 per cent a year; they demand a growth rate of 5 per cent a year. And once having spoken, they act as if half the job had already been done. If they did not assume this, it would be impossible to explain the deep earnestness with which they argue among themselves whether the growth rate "ought" to be 4 or 5 or 6 per cent. (The only thing they always agree on is that it ought to be greater than whatever it actually is.) Having decided on this magic overall figure, they then proceed either to set specific targets for specific goods (and here they are at one with the Russian Five-Year Planners) or to announce some general recipe for reaching the overall rate.

But why do they assume that setting their magic target rate will increase the rate of production over the existing one? And how is their growth rate supposed to apply as far as the individual is concerned? Is the man who is already making $50,000 a year to be coerced into working for an income of $52,500 next year? Is the man who is making only $5,000 a year to be forbidden to make more than $5,250 next year? If not, what is gained by making a specific "annual growth rate" a governmental "target"? Why not just permit or encourage everybody to do his best, or make his own decision, and let the average "growth" be whatever it turns out to be?

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.

The Wrong Policies

The way to slow down the rate of economic growth is, of course, precisely the opposite of this. It is to discourage production, employment, saving, and investment by incessant interventions, controls, threats, and harassment. It is to frown upon prof-
its, to declare that they are excessive, to file constant antitrust suits, to control prices by law or by threats, to levy confiscatory taxes that discourage new investment and siphon off the funds that make investment possible, to hold down interest rates artificially to the point where real saving is discouraged and malinvestment encouraged, to deprive employers of genuine freedom of bargaining, to grant excessive immunities and privileges to labor unions so that their demands are chronically excessive and chronically threaten unemployment—and then to try to offset all these policies by government spending, deficits, and monetary inflation. But I have just described precisely the policies that most of the fanatical Growthmen advocate.

Their recipe for inducing growth always turns out to be—inflation. This does lead to the illusion of growth, which is measured in their statistics in monetary terms. What the Growthmen do not realize is that the magic of inflation is always a short-run magic, and quickly played out. It can work temporarily and under special conditions—when it causes prices to rise faster than wages and so restores or expands profit margins. But this can happen only in the early stages of an inflation which is not expected to continue. And it can happen even then only because of the temporary acquiescence or passivity of the labor union leaders. The consequences of this short-lived paradise are malinvestment, waste, a wanton redistribution of wealth and income, the growth of speculation and gambling, immorality and corruption, social resentment, discontent and upheaval, disillusion, bankruptcy, increased governmental controls, and eventual collapse. This year’s euphoria becomes next year’s hangover. Sound long-run growth is always retarded.

In Spite of “The Plan”

Before closing, I should like to deal with at least one statistical argument in favor of government Planning. This is that Planning has actually succeeded in promoting growth, and that this can be statistically proved. In reply I should like to quote from an article on economic planning in the Survey published by the Morgan Guaranty Trust Company of New York in its issue of June 1962:

There is no way to be sure how much credit is due the French plans in themselves for that country’s impressive 4½ per cent average annual growth rate over the past decade. Other factors were working in favor of growth: a relatively low starting level after the wartime destruction, Marshall Plan funds in the early years, later an ample labor supply siphonable from agriculture and from obsolete or inefficient industries, most
recently the bracing air of foreign com-
petition let in by liberalization of import
restrictions, the general dynamism of the
Common Market, the break-through of
the consumer as a source of demand. For
the fact that France today has a high de-
gree of stability and a strong currency
along with its growth, the stern fiscal
discipline applied after the devaluation
of late 1958 must be held principally re-
sponsible.

That a plan is fulfilled, in other words,
does not prove that the same or better
results could not have been achieved with
a lesser degree of central guidance. Any
judgment as to cause and effect, of course,
must also consider the cases of West Ger-
many and Italy, which have sustained
high growth rates without national plan-
ning of the economy.

In brief, statistical estimates of
growth rates, even if we could accept
them as meaningful and accurate,
are the result of so many factors
that it is never possible to ascribe
them with confidence to any single
cause. Ultimately we must fall back
upon an a priori conclusion, yet a
conclusion that is confirmed by the
whole range of human experience:
that when each of us is free to work
out his own economic destiny, within
the framework of the market econ-
omy, the institution of private prop-
erty, and the general rule of law, we
will all improve our economic con-
dition much faster than when we
are ordered around by bureaucrats.

The Free Price Mechanism

This powerful master of all capitalists who co-ordinates their produc-
tion, and in fact plans their whole economy, is none other than the
people themselves who exercise their power by means of the free price
mechanism, which is the most efficient instrument for directing and
planning an economy that has yet been devised. The production and
investment of the apparently independent capitalists are directed by
the rise and fall of the prices of commodities and services. A movement
of prices will tell producers far quicker than can any state economic
planner what their masters, the consumers, want them to produce and
where to invest their capital. The free price mechanism, by preventing
waste and by giving swift directions to capitalists, which must be obeyed
on pain of bankruptcy, has made the multiple economy the most effi-
cient system for supplying the wants of the people that the world has
ever known.

GEORGE WINDER, "Centralized or Multiple Economies"
I should not want to maintain that all unionism is or has been adversary in character. In the past, the unionism of company unions perhaps was not, nor the unionism of the medieval guilds. It may be that Japanese unionism is not. It may be that Russian soviet unionism is not. I shall refer only to Western, "free world" unionism, especially as represented by unionism in the United States.

With those limitations understood, I think it is largely a truism that contemporary unionism is adversary in character and is so recognized to be, not only in the peculiar structure of the various laws (Wagner Act, Taft-Hartley Act) and governmental decrees (NLRB decisions) covering the subject but in the minds of laymen, employers, union members and union leaders alike.

Thus, there had to appear something contradictory in the recent election of United Auto Workers President Douglas A. Fraser to Chrysler's Board of Directors but not in his statement that his new role would "not alter the traditional adversary relationship between the UAW and the auto companies" (UPI, 5/14/80).

The term "adversary" signifies "having an opposing party." As the adjective "adversary" is applied in contemporary references to unions by union leaders, the constitution of unions, those dealing in government with unions, labor relations theorists, and so on, Marxian and related ideologies often play a significant role. The notion of "opposing party" is pretty much merged with that of "enemy." Thus, typically, a union conceives and represents itself as protecting and defending the rights and interests of employees and the
same as being necessarily threatened and attacked by employers. It is, for instance, on the ground that employers are intrinsically the enemy of the worker that unions not only justify their existence but the various coercive and war-like practices that they everywhere engage in: forced membership, strikes, the use of goon squads, and so on.

**Constitutional Rights Violated**

It is on the same ground, with the added one that employers are in a position of unfair strength, that twentieth century legislation has consistently violated and shelved such basic constitutional rights of employers as those of contracting with whom they please and free speech. Employers, for example, are disallowed by law from saying what they think of unionism to their employees.

We should not, therefore, be unreasonable in describing contemporary unionism as being "essentially" adversary in character, where "adversary" is to be understood in some such strong sense as, for instance, "enemy-related," and "essentially" in its strict philosophic sense. For suppose contemporary unionism divested itself in act and thought of the claim that the relationship between employer and employee was "enemy-related," it should simply not be recognizable as itself.

For our present purposes, however, we need not insist on the whole truth. It will suffice to treat the "adversary relation" defining contemporary unionism in terms merely of "intrinsically opposed", i.e., in objectives, in interests. I can imagine no defender of contemporary unionism either wanting or being able to disagree with this version of the adversary relation.

Given this very weak interpretation of "adversary relation," which hardly does justice to the fierce actualities, I intend to place unionism upon two scales: one measuring the legal coherency of unionism and the other its moral coherency. Somewhat arbitrarily, I shall weigh in the first scale the unionization of government employees and in the second the unionization of private employees (meaning by this: the employees of private enterprises). Probably the two scales could be switched around, though I do believe that the present distribution of scales and weighings has a certain natural appropriateness that will become apparent.

**The Unionization of Government Employees**

One is vaguely aware that something perverse is going on when municipal, state, or federal employees strike; garbage piles up high; mail is not delivered (during the first Canadian postal strike one even saw mail being burned in the streets of
Montreal by postal employees); firemen refuse to put out fires (or even set them themselves), and so on. The feeling is justifiably present that one is like a person who has been bound and gagged and while helplessly prostrate is assaulted with legal immunity. For whatever the laws themselves may say, it is a commonplace of the contemporary scene that these terrifying activities of government employee unions take place and are allowed to take place.

When the strike that happens to be aggrieving one has ended one's natural inclination is to suppose that everything has returned to a happy state of normalcy. One says, "The unions sometimes go to extremes. There ought to be laws against government employees striking [but there already are]. Then everything will be O.K."

It seems to be seldom realized that as long as government employees may legally band together under the adversary relation of contemporary unionism such grievous violence is bound to take place. For laws to declare both that governmental employees may unionize (I shall consistently use this term in its present connotations) and that they may not strike or employ goon squads or other supplementary violence amounts at one and the same time to sanctioning the view that government employees are a class of persons needing protection against an unfair, stronger party opposed to them (hence the right to coercively organize, to coercively collectively bargain, and the like) and that they may not take certain other coercive action, e.g., strikes, use of goon squads, and so on, necessary to effectuate their protection against that unfair, stronger party which opposes them.

Naturally enough, this incoherent injunction is rejected with a clear conscience by union members and leadership and not insisted on by the public. Even third party arbitration will seem to offer no effective alternative, unless it is not really third party at all but safely committed to the union side. For in the economic realm there can really be no true third party: there exist but employees and employers. Thus the simple truth is: if government employees are legally entitled to unionize they are entitled to strike, to use goon squads, and so on. This is a practical tautology and in the last analysis everyone recognizes it as such.

**Who Is the Employer?**

What is not often enough or seriously enough considered is the claim that government employees have a legal right to unionize. But just here the most serious question is in order. For what the adversary principle which underlies and sanctions this unionization dictates is that the
employer of government employees is an opposing and even inimical party. But who is the employer? In a republican form of government like our own the sovereign is the people. The school boards, legislatures, city councils, executive officers, courts, various bureaus of government that nominally do the hiring are agents of the sovereign people; thus, they are not the true employer; the sovereign people are (as when I purchase a house through an intermediary I am the true purchaser, not the intermediary). It follows from the adversary principle, therefore, that unionized government employees must be conceived and conceive themselves as being opposed by the sovereign people and consequently themselves as opposing and being aligned against the sovereign people.

Now it is simple legal nonsense to suppose that the agents of a sovereign should be entitled to hire as employees of the sovereign persons opposed by definition and dedication to him. It is compound nonsense to suppose that any group under a sovereign is legally entitled to align itself, much less employ force, against the sovereign. Only another sovereign can claim such a power.

In sanctioning the unionization of government employees, then, legislatures, courts, executive branches of government, and the like either engage in the legal absurdity of sanctioning subjects of the sovereign of which they are the agents in aligning themselves, and even using force, against that same sovereign or they in effect set up a sovereign independent of the sovereign whom they represent which is aligned by definition and dedication against him. In either case, the representatives or agents of the sovereign people do what they cannot legally do: they betray the client whom they represent; and since this is their sovereign, they in effect engage in treason; for in its broad, general sense "treason" denotes a breach of allegiance to one's sovereign.

An Illogical Position

As for the unionized employees of government themselves—I mean those who voluntarily unionize—they too do what they legally cannot do. In aligning themselves against their sovereign they assume the role of independent sovereigns. Indeed, in levying the sorts of demands that they customarily do, saying that unless this or that exaction be granted they will cut off this or that public service, they act as if they were the rulers of their sovereign. Thus, their actions and professions are the reverse side of the legal nonsense engaged in by legislatures and courts that sanction the unionization of government employees. Nor can it convincingly be objected that the sovereign or people have granted
their employees these rights and powers by virtue of the fact that those legislatures and courts are their agents. For in a republican form of government the people cannot alienate their own sovereignty.

But shall we want, then, to maintain that unionized government employees engage, like those who sanction their unionization, in treason? One is, I admit, disinclined to render such a harsh verdict. Certainly, for instance, we do not want to say that anarchists and others who oppose the government or the very existence of government are necessarily engaged in treason. And there is some good reason for our not wanting to. The basis of government in a Republic is presumed to be consent of the governed. Presumably, therefore, a person who refuses to give his assent to be governed—say, an anarchist—is not really the subject of a sovereign. Thus, though he may engage in war against our sovereign he cannot be said to be engaged in treason, since our sovereign is not his sovereign.

Actually, however, the case of the anarchist and the case of the unionized government employee are entirely different. The anarchist does not in theory and need not in practice avow himself a subject of any sovereign. The unionized government employee in a Republic, and in this argument I am limiting reference to sovereignty under a Republic, cannot possibly claim that he has not avowed himself a subject of the people’s sovereignty. He did so when he claimed, as a citizen, the right to unionize. He did so when he voted to unionize and claimed that his vote had a certain status under law. He did so when he hired himself out, under the status of being a citizen, to the government. One cannot have one’s cake and eat it too!

Thus, a first impression to the contrary notwithstanding, the unionized government employee—again, I mean the employee who has voluntarily unionized—is, just as much as the legislatures and courts that sanctioned his unionization, engaged in a breach of allegiance to his sovereign and therefore, strictly speaking, in treason. But it is, on the face of it, legally incoherent for anyone to claim to have the right to engage in treason. Thus, on all counts, the unionization of government employees has to be legally incoherent.

The Unionization of Private Employees

The common moral and legal objection to the unionization of private employees is that it abrogates the individual’s moral and constitutional rights of contract. And patently that is true. It would remain true, moreover, even if unions did not allow themselves the use of strikes, goon squads, and other sup-
plementary violence. Their very subscription to coercive membership and coercive collective bargaining (can there be any other species of it?) is both in fact and in intent an abrogation of the right of individual contract.

Persons today are so inured, however, to constitutional and moral breaches of the right of contract by all agencies of government, and in particular its courts, it hardly excites even the batting of an eye to note another occurrence of it. In addition, it has always been recognized that there are certain things that one cannot legally or morally contract; for example, the commission of a crime. With a seeming legitimacy, therefore, government can always make it appear that a restriction upon individual contract is justified by making a certain action illegal.

To be sure, in many such cases a cart is being put before the horse. Mere statutory law is being allowed to in effect amend the constitution and determine constitutional law. It is not, though, always easy to determine just when this switch of cart and horse has taken place. Imperceptibly, merely eccentric viewpoints harden into moral standpoints and then it may seem that a new restriction upon individual contract is the cart following the horse: that it has been dictated by a more privileged concern.

It is my impression, consequently, that attempting to rest the case against the unionization of private employees upon the right of individual contract is not likely to have much success. But even if the attempt were to succeed it seems to me that an attack from our previous direction must be much more conclusive. To be sure, questions of sovereignty and treason are not involved in the unionization of private employees. But the adversary principle is, and once again we shall find it creating insupportable incoherencies, though these will now prove to be more moral than legal in character.

How Government Intervenes

The unionization of private employees rests upon the sanction of society and government. These decree that certain conditions having been met—a majority vote of the employees, for example—the employer is required to accept the unionization of his "shop." If he were not required by law to do so and if he were protected by law and government or even society in his refusal to do so his employees would obviously not be unionized. The fact that employers are forced by government and law to accept and hire unionized workers is what we want to keep our eye on.

Now, we have already seen that unionization is based on the adver-
sary principle. Once, then, an employer's working force is unionized we have a body of employees whose aims and interests are conceived as being intrinsically opposed to those of the employer. Even if he is not conceived to be their enemy (and typically he is by union leadership and union principle) he is conceived to be their opponent and vice versa.

As an illustration of the rational absurdity of this enforced condition, suppose that when one hired a certain lawyer to defend one in a suit the lawyer publicly represented himself as having interests and aims opposed to one's own in the suit and acted accordingly. Clearly he would be guilty of malpractice and certainly one should want to dismiss him. Imagine, then, that one could not; that one was forced by law and government to retain and use this lawyer who avowedly conceived his interest and aims to be opposed to one's own and who was acting accordingly! This would be tantamount to forcing a person to sanction his own self-destruction. It would not only constitute the crime of using the law and agencies of an innocent person's own government to injure him but the completely unnatural indignity of making him lend a hand to his own injury. Visibly, this would be a piece of immorality in its most detestable form.

Now the employer who is forced to accept the unionization of his work-
what we have here is a theoretical picture of hiring phenomena which is based upon a view of persons which conceives of them as economic computing machines: a far cry from actual persons! But even were this in actual practice the case, it would not invalidate the claim that the only moral and reasonable relation obtaining between employer and employee is one in which, for a certain recompense, the latter makes the interests of the former temporarily his own.

Conclusion

If we have been correct in our reasoning, the unionization of government employees stands as sheer legal depravity and the unionization of private employees as sheer moral depravity. In both cases rational incoherency is foisted upon a society of potentially moral and law-abiding individuals and upon some of their most basic inter-relationships. It is no wonder at all, therefore, that in whatever society adversary unionization exists or is allowed to exist that society visibly sickens in proportion as unionization spreads and that pride of work, self-esteem, and production decline in tandem.

What seems to be too little recognized is that while unionization’s adversary—whether the public or the private employer—suffers greatly, no one suffers quite such injury and hemorrhage as the unionized employee himself. We may, I think, state it as an inexorable fact that no unionized employee can be content with his work or with himself. We may, I think, state it as an inexorable fact, everywhere confirmed, that he has to find gaining a livelihood changed from a challenge and adventure and accomplishment into a drudgery as meaningless and vexatious as slavery. This has to be, for in the same way that legal incoherency makes whatever it touches difficult and unpleasant so must moral incoherency.


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William Henry Chamberlin

IDEAS ON

LIBERTY

THE STATUS of the medieval robber barons depended on their ability to deport themselves as above the law; and this is equally true as regards their modern successors. The rule of law, the conception that no one may do what is legally forbidden to others, is part of the fabric of a free society. But, where trade unions as organizations or their leaders and agents as individuals are concerned, this rule is more often broken than observed.
Continuing Education

If it weren't for what Henry Hazlitt calls the autodidacts we'd be in a bad way. Tom Bethell, writing in the twenty-fifth anniversary issue of *National Review*, lists some academically trained fathers of the supposedly new supply-side economic theory, but if it hadn't been for two self-taught women, Isabel Paterson of *The God of the Machine* and Rose Wilder Lane of *The Discovery of Freedom*, some of us would never have been prepared for the Gospel According to Jack Kemp.

Henry Hazlitt traces his own enlightenment to encountering a book by Philip Wicksteed, whose marginal utility theory as of 1911 coincided with what Menger and the "Austrians" were teaching. Leonard Read went to school, but it was Bill Mullendore of the Southern California Edison Company who first made him conscious that there was a lot of what John T. Flynn called "Chamber of Commerce Fascism" in General "Iron Pants" Johnson's National Recovery Administration. The point is that we learn when we learn, and formal schooling often has little to do with it.

Ronald Gross has developed this insight in a book which is offered as a self-help "open sesame" to what he calls the "Invisible University." The title of the book is, appropriately, *The Lifelong Learner*. The book is spotted with examples of what autodidacts have accomplished merely by making use of odd moments to pursue hobbies.

There is Cornelius Hirschberg, for instance, who put in some 20,000 hours reading on subways, trains,
buses and during lunch time over a period of forty years. I find it hard to think Mr. Hirschberg could have worked his way through the first fifty-nine theorems of the *Principia Mathematica* on the subway, or that he could carry enough dictionaries and critiques at rush hours to master Dante's *Inferno* in the Italian. But then, the New York subways were not always the shambles they have become since Mayor La Guardia's passing, and I myself remember reading the three volumes of John Galsworthy's *The Forsyte Saga* on trips to the Bronx and outermost Brooklyn when I was a cub on the *New York Times*.


Mr. Gross' "invisible university" includes libraries, adult education courses, settlement houses, museums, churches, tape cassettes, correspondence schools, educational TV and learning exchanges as well as subway trains. A man named William Glasser helped him to work out the implications of his self-help theory by writing a book called *Positive Addiction*. When George "Shotgun" Shuba, the old Brooklyn Dodger outfielder, said his "natural swing" was developed by swinging a weighted bat six hundred times every day of his life, Mr. Gross knew he had something better than marijuana to cultivate both interest and happiness. The "positive addict" has his own way of getting a "high," and if he learns something substantial in the process so much the better.

**Corroborating Evidence**

As if to prove everything that Mr. Gross has to say about self-help, Mortimer Smith offers the story of his adolescence, *My School the City: A Memoir of New York in the Twenties*. I had known Mr. Smith as one of the founders of the Council for Basic Education, and had always assumed that his reasoned opposition to sloppy "look and say" methods of teaching reading derived from his own academic experiences. But now it turns out that Mr. Smith was a school drop-out at the age of fifteen. How he eluded the truant officer constitutes a minor miracle, but from 1921 on through the rest of the ebullient decade of the Twenties Mr. Smith was entirely on his own. He had never heard of any "invisible university." But New York City—in particular Manhattan Island—did for him what Yale and Harvard often failed to do for many of Mortimer Smith's contemporaries.

In a way Mortimer Smith lucked
into the beginnings of a literary education. Answering an advertisement in the New York Times or the New York World (he can’t remember which), the fifteen-year-old Smith, still wearing short pants, got a job as an office boy for Bob Davis, who ran a literary agency in between writing for himself. (In later years Davis did a column for the New York Sun called “Bob Davis Recalls.”) Part of Smith’s first job was delivering manuscripts to publishers. Often his destination was Street and Smith on Seventh Avenue and Fifteenth Street, where Theodore Dreiser had learned to divide over-long scripts into two. Inventing a new beginning for the second half and a new ending for the first, Dreiser often doubled Street and Smith’s output.

My School the City: A Memoir of New York in the Twenties

Mr. Smith was negatively impressed with the motto of Dreiser’s employer, Mr. Ormand G. Smith (no relation). The motto was “the worse the swill the better you can sell it.” Mortimer Smith’s own critical awareness was developed by his trips to the lively Smart Set offices at 25 West Forty-fifth Street, where H. L. Mencken and George Jean Nathan upheld the “point of view of the civilized minority.” The Smart Set, a forerunner of The American Mercury, presented such writers as James Joyce, Ezra Pound, Eugene O’Neill, Sherwood Anderson and F. Scott Fitzgerald.

Reading The Smart Set, the young Mortimer Smith could see that Mencken and Nathan had something better than Street and Smith’s Nick Carter stories. But the real change in the young Mortimer Smith’s reading tastes came when someone in the offices of Alfred Knopf game him a copy of Floyd Dell’s Moon Calf. This book, about the out-of-school novitiate of Felix Fay, helped to “mark the beginning of literary discrimination” for Bob Davis’ office boy, making him “realize that the true novel is peopled by recognizable human beings.”

Mr. Smith had no “generation gap” at home. His father, a civil engineer with the municipal government, let him make decisions for himself. When he decided to use a lingering stomach complaint as an excuse to quit school entirely after his graduation from grammar school, the elder Smiths let him get away with it. The fifteen-year-old Mortimer did attend a few evening sessions at a Continuation School, but when they tried to force ten-finger typing on
him he rebelled. He was already an accomplished hunt-and-peck artist. Technically he remains a fugitive from school, never brought to trial for violating the education laws of the State of New York.

When he took a job with a firm on Union Square that sold expensive linens, velvets and brocades, Mortimer Smith lost his daily contacts with the literati. But he continued to roam Manhattan’s streets in his spare time. He learned to spot the best neo-Renaissance buildings of McKim, Mead and White, and is happy to know that the White designs are still extant in the Villard houses, the General Post Office, and the Century, Harvard, Lambs and Metropolitan clubs.

Mr. Smith remembers with gratitude that Scribner’s bookstore on Fifth Avenue never objected to loitering. He was not a museum goer, but he loved the libraries. He went through War and Peace and The Brothers Karamazov on long subway rides. The Op. Ed. page of the New York World, where Franklin P. Adams (The Conning Tower column), Heywood Broun, Alexander Woollcott (drama criticism), Deems Taylor (music) and Laurence Stallings and Harry Hansen (books) held forth, was a continuing education.

When it came to “things spiritual” Mr. Smith, an eclectic, tried all the churches. He didn’t like Ethical Culture, but he found much nourishment (albeit of a secular nature) at the Community Church of the Reverend John Haynes Holmes.

Probably because I spent the latter half of the Nineteen Twenties repeating Mr. Smith’s Manhattan experiences, I loved his book. It has “the feel of the rock,” including the rock on which Manhattan is built, and it certainly backs up everything that Mr. Gross has to say in The Lifelong Learner.

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THE BIRTH OF A TRANSFER SOCIETY

by Terry L. Anderson and Peter J. Hill

Foreword by James M. Buchanan
(The Hoover Institution Press, Stanford University, Stanford, California)

114 pages ■ $6.95 paperback

Reviewed by Roger Ream

When the framers of the Constitution set out to draft a document that would “secure the blessings of liberty to ourselves and our posterity,” they realized that government could easily become the chief threat to that liberty. Since two key requirements for liberty are the security of private property and the sanctity of contracts, specific provisions were included in the Constitution to protect property and contracts from government infringement. Today, these Constitutional provisions are al-
most meaningless, as government has become the vehicle for massive redistribution of wealth.

This book takes the reader on a journey through American history in search of the causes of the birth of the transfer society. The authors examine court decisions which eroded the constitutional barriers to government violations of economic freedom. The book is an informative, clearly written and documented account of how we went from a government of laws (which protected property and contracts) to a government of men. The authors undertake a case-by-case review, demonstrating that "two centuries of interpretation [by the courts] have eliminated whatever distinction" once existed between the protective function of the state and transfer activity. "Case after case came before the courts challenging the constitutionality of transfer activity. Not surprisingly, some courts were eventually convinced that this activity was appropriate for government." Specifically, it was the case of Munn v. Illinois (1877) that opened the door.

The Munn case involved the power of the Illinois state legislature to set grain storage rates for elevators. Legislatures in midwestern states, influenced by the agrarian Granger movement, enacted laws aimed at regulating the rates of railroads and other "public" utilities. Legal counsel for the affected enterprises argued that such laws violated the Fourteenth Amendment's due process clause, the commerce and contract clauses, and property rights. "The court's March 1, 1877, decision on Munn and other Granger Cases surprised those who were sure that such regulation would be found unconstitutional." An excerpt from the majority opinion, written by Chief Justice Morrison Waite, illustrates the statist nature of this decision: "When, therefore, one devotes his property to a use in which the public has an interest, he in effect, grants to the public an interest in that use, and must submit to be controlled by the public for the common good, to the extent of the interest he has thus created" (94 U.S. 126). The authors claim that "[w]ith the Munn decision ... the door for transfer activity at the federal level was thrown open as the court legitimized governmental regulation of private property."

In order to understand Munn v. Illinois, the majority decision must be viewed in the context of shifts in public opinion. Munn v. Illinois diverged from past court decisions and provided a precedent for future assaults on economic freedom because it was based on new political, economic, and social theories that were gaining adherents. The authors cite several shifts in thinking which influenced the courts.

First, society underwent a transi-
tion from a predominantly agrarian to an industrial society. This, in turn, caused changes in the distribution of wealth. In the early years of the country, "increases in income were seen as a measure of one's social contribution rather than as evidence of venality. However, the rising tide of egalitarianism during the Jacksonian era meant that, in the eyes of some, any gain by one person had to be at the expense of another." Some individuals, especially farmers and those whose wealth or position were threatened, viewed government as an appropriate means to maintain or enhance their economic status.

Another shift which occurred was the expansion of the franchise. This "... increased [the] reliance on majority rule [and] was not conducive to a continuation of a society living under a government restricted by constitutional limits. The problem lay in the confusion between expansion of the franchise to include a wider spectrum of society and the belief that a simple majority had the right to make all decisions. But allowing majority rule to dictate any changes in the rules of the game desired by a majority opened the door for the tyranny so feared by [James] Madison." This change, coupled with "[a]n explicit faith in the goodness of man and human progress made government seem much more a vehicle of social reform than a potential agent of oppression." It presaged court decisions which would erode constitutional limitations on governmental power.

We are currently in the midst of a change in the political and economic thinking of our country's leaders. Attempts are being made to slow the growth of government spending. However, the basic belief that the redistribution of wealth is a proper function of government remains intact. The support for current efforts to slow the growth of government is not based on a constitutional or ethical questioning of whether the state should properly be involved in transfer activities. Until these basic objections are raised, the infringement of both political and economic freedoms by government will continue.

This book makes a strong case for "the necessity of basic rules to limit wasteful transfer activity and the importance of ideas regarding limits on government. A formal agreement on the fundamental rights of the members of society is essential to an orderly, productive society. [However, a] people's concept of the appropriate role of the coercive powers of government is crucially important in determining the path society takes."

This book can make a significant contribution to the shaping of a new "people's concept" provided it gets the attention it deserves.
Not So Democratic:
The Caution of the Framers
M. E. Bradford 323
Timely reservations about democratic principles and practices.

Signs of the Times
Fred DeArmond 331
A violent sense of transience—a civilization without recognized values.

Government Intervention Creates Chaos,
Not Jobs
Donald J. Senese 335
Why CETA and other make-work schemes fail to stimulate the economy.

Inflation Is . . .
Beth A. Hoffman 344
In terms a youngster might understand.

Economy in Government,
Jeffersonian Style
Clarence B. Carson 346
Economizing efforts of earlier Presidents afford helpful lessons today.

Controlling Inflation by
Controlling Government
Dwight R. Lee 357
The need to limit the federal government’s ability to create and spend money.

Reindustrialization: The Capital Question
William R. Hawkins 361
Suggested ways to save and invest the capital needed for greater productivity.

Zoning Laws
Edward C. Facey 369
The case for private ownership and control.

Book Reviews:
“Economic Liberties and the Constitution” by Bernard H. Siegan
“Thoughts Rule the World” by Leonard E. Read
“A Time for Action” by William E. Simon

Anyone wishing to communicate with authors may send first-class mail in care of THE FREEMAN for forwarding.
It has been my pleasure for the past several months to read through the written remains of the Framers of our form of government and to live by an act of will and imagination in something like the intellectual atmosphere which enveloped their deliberations in Philadelphia and in the state ratification conventions called for by the results of the Great Convention.

On two occasions in recent years I have had the opportunity to visit the City of Brotherly Love and to examine what survives there of the charming provincial Capital, known to John Dickinson, Robert Morris, and Benjamin Franklin as their home. This experience helped me a good deal in penetrating the barriers created by the two intervening centuries in our history as a people. Even so, I am in this work constantly made aware of the danger of anachronism—of the size of the gulf that separates us from the serenity and reasonableness and anti-ideological caution of the Fathers. But in one respect I believe I have identified a feature of their thought visible in particular during the Constitutional Convention that is hidden from us by the accepted myth of our national beginnings: a feature which we might do well to recover and apply in restoring the Republic to its original character.

It is important for us to remember when we examine the Constitution made in Philadelphia that it was
written before the French Revolution occurred and that the education of its authors was English and classical: principally an education in history, Roman literature, and law.

The upper reaches of metaphysical speculation concerning the nature of man and the possibility of creating a perfect Commonwealth for him to inhabit was not an important element in the political deliberations of the English Old Whigs or their progeny, the original American republicans. True enough, a few of them had read Hobbes and Locke and, more importantly, Montesquieu and David Hume. But what they learned from these authorities was in most cases understood to be only a gloss upon the historic rights of Englishmen and the history of English liberty out of which they had made a Revolution. The most important evidence in support of this understanding of their habits of mind comes from the way in which they treated the hypothetical imperative to what James Wilson of Pennsylvania, in speaking for the radical minority in the Convention, referred to as the "inherent, indisputable, and unalienable rights of men," to a kind of equality in political rights.¹

It is true, of course, that the Framers often conceded that men were equal in a "state of nature": equally ungoverned and equally unprotected. But some of them also main-

1. Departures from Equality

I invite you to consider with me the many ways in which the "rights of man" are violated in the document agreed to in Philadelphia. The most important of these has to do with the "great compromise," so called: the provision that one house of the national legislature should give an equal vote to each of the states, regardless of its size or population; and the attendant provision that every state should have at least one Congressman, regardless of its population. Not every delegate who opposed the insistence of the small states on this formula was a serious devotee of "natural rights." Some were interested simply in the political influence of their own states. But the delegates from the smaller com-
monwealths made it quite clear that they were going home if they were not given their own way in this particular.

The prudence of such compromising spirits as Benjamin Franklin, who was ideological about almost nothing, intruded at this point. The old freethinker, always ready to make it up as he went along, called upon his colleagues to invite a minister to come and pray over their deliberations. The larger states continued to grumble, but recognized necessity. Later, another violation of equal rights—in this case of the rights of posterity—was added to confirm the compromise over legislative representation. I refer here to the provision of the Constitution which precludes any amendment at some future date that would deprive any state of its equal voice in the United States Senate.

Of course, the provision for state equality in the Senate goes against the sacrosanct doctrine of majority rule. But that is precisely what the Framers wished it to do. And they followed the same principle in most of the important sections of the Constitution. The rule requiring a ⅔ vote of both Houses of Congress and a ¾ vote of the states to amend the Constitution (the rule which has thus far prevented the adoption of the ERA, and which will, without doubt, prevent the conversion of the District of Columbia into a state by giving it seats in the Senate) gives an unequal weight to the vote of the first generation of Americans who accepted the Constitution, and to opponents of such changes in the succeeding generations.

The same holds true for the ¾ rule with regard to the overriding of a Presidential veto, the ⅔ rule for the confirmation of ambassadors, justices of the Supreme Court and "of all other officers of the United States, whose appointments are not . . . otherwise provided for"; and the ¾ rule in cases of impeachment, expulsion of members in the House or Senate, and the validation of treaties.

Voting Power

Allowing the House of Representatives and the Senate to make their own rules concerning the limitation of debate has, as we all know, been another restriction upon the will of the simple majority in the operation of our political system—and, I might add, a good one. So was the provision in the original Constitution which allowed for the election of United States Senators by the state legislatures or in any other fashion the states thought proper.

The much abused Electoral College works to the same effect and has, we should remember, produced several minority Presidents. If New York or California decide by one vote to send electors in favor of Candidate X, and Texas and Pennsylvania
decide by the margin of, shall we say, a million to commit their representatives in the Electoral College to Candidate Y, the results of such disparity will not be reflected in the number of votes given in the only election that counts to the respective candidates. Our Presidents are elected by the people of the states, acting separately, but in unison. Simple plebiscitary democracy as proposed in some suggestions that we abolish the College goes against the tenor of the United States Constitution as a whole, and makes this mistake precisely because its proponents imagine that equality of individual political rights was the regnant abstraction in the political lexicon of the Fathers.

Other Departures from the Doctrine of Majority Rule

Four other examples of the indifference of the Framers to the doctrine of majority rule are (1) the provision in the Constitution for the election of the President by the House of Representatives with each state casting one vote in the case of a deadlock in the Electoral College; (2) the process by which the Constitutional Convention itself was called; (3) the manner in which the Convention voted, with each state having one vote; and (4) the way in which the Constitution was adopted, the equivalent of the way in which it may be modified today.

But there are often overlooked and more serious contradictions of the gospel of equality buried in the Constitution that go beyond mere restraints upon the will of the majority. Some of these are obvious, such as the protections for the institution of Negro slavery in the Fugitive Slave clause, the twenty-year extension of the slave trade, and the 3/5 formula for the representation of slaves in determining the voting strength of the South in the House of Representatives. It is noteworthy that no member of the Convention entertained any idea that the institution of slavery, as it stood within the various states, could be affected or threatened by the instrument of government that they hoped to create.

Slavery Condoned

A majority of the fifty-five members of the Constitutional Convention owned slaves. Farrand tells us that slavery was "accepted" by the Framers "as part of the established order," and that they did not provide any procedure for its eventual extinction. On the contrary, some Northern members of the Convention complained (and perhaps rightfully) that the 3/5 formula allowed the South to increase its political power by the mere expedient of purchasing slaves. Twenty years was thought enough time to facilitate the importation of all the Negroes
the South could possibly need, and almost suggests that such purchases were to be encouraged.

In the specific exclusion of Indians from the calculation of the census, equality is once again contradicted. And in the provisions requiring a certain age or status as citizen as a precondition for holding office, a political onus is attached to youth and foreign birth.

But far more important are the inequalities left to the discretion of the states. Qualification for the franchise, as was agreed by the members of the Convention after much debate, was to be determined in the several commonwealths and was not to be meddled with by any component of the national power. One is fully a citizen of the United States by being a citizen of one of its member states.

No less a Federalist than James Madison developed this distinction when serving as a Congressman from Virginia during Washington’s administration. The discussion concerned the right of one William L. Smith of South Carolina to hold the seat as Representative from South Carolina to which he had been elected. The dispute arose because he had been overseas during the years of the Revolution. Madison’s argument was uncomplicated. Representative Smith had never ceased to be a member of the society into which he had been born. Therefore, he became a citizen of the United States when South Carolina came into the Union.

Let the States Decide

That American citizens living in territories and possessions of the Republic and in the District of Columbia do not vote in Federal elections (except, according to a recent change, for President in the District) unless they vote by absentee ballot in one of the states, is evidence to the same effect. Political citizenship for representation in Congress is not within the gift of the government of the United States, or so the Framers intended. Indeed, the states were left by the original Constitution with the authority to impose a religious test for office. The First Amendment did not alter this prerogative, as it left untouched the state-supported religious establishments surviving in such places as Massachusetts and Connecticut. All that the amendment provided was that there should be no federally established church for the entire Union. This situation was modified with the Fourteenth Amendment. But Indians were still exempted from its protection. And Prof. Raoul Berger, in his Government by Judiciary, has taught us to read even that innovation in our fundamental law as less drastic than some of our advanced thinkers would imagine.4

Most of the Framers, including
even such generous spirits as George Mason, expected the states to provide for a property qualification as a condition of the franchise. The one mentioned most often is drawn from English law, that of the “50 shilling freeholder.” For it was their consensus that a man (and we all know the Constitution gave no political rights to women) should have a stake in the society before he was given the right to have an influence over its future.

What propertyless men might do with their votes was the nightmare before the house when the Great Convention assembled in Philadelphia. They called this nightmare by a simple name—democracy. And they connected that term of pejoration, an anathema with over half of the fifty-five members there gathered, with the rebellion in western Massachusetts led in the previous year by one Captain Daniel Shays. The overtly anti-democratic spirit of the Framers is to the uninitiated reader of the records of their proceedings the greatest possible surprise.

Fear of Democracy

In one sense, the fear of democracy and of the despotism that was likely to come after it is the “given” of the Great Convention. Almost as soon as the meeting convened and the Virginia delegation got control of the chair and then placed its plan of government before the house as its first order of business, Elbridge Gerry of Massachusetts (at this point in his career, as vigorous a republican as could be found) asserted that “the evils we experience flow from the excess of democracy,” and urged his colleagues to be “taught by experience the danger of the leveling spirit.” Governor Edmund Randolph, the spokesman for the Virginia Plan, picked up Gerry’s theme and urged the adoption of his resolutions as a counter to the “turbulence and follies of democracy” in which every “evil” of government under the Articles found its “origin.” And more of the same is to be heard throughout these debates.

General Washington had come to the Convention expressing the hope that New England would eschew those “leveling principles” that had made her men so difficult to command. Madison said the same in his letters. We have all heard what Hamilton called the people—that great beast.” Gouverneur Morris described them as a “reptile,” and had added, “he who wishes to enjoy natural Rights must establish himself where natural Rights are admitted. He must live alone.” And Rufus King of Massachusetts announced the opinion that “the unnatural Genius of Equality [is] the arch Enemy of the moral world.”

If these sayings of our political forefathers do not sound like what
the myth has taught us to expect, the text of the Constitution should persuade us that the statements were in character and are reflected in the most significant kind of action, the drafting of a fundamental law.

**A Religious Restraint**

The Framers were, again contrary to the myth, a body of religious men, sceptical concerning human nature, particularly of its collective manifestations. Only four or five of the Framers were Deists, and even they, as for instance Franklin, were undogmatic about politics, devoted to no vast, *a priori* scheme. The caution of David Hume and the pessimism of St. Paul can have the same political results. Experience, as gathered in history and prescription, was, in the eyes of the Framers, the proper guide in political questions, as in most others. At the end of the Convention with the finished document on the table before them, the venerable Franklin bespoke the caution of the entire Assembly when he asked each of his colleagues to "doubt a little of his own infallibility."28

It was a fine thing to tinker with a stove or even to invent a city, and especially so if the stove and the city were what people wanted, and what circumstances either required or allowed. But the secular religion of an ideology, the mindset which we associate with a Robespierre or a Marx, would not have been well received in Independence Hall during those hot late spring and summer months of 1787. The very physical appearance of the place and of the buildings surviving from the community which then surrounded it should tell us that. What they say iconically is that extremists are not in the proper style.

**No Sudden Shifts of Power**

The culture of the English Enlightenment shared by the authors of our Constitution was essentially anti-rationalistic, anti-metaphysical. "Enthusiasm" was the opposite of what they meant by philosophy. And large-scale theories of human rights are "enthusiastic." They threaten property and the going social order, opening the way to a situation in which men like Captain Shays might replace the natural leaders, the men of virtue; confiscate and distribute everything in sight. Such a prospect frightened the Framers into altering the form of government established in the Articles, providing for an authority to check all such rebellions, even if they were peaceful and political. And certainly if they offered violence.

However, since our country crossed the Great Divide of the War Between the States, it has been more and more the habit of our historians, jurists, and political scientists to read the Continental Enlightenment, and
the Age of Revolution that was its political consequence, back into the record of our national beginnings by way of an anachronistic gloss upon the Declaration of Independence.

I will not here belabor the vexed question of how we might best interpret the Declaration, as I have already said enough on that subject in another context. But my argument on this occasion does demonstrate that whatever the Declaration meant to Thomas Jefferson or later to Abraham Lincoln, the "political religion" of equality got short shrift from the men who wrote our Constitution. And the Constitution, not the Declaration, is law. It provides that our government follow the deliberate sense of the American people. As the South has always recognized, concern for minority rights is not the major explanation for its anti-egalitarian features, but rather a determination that the majorities with power to change the law be very large indeed.

The Constitution makes it difficult or even impossible for us to alter our political identity on whim or when momentarily carried away by the adjuration of demagogues. But it allows, indeed requires, that we hammer out a consensus on the important things affecting a very limited public sphere, working under the shadow and from the example of those judicious men who first set the great engine of our government in motion. To keep it running, we must remember how and why it was made.

—FOOTNOTES—

2 U.S. Constitution, Article I, Section 2.
4 Suffrage for the freedman is not contemplated in the Fourteenth Amendment, which explains subsequent Republican enthusiasm for the Fifteenth Amendment—once the party began to lose its white support.
5 Madison, Notes, pp. 39 and 42. See also p. 658, where Gerry calls democracy "the worst . . . of all political evils."
8 Madison, Notes, p. 654.

IDEAS ON LIBERTY

Alexander Hamilton

INEQUALITY will exist as long as liberty exists. It unavoidably results from that very liberty itself.

On the floor of the Constitutional Convention, June 26, 1787
THIS AGE in which we are living has been described in a copious flow of superlatives, pro and con. To repeat from Charles Dickens's well-known opening paragraph in *A Tale of Two Cities*, a novel of the French Revolution and relating to the European scene about 1789, would be understating the case for the 1970s and 1980s: "It was the best of times, it was the worst of times, it was the epoch of belief, it was the epoch of incredulity, it was the season of light, it was the season of darkness, it was the spring of hope, it was the winter of despair...."

Many of our top thinkers have tried to answer the persistent query: What principally does distinguish these times from all those that went before? One conspicuous answer was that of André Malraux, elderly French author and Minister of State for Cultural Affairs under President Charles de Gaulle back in the 1960s. His answer was reported and analyzed by journalist and theatrical manager Guy Suares in his book, *Malraux—Past, Present, and Future* (Little, Brown & Co., 1974).

Malraux said at that time that the first and most distinguishing mark of the existing Western civilization is "a violent sense of transience." His second identification, "a civilization without recognized values," is clearly related to this "violent sense of transience." Values—moral, practical and intellectual—are sub-

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sumed in the new thought. That judgment has been echoed by many sources. Environmental changes are cataclysmic, involving mob psychology, erratic leadership methods, public administrative chaos, and arbitrary judicial processes. Pursued with misguided zeal, these aberrations have fed the flames of transition through which the world is whizzing.

The courts, which should be a stabilizing influence, are in reality upsetting long-cherished traditions on the theory that law and government are constantly changing almost everything, "to keep up with the times." The U.S. Supreme Court in an infamous eight-to-one decision reversed the trial conviction of a brutal murderer because there had not been, as the defense claimed, enough women on the trial jury to assure a gender balance. The same body legalized abortion and even ordered that pregnant women who resort to this procedure shall, if they are indigent, have the expense borne by the federal government.

That judicial colossus, through its district judges, presumes to direct a local school board far from the seat of authority how to manage its own schools. There is talk that the courts will force Amtrak to cancel its special low fares for children on the ground of discrimination. In the name of making every citizen equal in every respect—the one-man, one-vote principle—Washington seized controls constitutionally intended to be exercised by state and municipal authorities or by employers and state and municipal bodies.

The courts are now freely approving faked insanity pleas as excuses for the most flagrant crimes. Result: dangerous, mad-dog criminals released to make the streets and roads unsafe for honest citizens. A Congress that had condemned a President for his candor in private conversations, as recorded on confiscated tapes, fails to impose a penalty on certain of its own members convicted of accepting bribes from a foreign government.

A Mobile Population

More than forty per cent of Americans are said to change their place of residence annually—another form of transience. Many of the names on world maps have been changed by the dictates of politics, until any world atlas as much as twenty years old is quite out of date.

In his epochal books on economics, John Maynard Keynes attempted to contradict and subvert the basic truths of economic life. Dr. Karl Menninger, riding on a wave of popularity as the people’s psychiatrist, preached that the punishment of crime is itself worse than the actions for which criminals are punished. Two educators of some note lent themselves to the authorship of a
book, one principle of which is the silly assertion that the ability to read well is not essential to a liberal education (Postman and Weingartner, *The School Book*, Delacorte Press, 1973).

There are foreboding signs in the Judeo-Christian world of the abandonment of the Ten Commandments. This would be in the presumed interest of keeping up with progress. Reservations are needed, we hear, to construct a platform broad enough for any religious man or woman to stand on. It might change No. 8 to, “Thou shalt not steal from a poor man.” You may be sure that some “improvements” in the interest of liberal “realism” would be edited into No. 7, which prohibits adultery, in order to assuage the consciences of impious but uneasy moderns.

Americans and some other contemporaries seem to be wholly obsessed with the notion that all change is necessarily progress. They blandly assume that individual freedom can be realized only in a democracy, and that a pure democracy is the standard system of approach to perfection, regardless of the stage of civilization reached by a populace.

André Malraux believed there is a third distinguishing factor in the present Western civilization. It is “a civilization cut off from the cosmos”—from all that has gone before us. We have inherited so much from earlier ages that our leading minds seem incapable of assimilating it all. Have we gone as far as science can take us? We have walked on the moon; now what is next—to jump off into suicide?

The Greek civilization was linked to the past by its gods. While Christian civilization “at its height provides strong links between man and the Christian Cosmos,” our culture has culminated in Marxism, according to Malraux.

Although not named in the Suares interview, it appears there is another distinction that especially marks the times in which we live. That is the supreme ego of the dominant generation of today. In no earlier annals of the past that I have scanned are found the condescension of assumed superiority manifested by most spokesmen of our times.

**Modern Prophets Much Indebted to Pioneers**

To read or listen to the modern prophets in a believing spirit is to view our contemporary scientific, philosophical, and literary giants as the voices of a new and greater race of the *genus homo*. Usually they make little or no acknowledgment of the enormous debt owed to the pioneer thinkers going back through Herbert Spencer, Petrarch, and all the others even to Aristotle. Einstein’s “discovery” of relativity was
made from his perch on the broad shoulders of Galileo. The recent squad of physicists who saw and demonstrated the awesome possibilities in splitting the atom had for their start the work done by John Dalton, Hendrik Lorentz, and a long catalogue of others. Even Lucretius, the Roman poet of the first century B.C., knew about the atom and something of its potential for good or evil.

There are palpable signs in the United States of this increasingly "violent sense of transience." They are more visible to the elders who have lived long enough to appraise soundly the mental balance of maturity. An example of change in the right direction is the current recognition of Alexander Hamilton, subject of a recent new biography by Forrest McDonald (Norton). More than any other thinker of his time, Hamilton conceived the enormous potential of his country as a vast industrial world force. This recognition is all the more remarkable in that such insight comes notwithstanding the doom chorus from wordy liberals who never have understood the America conceived by Hamilton, Madison, Franklin, and their associates in our national Hall of Fame.

Change is inevitable, although aggravated by that old, hungry, egalitarian urge that tends to distort human motives. The ideal in government, industry, family life, and "the pursuit of happiness" generally is collective stability. The best signs of these times are those that point toward restoration of that essentially stable society, the framework of which our late 18th century wise men provided. The United States is tough and can take punishment. It can realize the thwarted hopes of the best minds of 1787 through the present exercise of restraint, balance, and some timely sacrifice.

Ideas on Liberty

Foundations of Progress

The common man, finding himself in a world so excellent, technically and socially, believes it has been produced by nature, and never thinks of the personal efforts of highly endowed individuals which the creation of this new world presupposed. Still less will he admit the notion that all these facilities still require the support of certain difficult human virtues, the least failure of which would cause the rapid disappearance of the whole magnificent edifice.

José Ortega y Gasset
Government Intervention Creates Chaos, Not Jobs

Students of history are familiar with the significant truth embodied in the often quoted remark of the writer and philosopher George Santayana in his work *The Life of Reason*: "Those who cannot remember the past are condemned to repeat it." This axiom holds true for those proponents of governmental interventionism in the economy who view government as the instrument to bring economic prosperity through government-sponsored jobs creation and job training programs.

The proponents of this economic interventionism use a variety of approaches to involve government in the market place—vocational training, public service employment, on-the-job training, institutional training, work experience, and job placement programs. These attempts to replace the operation of the market economy with government interventionism have gone under a variety of names including the Civilian Conservation Corps, the Works Progress Administration, the Job Corps, and the latest version, the Comprehensive Employment and Training Act jobs program.

All of these attempts over the years have violated a basic concept of our constitutional form of government—the moral freedom of the individual to participate in the market place without excessive governmental coercion or regulation. We can better understand the fallacy of this approach by examining the interventionist philosophy which motivates it, why such efforts fail, and the need
to resist such interventionism if we are to maintain man's essential freedom and the operation of the free enterprise system.

The Interventionist Philosophy

The major impetus for government-sponsored employment and training for employment programs has been the economic philosophy of John Maynard Keynes, which has been prevalent in United States economic policy for almost the past half century. Keynes, who put forth his views in *The General Theory of Employment, Interest and Money*, advocated income redistribution and supported efforts by the central government at jobs creation.

The thrust of *The General Theory* revealed opposition to the assumption that in a society based on free enterprise there were mechanisms of adjustment which automatically produced the conditions for full employment for workers and resources for productive employment. The author made it clear that he lacked confidence in the ability of competitive markets to expand employment and production.

Keynes viewed unemployment and economic depressions as the result of a deficiency of aggregate demand for goods and services. One way to stimulate aggregate demand, he reasoned, is through government expenditures which would have a multiplier effect on the economy. An increase in government spending without an increase in taxes was equivalent in effect, Keynes asserted, to an autonomous expansion of private investment.

While preferring that government spending should be on projects which he deemed of "social utility" (e.g., schools, parks, public housing), the important element in Keynes' economic philosophy focused on the necessity of government spending to aid the whole economy. And even if the unemployed were put to work on jobs which appeared useless for the growth of the economy (e.g., ditch-digging, leaf-raking), the incomes of these workers would be used to buy products (e.g., clothing, food) which would help stimulate the economy. Keynes thus accepted the myth that government, by spending the resources of its citizens, could spend itself to prosperity.

According to Keynes, a central government, through public works and other expenditures, could help stimulate the economy despite increased inflation and budget deficits. Rejecting the traditional economic wisdom of the dangers of excessive governmental spending and the need to accumulate savings in the economy, Keynes had developed a new theory of employment and income which had as its consequence a whole series of public policies focusing on the need for governmental intervention to deal with
unemployment in a free enterprise economy.

During the depression of the 1930s, federal spending had been used extensively to combat unemployment by creating jobs in the public sector and providing training to the unemployed. Despite little evidence of success, the programs were continued and even grew larger and larger. Yet, it was in the post-World War II period that the Keynesian influence had its greatest impact on United States economic policy.

**Keynesian Policies Fail**

Successive U.S. presidential administrations have turned to government spending for employment training and jobs creation despite budget deficits and, indirectly, the inflation it creates. And as the economists James D. Gwartney and Richard L. Stroup have reminded us, the Keynesian macroeconomic thinking established the foundation for the policies which provided the United States with the inflation, unemployment, and stagnation of the 1970s.¹

The experience with Keynesian economics has been a disappointing failure for the U.S. economy. These expansionist policies (including inflation, high taxes, budget deficits, and rapid growth in the money supply) have not promoted full employment or even economic growth. That great economist Hans F. Sennholz has reminded us that a tax burden which is heavy during a period of expansion becomes destructive during stagnation and decline. Rather than helping the working man, these misguided policies have hurt him, failed to provide significant employment for the unemployed, and placed a drain on the economy which has resulted in a decline in the American standard of living.²

Advocates of the Keynesian policies reveal an ignorance of economics which confuses the short-term and the long-term results for a nation which follows Keynesian economic policies. While policies which seek to accelerate demand beyond the expectations of buyers and sellers may reduce the short-term rate of unemployment, the result of such inflationary policies in the long run is to increase the economic problems of a society, leading to high rates of both inflation and unemployment.

**Why Employment Programs Fail**

Despite the rhetoric of government officials that government-created jobs have added "X" number of jobs to the economy, a closer examination reveals the fallacy of this claim and the inevitable failure of such programs to improve the economy.

Work is the process of forming capital such as goods and services for future consumption. There are two economies in which people may
work: (1) a barter economy in which services are exchanged free from government regulation, and (2) the money economy in which government money is being used as a medium of exchange. The major distinction between the barter economy versus the public economy is the visibility of the transactions to the government in the latter. Once a transaction becomes visible to the government, it becomes subject to government regulations so that those individuals participating in the public economy must be willing to give a share of their work to government (e.g., taxes). Individuals will shift to this public economy when it is easier to trade their work for someone else's in the public economy. One individual trades his labor (e.g., a carpenter) with those who are willing to trade for other items—groceries, housing, insurance, and the like.

The Incentive to Work

Government can assist production in a free enterprise economy by making work more attractive than non-work. If an individual can keep a significant part of the results of his labor he is more willing to work. However, if government acts through coercion (e.g., taxes) in taking away the fruits of his labor, the worker is less interested in working in the public economy. In addition, if non-work is more attractive either through welfare benefits or unemployment benefits, the individual will choose non-work or leisure.

Jude Wanniski has explained how this lesson applies to CETA-type government jobs programs:

Government programs to "create jobs" usually fail because the designers of the programs ignore the incentives of the barter economy. . . . Such offers are frequently spurned by those government has targeted, for they would not only have to give up their transfer (welfare, etc.) payments, but also their tax free work or leisure in the barter economy. The new governmental jobs will instead attract individuals who are already employed in the public economy, but at lower rates of pay than the new positions being devised by government.

Besides the inefficiency inherent in government created jobs, the government acting as the agent for creating jobs violates the personal freedom of the individual in a free enterprise economy. These programs violate certain fundamental moral principles which view man as a free individual with the right of choice in the economic system. The government in effect robs the working man of the fruits of his labor through taxes in order to subsidize another individual, possibly at a higher rate of compensation, for doing non-productive work.

The government programs also can be faulted for disrupting the operation of the market economy. Perma-
ment jobs are created when there is a climate of freedom—the investor is willing to put his money in an enterprise where he will receive a desirable rate of return, a businessman will open a plant or factory or business with the expectation that he receive a profit, and the worker will attempt to sell his labor to the highest bidder with the most desirable return for his work. This freedom of choice benefits all parties concerned in a free market economy. Government-created jobs programs deny the operation of this successful system.

Resources Wasted

When the government intervenes in the economy, government bureaucrats take money from the taxpayers and direct money to projects without any concern for the best use of resources. Because of their mistrust and misunderstanding of the market principles, these resources are allocated to a variety of uses—additional governmental jobs, controversial experimental programs, public works. The government through high taxation, expansion of the money supply, and intervention in the credit markets to finance these projects helps to drive out individuals who seek financing in the private sector.

No government action can substitute for the effective operation of the free market economy. When government seeks to employ people, it must take these resources from the resources of the private sector which is the productive sector and the operation of the government jobs programs becomes merely another way to redistribute income. Whether the central government is paying out high welfare payments or salaries for non-productive jobs, the result is to reward “non-work” at the expense of the productive sector. These so-called government jobs only place a greater burden on the taxpayer, and the resulting government spending only delays the time for full recovery during an economic slowdown.

Training for What?

The same dismal results have come from government job training programs as from the jobs creation programs. A 1977 study by the Congressional Budget Office concluded that even intensive government training programs failed to raise the lifetime income potential of participants. The study found that the average manpower training enrollee, either a young person or a member of a minority group, achieved an annual post-training income differential of only $400. This differential resulted not so much from the training but as a result of the individual working more hours per week or in working more weeks per year.4

Many of these government training programs train workers for jobs
which do not exist, and thus funds from the taxpayers are used to keep a person unemployable. The most effective training programs are those originating from companies who train employees with potential for jobs in which they are then placed. If workers are already trained or have a marketable skill, immediate work is provided for the unemployed. The opportunity for real jobs creation can only come when government creates a climate for private enterprise and does not attempt to compete with it for employment of workers.

Some critics see the jobs creation programs put in operation during an "emergency" as a step toward the destruction of the free enterprise system, with the government assuming the role of central planner and chief employer for the economic system. The distinguished journalist John Chamberlain has noted that ever since the beginning of social life men have swung between extremes of freedom and coercion, voluntary association and community compulsion, family "mutualism" and State-imposed order. While man can exist under either system, he notes that it is only when cooperation is a matter of free election and the voluntary approach predominates that man can live creatively. 5

One needs only to look to Great Britain whose government leaders have been devoted followers of Keynes to discover the crisis in its economy—a low growth rate, a poor rate of productivity, a deteriorating physical plant, high inflation, high unemployment, and a high degree of social unrest. Despite warnings, the British continued to plunge into disaster. The consequence has been to make Britain the latest version of the "Sick Man of Europe". 6 Will the United States learn this lesson before it is too late?

The Need to Return to Free Market Principles

Critics of government intervention in the U.S. economy have stressed that the difference between a Keynesian approach and the classical free market approach goes beyond mere economic theory and reflects a significant difference in social policy. This factor is illustrated in the difference between a $14 billion reduction in federal taxes and a $14 billion expansion of public programs, the latter strongly supported by the Keynesians.

The reduction in taxes (and government interventionism) acts as an incentive to strengthen the private sector and enlarges the sphere of private control over spending. The expansion of public or government spending, favored by the Keynesians, limits the private sector and expands the public sector where allocation decisions are made by government officials, not the factors of
demand and supply. The stakes are not only economic efficiency and decision-making control, but personal freedom as well.

Critics of the CETA program have often cited the many abuses in these programs as funds have been used to provide additional political jobs, pay salaries for old jobs previously funded by local taxes, pay for bartenders and lounge managers, support muscle-building programs for women, and funding activist antibusiness groups. However, even without these many scandals, these programs would be defective because of the attempt by government to perform a function which economically and morally belongs to individuals operating in the private sector.

Bureaucratic Inefficiencies

The great economist Ludwig von Mises pointed out many years ago the difference between profit management and bureaucratic management in his notable work *Bureaucracy* (1944). The grave inefficiencies of bureaucracy were inherent and inescapable, von Mises reminded his readers, and these led to the failures of government-promoted and government-controlled programs in a nation's economy.7

A more recent study has added more ammunition to the critics of these job programs promoted by the central government. Two research scholars, Kim B. Clark and Lawrence H. Summers, noted that there was no evidence that billions of dollars spent on special jobs programs had any real results. These professors found there is evidence that as aggregate demand increases, and the general level of economic activity grows, employment increases for all groups in the economy, including young adults and even older workers. Rejecting the argument that special programs are needed to help minorities in the economy, they noted that in the case of black teenagers, who have an unemployment rate of 36 per cent, benefits occur since employment in that group rises by 6 per cent for every 1 per cent increase in economic activity.8

The 1980s should be a time to reduce the failing economic policies of the 1970s that have brought inflation, stagflation, and economic hardship—policies which have reduced the standard of living of the American people and seriously weakened the role of the United States in the international community.

Policies for Growth

The importance of incentives in the political and economic sphere must be recognized, replacing governmental interventionism. Economic policies to encourage savings and capital formation in order to maintain a healthy growing econ-
omy must be pursued and the result will be productivity, stable demand and prices, and reduced inflation. Only through a growing economy based on the principles of the free market do all the citizens—especially the disadvantaged—gain by an increase in their standard of living.

Policy leaders in the U.S. government must shift the economic emphasis to the supply side of the market, realizing the negative impact of high tax rates on total output and the income transfer payments that have ultimately penalized the efforts of low-income families to help themselves.

When productive citizens are allowed to keep their income, the incentive is present for economic growth and increased productivity without government-sponsored work programs.

The incentive to save will provide the funds necessary for the tools, high technology, and modern machinery which will aid the increase of production per manhour.

A frugal central government, balancing the budget and restricting the growth of the money supply, will enhance economic growth, reduce inflation, and get people back to work in the private sector in permanent jobs which will help the economy to grow.

The time is now to roll back the Keynesian influence over public policy in the United States. The theory that government spending causes people to produce must be rejected. Government spending does not cause economic growth but it does cause economic disruption through inflation and interference in the market place.

**Restoration of Incentives**

Incentives must be restored for production, employment, investment, and new enterprises. A sound economic policy can make rapid progress toward the completely achievable goal of restoring growth to the economy and increased productivity and employment.

We can only preserve the moral freedom of the individual and economic prosperity by the market solution, not by a government imposed solution. In warning against the road to serfdom from oppressive government, the Nobel prize economist Friedrich A. Hayek noted that although history does not repeat itself, we can learn from the past in order to avoid a repeat of the same process. His admonition should be a clear message to those who love freedom and oppose government jobs programs: "The guiding principle that a policy of freedom for the individual is the only truly progressive policy remains as true today as it was in the nineteenth century". 

Real prosperity and strength for the economy will only come when
such ill-fated schemes of government intervention as the CETA program are abandoned in favor of using the strengths of the free market unhampered by the heavy hand of government regulation. Heeding the prophetic words of George Santayana, free men will recall the failure of government to create jobs or restore employment and will seek the answer for a strong economy in the time tested principles of the free market.

—FOOTNOTES—


An Appropriate Policy

ONE further observation must still be made about this matter of saving and capital formation. The improvement of well-being brought about by capitalism made it possible for the common man to save and thus to become a capitalist himself in a modest way. A considerable part of the capital working in American business is the counterpart of the savings of the masses. Millions of wage earners own saving deposits, bonds, and insurance policies. All these claims are payable in dollars and their worth depends on the soundness of the nation's money. To preserve the dollar's purchasing power is also from this point of view of vital interest to the masses. In order to attain this end, it is not enough to print upon the banknotes the noble maxim, In God we trust. One must adopt an appropriate policy.

LUDWIG VON MISES, "Wages, Unemployment, and Inflation"
Dear M__________:

Thank you for your letter, asking for information about inflation. The members of the staff here at The Foundation for Economic Education have been studying inflation for many years. We have published books and many articles about the subject. I will share with you some of the things I have learned.

Government causes inflation by printing lots of paper dollars. Many people believe that inflation is high prices. But actually inflation is the increase in the quantity of money. How does this increase lead to high prices?

Well, let’s pretend that you’re not happy with the allowance that your parents give you. You don’t have enough money to buy all the bubblegum, hamburgers, comics or toys that you want. Let’s also suppose that you had a Magic Machine that could print all the dollars you wanted. (This is called “counterfeiting” and people go to jail for doing this. But just pretend that you could print as much money as you’d like.) Since you would have all the dollars from this Magic Machine you could spend as much as you like and would not have to worry about asking your family for a bigger allowance. When you’re on a limited allowance you have to watch your pennies pretty carefully. But if you had a Magic Machine, you could be less careful with your dollars. You wouldn’t have to choose between a new book and a pad of drawing paper. You could buy both—and even more! This would be fine and dandy for a time.

But suppose your friends all had these Magic Machines—or that you had so many dollars that you gave a lot of them to your friends. Well, if enough of you had loads of money to spend at the local candy store pretty soon something interesting would happen. The candy store owner has only a certain amount of bubblegum to sell. But suddenly, with you and other “rich” kids, there’s a big demand for bubblegum! If he had only 5 packages of gum for sale and there

An inquiry about inflation from a ten-year-old drew a response others may find helpful. Mrs. Hoffman is Production Editor of The Freeman.
were ten of you who wanted to buy it, any one of you might be willing to pay $10.00 or more for one package of gum. (Remember that back when you had only your allowance, you’d never pay that much for a little pack of gum!) Because of the bigger demand, the owner of the candy store might decide to ask a higher price for the gum—and you will pay it because each of your dollars has lost some of its value. You may seem “rich” but your money has lost a lot of its buying power because there are others who also have lots of money and are “rich.”

In very simple terms, this is what our government has done. Through many decisions made by the officials in the government, there has been an increase in the number of dollars printed. There are just many more dollars—paper dollars that don’t buy as much as the old dollars did. (You’ve probably heard adults say, “Gee, the dollar doesn’t go as far as it used to.”)

The people in this country give the government its “allowance” by paying taxes. But taxes are not popular. So, rather than asking for a bigger “allowance,” that is, for higher taxes, the government tries something else. It prints money with a printing machine. And when the government does it, it’s legal! Because it can legally print almost as many dollars as it wants, the government doesn’t have to go to the people and say, “We need more money to pay soldiers and policemen and to buy all the things we want to give people.” The officials can print more money to pay all their debts. And they can print more money to pay for lots of benefits for their friends. And if they can’t print enough, they can ask for an “advance” on next year’s “allowance.” This way, people don’t have to pay more taxes, the government can hand out goodies and everyone seems happy. But eventually everyone begins to realize that the dollars are not worth what they once were. And, just as with your Magic Money Machine, the government’s money machine doesn’t make everyone rich. Some people seem rich for a while. But when some of the people get some of the newly printed dollars, they bid prices up. Then many other people can’t buy the things they want. And so on.

I’m enclosing some articles you might want to read, particularly one by Mr. Henry Hazlitt, “Inflation in One Page.” In different language, he says the same thing I’ve told you. When you are a bit older, you may also want to read Mr. Hazlitt’s book called Economics in One Lesson.

If you have any questions or would like some more information, please write to me. I will try my best to help.

Cordially,
Beth Hoffman
GOVERNMENTS are under the same necessity as the rest of us for economizing in their transactions. The means available to them for providing such goods and services as they may offer are scarce, and economy is the universal prescription for dealing effectively with scarcity. Indeed, a case can be made that governments have even more compelling reasons for observing the rules of economy than do men in their private capacities. But let that wait for a bit.

For the past fifty years the United States government has acted as if the rules of economy did not apply to it. It could spend more than it took as revenue year in and year out. It could provide an ever larger array of expensive programs with no determined means of financing them from current or future income. It could go ever more deeply into debt with no provision for reducing or retiring it. More, there were some who had the training of economists who claimed that government spending could and would produce prosperity. With that prospect in view, the Treasury served as the fountain of a cornucopia of grants, subsidies, welfare payments, low interest loans, guarantees, insurance programs, and so on. Unbalanced budgets, deficit spending, and mounting debt were standard practices for nearly three generations.

There are some signs of a dawning
awareness of the necessity for economy in government. When President Reagan delivered his "Economic Message" to Congress in February of 1981, he called attention to the fact that the debt of the federal government was now very close to $1 trillion. Indeed, Congress had, only days before that, increased the debt ceiling from approximately $935 to $985 billion. Mr. Reagan pointed out, too, that there is a connection between this mounting debt and such unwanted developments as high interest rates and the decline in the value of the currency. The government's longtime neglect of the rules of economy has led to consequences which affect adversely the economic well-being of all of us. He promised to press for numerous economies in government with the aim of eventually achieving a balanced budget.

Principles of Economy Vigorously Applied

This message, coupled with a continuing debate over economies in government, prompted me to review American history in quest for guidelines and principles of economy in government. This quest led me to the Jeffersonians, who were surely the most determined economizers in American history. Moreover, they not only acted on the basis of principles but also applied them vigorously and generally succeeded in accomplishing what they set out to do.

Of course, the situation of the Jeffersonians was different in many respects from our own. They were writing on a nearly clean slate in charting the course of government, while ours is cluttered with almost two centuries of practice and malpractice. The Jeffersonians usually wrote out their messages by hand and made their own arithmetic calculations. Today, Presidents have every sort of personal assistance and numerous electronic devices to aid them in performing their duties. Circumstances change, but principles remain as valid as they ever were. And, it is their principles of economy in government on which we will focus our attention.

The Jeffersonians made the first major surge to economy in government in the history of the United States—and the most sustained one. To say this is not to accuse either the Washington or Adams administrations, which preceded them, with mismanagement or with carelessness toward economy. It is rather to recognize that the earlier Presidents faced the task of establishing the new government and that much of their business was more immediately pressing than was economy. Moreover, Alexander Hamilton, who occupied so central a role in the early years, tended to subordinate economy in government to his plan for a large role for the central govern-
ment in the economy. The Jeffersonians, then, inherited a task to their liking, that of setting the government on a rigorous economical course.

Basics Observed by Jefferson, Madison, and Monroe

The Jeffersonians controlled and provided the leadership of the government from 1801 to 1825. They comprised the administrations of Thomas Jefferson, James Madison, and James Monroe. They are called "Jeffersonians" because Jefferson founded their party—the first Republican party—and enunciated the basic principles to which they all adhered. In addition to being Republicans, all three were Virginians. They were the last of the men, too, who had a hand in founding the American republic who served in the presidency. The Constitution was still for them a plan that had to be made to work, and they were strict constructionists. They were also partially linked through the financial ideas and leadership of Albert Gallatin, who served under Jefferson for two terms as Secretary of the Treasury, and under Madison for one term. Gallatin was not only a dedicated economizer but also one of the most articulate and respected exponents of economic ideas in the early years of the Republic.

It is strange that Thomas Jefferson should have emerged as a political leader—a pre-eminent one at that. He had few of the traits and inclinations that are usually associated with leadership. He disliked formal occasions, preferring "republican simplicity" to pomp and show, avoided occasions for delivering speeches—sent "annual messages" to Congress rather than making State of the Union addresses—, and generally preferred the company of one person to that of a group. The key to Jefferson's character is that he was at home in the realm of ideas, relished exchanging them with others, and even liked the intellectual clash over ideas. But he avoided, whenever possible, the contest of wills for dominance. He did not have regular cabinet meetings, preferred meeting cabinet members on a one on one basis, and on crucial questions usually asked for the opinions of involved cabinet members in writing. In most periods of history, Jefferson probably would not have been a leader of men. But this was an age of ideas, and Jefferson was a careful thinker and a master of the written word. As a man of ideas, he attracted others of the same character to his side.

In any case, Jefferson was a man of principle, and it is his principles of economy in government, and those of his followers, that concern us here. The following principles stand out clearly in their public statements and practices while in power.
1. Frugal Management of Public Affairs. The basics of this principle were set forth in Jefferson's First Inaugural Address. He said, "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."²

It might be supposed from the above and from his actions as President that Jefferson was personally miserly, a penny-pinching skinflint, no less, so devoted to economy that he would deny even himself the amenities. Actually, he was generous to a fault in his private life where his own possessions were concerned. (So, too, were many of his contemporaries.) Indeed, he was so generous, and improvident, that shortly after his death, the beautiful mansion, Monticello, along with its furnishings, was sold to pay his debts. Why his affairs were in such shape at his death is suggested by this account of his generosity in his later years: "Relatives, invited guests, and strangers filled Monticello (frequently beds were made for a score and more, sometimes for fifty); they stayed for days, weeks, even months, drank his choice French wines, kept their horses in his stables. For solitude he had to retire to a second home, constructed as a refuge."³

But Jefferson distinguished between public and private affairs. What disposition he made of his own possessions was his own business, so long as he did no injury to others. Public affairs were another matter entirely. Governments depend upon taxation for their revenue. Sanctions may be used to collect the taxes, and taxes tend to "take from the mouth of labor the bread it has earned." Taxation takes from the productive, as we would say, some portion of what they have earned to defray the expenses of government. These hard truths were the basic premise of Jefferson's insistence on economy. Madison and Monroe operated on the same premise, as did the Jacksonians who eventually succeeded them in office.

2. Keep Taxes to a Minimum. In his "First Annual Message" to Congress Jefferson called for a reduction in taxes. In the same message he recommended the reduction of expenditures, but reduction in taxes was given priority both by its placement in the message and by the specific character of taxes listed. Gallatin had signalled this approach in a letter to Jefferson just weeks before the message was sent to Congress. He said that "if this Administration shall not reduce taxes, they never will be permanently reduced. To strike at the root of the evil and avert the danger of increasing taxes,
encroaching government . . ., nothing can be more effectual than a repeal of all internal taxes, but let them all go, and not one on which sister taxes may be hereafter grafted.”

In more measured terms, Jefferson declared that “there is reasonable ground of confidence that we may now safely dispense with all the internal taxes, comprehending excise, stamps, auctions, licenses, carriages, and refined sugars . . .”

By the time Jefferson gave his Second Inaugural Address he could proclaim that the internal taxes which had covered “our land with officers” and opened “our doors to their intrusions,” thus beginning a “process of . . . vexation which once entered is scarcely to be restrained from reaching successively every article of property and produce” were no more. “What farmer, what mechanic, what laborer,” he asked, “ever sees a taxgatherer of the United States?”

A Means to Curb Government

It should be clear from the above that Jefferson and Gallatin, in their desire to remove taxes, were concerned with more than the burden which these might be to the taxpayer. They were concerned with the violations of privacy and intrusion into the management of the affairs of citizens involved in some kinds of taxation. They were concerned to inhibit the expansive tendency of government itself, not only the expansion of taxes but also the expansion of government activities. They believed what history tends to prove, that governments will devise means to spend whatever they can take in, and use any established tax on one thing as a basis for taxing whatever may be analogous to it.

In the final analysis, the Jeffersonian thrust to remove taxes was a part of their effort to limit government and free people for the management of their own affairs. This was a goal apparently shared by many members of Congress, not only demonstrated by their willingness to remove taxes but also by their opposition to government regulation of private business. When a committee of the Congress considered legislation to regulate steamboats, it recommended against enactment, declaring that “in a free State, where every one is entitled to cultivate his own vineyard according to the dictates of his own judgment, to require that it should be done in a prescribed form, and with a specific amount of labor, or power, would appear to be an interference with individual discretion, and an encroachment on the rights of the citizen . . .”

3. Hold Expenditures Down. Jefferson coupled his move to reduce taxes with an effort to reduce the expenses of the government. He pointed out in his “First Annual
Message” to Congress that there was no need for a vast Federal establishment since “the States themselves have principal care of our persons, our property, and our reputation, constituting the great field of human concerns.” That being the case, “we may well doubt whether our organization is not too complicated, too expensive; whether offices and officers have not multiplied unnecessarily and sometimes injuriously to the service they were meant to promote.” With this in mind he had already begun to reduce the number of personnel, he said. “The expenses of diplomatic agency have been considerably diminished. The inspectors of internal revenue who were found to obstruct the accountability of the institution have been discontinued. Several agencies created by Executive authority ... have been suppressed ...” In this connection, he recommended that Congress should act to regulate executive authority, so as to restrain Presidents from creating new offices on their own initiative. But since Congress had authorized most of the offices, it alone could reduce them, and Jefferson promised his full cooperation if they wished to review them with that object in view. Clearly, he hoped that it would, for he expressed his fear that otherwise the expense of government would mount as high as the citizens could stand, and “after leaving to labor the smallest portion of earnings on which it can subsist, Government shall consume the whole residue of what it was instituted to guard.”

To the end that this should not happen, Jefferson proposed that “it would be prudent” for Congress “to multiply barriers” against spending by doing such things as “disallowing all applications of money varying from the appropriation in object or transcending it in amount; by reducing the undefined field of contingencies and thereby circumscribing discretionary powers over money, and by bringing back to a single department all accountabilities for money....”

Expenses Controlled

Much of this might have been so much eye wash, and in our day we might cynically expect that it would turn out that way, but there is much evidence that the Jeffersonians took seriously their expressed intentions to keep expenses down. In the Treasury, for example, the number of employees was not only reduced but also held down over the years. In 1801, when Gallatin took over, there were 1,285 employees. In 1826, the total stood at only 1,075. Moreover, one historian has noted that during the Jeffersonian years “New activities and new objects of expenditure were conspicuously absent.”

How expenses were held down is well illustrated from the attitudes,
activities, and reports of Albert Gallatin while he was Secretary of the Treasury. Shortly after Madison took office, Gallatin wrote to Jefferson, "I cannot, my dear sir, consent to act the part of a mere financier, to become a contriver of taxes, a dealer of loans, a seeker of resources for the purpose of supporting useless baubles, of increasing the number of idle and dissipated members of the community, of fattening contractors, pursers, and agents. . . ."11

Not that Jefferson would have suspected him of such a role, for Gallatin had applied himself diligently to economizing for him. He kept a careful watch over the requests for appropriations of all departments. The Navy especially drew his attention, because of what he suspected as lavish requests. In a letter to Jefferson in 1803, Gallatin criticized the Navy's request for $40,000 for contingencies, and reduced it to $10,000. Later that same year, he wrote: "I allow three hundred thousand dollars to the Secretary of the Navy for the equipment of the four additional frigates: he wants four hundred thousand dollars; but that is too much. . . ."12

4. The Constitution a Barrier to Public Expenditures. Although it has not been much noticed of late, the United States Constitution is an invaluable ally of those who would economize by keeping the expenses of government down. Nowadays, Federal funds are appropriated for all sorts of programs which are not authorized by any enumerated power in the Constitution. The Jeffersonians did not often have to appeal to this restraint, at least the Presidents didn't, for Congress was little disposed to adventures in spending either, during this era. There were a few occasions, however, when they had opportunities to show how the Constitution is a barrier.

Most of them had to do with appropriations for internal improvements, specifically, improved roads. It is not clear that the Jeffersonians opposed spending Federal money for internal improvements. Earlier in his career, Jefferson had questioned the advisability of it, but as President he was apparently brought around to Gallatin's view that the government should promote them. Jefferson came to the constitutional question in this way. By 1806, his programs to achieve economy had borne such fruit that he foresaw a continuing and mounting surplus in the Treasury. Rather than remove other taxes (mainly tariffs), he suggested to Congress that the surplus might be well spent for the "great purposes of the public education, roads, rivers, canals, and . . . other objects of public improvement. . . ." However, before these things could be done, he said, "I suppose an amendment to the Constitution, by
consent of the States, necessary, because the objects now recommended are not among those enumerated in the Constitution, and to which it permits the public moneys to be applied.”

No such amendment was forthcoming, and nothing further was done during Jefferson’s term in office.

**Madison Uses Veto Power**

James Madison, however, faced the question of appropriations for internal improvements head on. Just before he left office at the end of his second term he vetoed a bill which would have pledged funds for a general program of road, canal, and navigation improvements. His veto has special significance, for he had played a leading role in drawing up the Constitution and the first ten amendments to it. If anyone understood the intent of the Constitution he should have. Regarding the bill, he said, “I am constrained by the insuperable difficulty I feel in reconciling the bill with the Constitution of the United States to return it with that objection to the House of Representatives, in which it originated.”

He explained his reason for the veto this way: “The legislative powers vested in Congress are specified and enumerated in the eighth section of the first article of the Constitution, and it does not appear that the power proposed to be exercised by the bill is among the enumerated powers, or that it falls by any just interpretation within the power to make laws necessary and proper for carrying into execution those or other powers vested by the Constitution in the Government of the United States.”

**Monroe Sustains the Principle**

James Monroe drove the point home in his veto of a bill which would have authorized the collection of tolls on the Cumberland Road to keep the road in repair. Since some money from the sale of lands in Ohio had much earlier been applied to the building of the road, it was at least plausible that Congress might now provide for its preservation and repair. Plausible or not, Monroe argued that the exercise of such a power was unconstitutional. He reached that position by inviting Congress to look at the matter whole. “A power to establish turnpikes with gates and tolls,” he wrote, “and to enforce the collection of tolls by penalties, implies a power to adopt and execute a complete system of internal improvement.” But he denied that Congress had any such far-reaching authority. “If the power exist, it must be either because it has been specifically granted to the United States or that it is incidental to some power which has been specifically granted. If we examine the specific grants of power we do not find it among them, nor is it incidental to any power
which has been specifically granted."¹⁵

Monroe was not satisfied, however, with simply vetoing the measure. Later, he sent to Congress a lengthy paper in which he explored the question from many angles and buttressed with extensive argumentation his conclusions about the constitutional status of the matter. The crux of his argument is found in these words: "If then, the right to raise and appropriate the public money is not restricted to the expenditures under the other specific grants according to a strict construction of their powers respectively, is there no limitation to it? Have Congress a right to raise and appropriate money to any and to every purpose according to their will and pleasure? They certainly have not. The Government of the United States is a limited Government, instituted for great national purposes, and for those only. . . ."¹⁶

That is the keystone of the Jeffersonian case for economy in government: "The Government of the United States is a limited Government." Above all, it is limited, if it is limited, in its power to tax and to appropriate monies, for it is with these that it may extend its power and sway. The points at which they chose to draw the line may not impress us favorably today, but there should be no doubt that if the line is to be drawn, it must be drawn some-

where. They held that the Constitution fixed the line.

There were two more principles, however, which rounded out their guidelines for economy in government.

5. Balance the Budget. The Jeffersonians recognized that there would be occasions when revenue income would not meet extraordinary expenses. Jefferson approved going into debt to make the Louisiana Purchase. Madison accepted the necessity for borrowing for military expenses during the War of 1812. The Monroe administration had to borrow in the wake of the 1819 depression. A balanced budget, in the sense that the term is used today, was no fetish with them. Governments sometimes have to borrow, just as individuals do, and it is neither shameful nor a thing to be avoided at all costs.

Still, they took care that ordinarily income would equal or exceed expenses, and when it did, they considered that they had acquitted their offices well. Usually Jefferson was able to report a surplus in the Treasury at the end of an accounting period. Because of war, Madison was not able to manage so well. Monroe, on the other hand, was able to make mostly successful reports.

Here is a fairly typical report of the financial situation of the government, made by President Monroe
to Congress in late 1817: "In calling your attention to the internal concerns of our country the view which they exhibit is peculiarly gratifying. The payments which have been made into the Treasury show the very productive state of the public revenue. After satisfying the appropriations made by law for the support of the civil Government and of the military and naval establishment . . . , paying the interest of the public debt, and extinguishing more than eighteen millions of the principal, within the present year, it is estimated that a balance of more than $6,000,000 will remain in the Treasury on the 1st day of January applicable to the current serving of the ensuing year." The tone of his report suggests the pride he took in good stewardship.

6. Retire the Debt. In the early years of the Republic, in the heat of the debates over the funding of the national debt and assumption of certain of the state debts, there were apparently those who advanced the notion that "public debts are public blessings." Indeed, Alexander Hamilton, who was in the forefront of the fight for funding and assumption, believed that the view had been imputed to him. He denied holding any such belief. However, he did maintain that "the funding of the existing debt of the United States would render it a national blessing." He based this claim on the fact that the value of United States securities would and did rise when it became clear that the government was pledged to pay them off upon maturity. From that, he concluded that the actual capital in the country was increased by the debt.

Albert Gallatin went to considerable pains to refute the notion that the debt in any way augmented the capital of the country. In the first place, he pointed out, the war, which had been the occasion for the debt, had consumed an immense amount of potential capital. In the second place, he argued, funding did not increase the total capital of the country. True, those who held or purchased the bonds might experience an increase of capital when the bonds appreciated in value. But that was counterbalanced by the loss of potential capital by taxpayers who would have to pay the debt. More, it would be overbalanced by what would have to be raised by the payment of interest. Far from being enriched by debt, he declared, "every nation is enfeebled by a public debt. Spain, once the first power of Europe . . . , Holland, notwithstanding her immense commerce, still feel the effects of the debts they began to contract two centuries ago, and their present political weakness stands as a monument of the unavoidable consequences of that fatal system. Yet what are those instances when com-
pared with that of France, where the public debt ... has at last overwhelmed government itself.\textsuperscript{20}

Gallatin was arguing, of course, that government indebtedness should be retired as expeditiously as possible, and avoided, along with war which was the most common occasion for it, whenever practicable. Thus, the Jeffersonians devoted themselves with a right good will to making regular payments on the debt and usually looked forward to its retirement at the earliest possible date. Although the debt was not finally extinguished until the time when Jackson was President, the Jeffersonians pointed the direction and prepared the way.

These, then, were the rules, principles, and guidelines of the Jeffersonians for economy in government: Frugal Management of Public Affairs, Reduction of Taxes, Reduction of Expenditures, Observance of the Constitutional Barrier to Expenses, Balance the Budget, and Retire the Debt. Undoubtedly, it would require great imagination and tenacity to apply them in our time, but they do provide the guidelines for economy in government.

\textbf{FOOTNOTES—}

\textsuperscript{1}Some historians include the administration of John Quincy Adams with that of the Jeffersonians. But his thrust was in a different direction, and he belongs with the Whigs, though the party had not been organized when he was elected President.

\textsuperscript{2}James D. Richardson, ed., \textit{A Compilation of the Messages and Papers of the Presidents}, vol. I (New York: Bureau of National Literature, 1897), p. 311.


\textsuperscript{5}Richardson, \textit{op. cit.}, p. 316.

\textsuperscript{6}\textit{Ibid.}, p. 367.


\textsuperscript{8}Richardson, \textit{op. cit.}, pp. 316–17.

\textsuperscript{9}\textit{Ibid.}, p. 317.

\textsuperscript{10}White, \textit{op. cit.}, p. 25.

\textsuperscript{11}Ferguson, \textit{op. cit.}, pp. 325–26.

\textsuperscript{12}White, \textit{op. cit.}, pp. 142–43.

\textsuperscript{13}Richardson, \textit{op. cit.}, pp. 397–98.

\textsuperscript{14}\textit{Ibid.}, vol. II, p. 569.

\textsuperscript{15}\textit{Ibid.}, pp. 711–12.

\textsuperscript{16}\textit{Ibid.}, p. 736.

\textsuperscript{17}\textit{Ibid.}, p. 584.


\textsuperscript{19}Ferguson, \textit{op. cit.}, pp. 34–35.

\textsuperscript{20}\textit{Ibid.}, p. 40.

\textbf{Clarence Manion}

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.
Controlling Inflation

INFLATION has become such a chronic problem that many people now believe no one knows what causes it or how to eliminate it. In fact, the cause of inflation has been known for centuries, and it is very simple to eliminate. Inflation is a persistent increase in the prices of the products we buy and is always the result of the money supply increasing more rapidly than the output of these products. With a rapid increase in the money supply, inflation is inevitable. Without a rapid increase in the money supply, inflation is impossible. The federal government can eliminate inflation simply by bringing monetary growth under control.

But if this is true, why has not the government eliminated inflation long ago? Politicians have consistently told us that inflation is our major economic problem and have unveiled a series of plans for solving this problem. These plans all have one thing in common. They have not worked. Inflation has gotten worse, not better. We are left with the suspicion that the government has not been serious in its fight against inflation.

Additional support for this suspicion comes from the fact that creating more money, and therefore causing inflation, is a convenient way for the government to obtain more of the wealth that you and I produce. The way this wealth transfer occurs is in all important respects identical to the way an individual in a position to personally increase the money supply could increase his wealth at the expense of others.

Dwight R. Lee

Controlling Government by

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An Easy Way to Make Money

Consider the situation in which you have the legal right to print money and put it into circulation by spending it. Every evening you can start up your printing press and run off stacks of 20s, 50s, 100s, and 1,000s for the next day's purchases. The desire to maintain productive employment will vanish as your job provides only a pittance of what you can, in a few moments, make at home. Also, you will find that the demanding task of spending your money is a full-time job. Overnight you will have become enormously wealthy. But notice that the total wealth produced in the economy is not any larger than it was before. In fact it is slightly less since, having quit your job, you are producing less than before. So your increased wealth means a reduction in the wealth of others. The additional goods and services you are buying are not available for others to buy.

But even though you are making others worse off by creating money and spending it, you need not worry about being blamed for this. To the contrary, you will surely be sought after and held in high esteem as one who is contributing to the wealth of the community. Your large expenditures will be a very visible source of income for those selling you yachts, resort homes, jet planes, and lavish vacations. Those who are on the receiving end of your purchases will be encouraging you to increase, not reduce, the amount of money you print and spend. And with these people now having additional money, they will be able to spend more, thus providing more income for others. Because of you, everyone will have more money.

But it is because of this additional money that others are being made worse off. With the additional money being spent, but with no more products to spend it on, prices will increase. Even with more money the inflation will reduce the amount others can buy. Since you are buying more, others have to be buying less. But even though you are causing the inflation you can be confident that your victims will place the blame elsewhere. People will blame higher prices on those who are selling the higher priced products. It is ironic that it is those who are helping to hold down increasing prices by continuing to make products available who are most likely to be blamed for inflation.

Adding to the irony is that many of those you are impoverishing with inflation will urge you to increase your purchases; particularly your purchases from them. Your ability to increase the money in circulation will be seen as the way to compensate for higher prices. And you will probably be sympathetic with this "solution," having noticed how much less a couple of billion dollars buys
now in comparison with how much it would buy when you first started printing money. What could be more appropriate than increasing the amount of money you print each evening?

**Can the Temptation be Resisted?**

How many of us, finding ourselves with the ability to legally increase the money supply, would be able to restrain our desire for more? The opportunity to make ourselves and our family wealthy, while being honored as a great benefactor of the community, would be a difficult one for most of us to resist. And if you or I could not resist such a temptation, can we expect more restraint from those in government? The answer is surely no. The only difference between you and me as individuals, and government, is that the federal government really is in a position to acquire wealth by expanding the money supply. It is clear that this is an opportunity the government has not been able to resist. Those who benefit from a growing government sector have pushed consistently and effectively for public policies that generate inflation and reduce our wealth. The problem is not that the government does not know how to eliminate inflation. The problem is that the government has not wanted to eliminate inflation.

We are currently witnessing an attempt to control the inflationary policies that have become the hallmark of Washington over the last several decades. This heroic effort deserves and needs our unflagging support. It is an effort which will be stoutly resisted by one politically influential interest group after another, each hoping to benefit from more inflationary government spending. They will argue that inflation requires that the federal government increase their price support program, increase their agency's budget, increase aid to their city, increase welfare payments, etc. Each group will argue that the government spending they favor will provide benefits for all. In fact each expansion in government spending will add to inflationary pressure, transfer wealth to a few, and reduce the economy's capacity to generate more wealth for us all.

But the natural tendency of government is to give in to the special interest groups. In fact the special interests are hard to distinguish from government interest. Those in government have found that the safest way to expand and perpetuate their power, control, and wealth is to provide concentrated benefits to politically organized groups while spreading most of the cost over us all with inflation. The only way to stop this destructive process is to restrain government.

The hope has been to vote for politicians who are sympathetic to the
need for controlling government. In other words, vote for a government that will restrain itself. But as important as it is to elect responsible representatives at all levels of government, we cannot depend on this alone to do the job. Our elected representatives answer to the voters only periodically, but they are under constant pressure from entrenched special interests pushing for more government spending. When appealing for votes almost all politicians argue for limited government, but how many remain true to their campaign promises once the election is over? And we have almost no control over those in the bureaucracy, and the special interest groups with which the bureaucrats identify.

**Restraining Government**

The time has long since arrived for us to re-establish effective constitutional limits on the scope of government activity. Our founding fathers knew that government could not be trusted to limit itself, and our Constitution is testimony to their profound insight. Unfortunately, the limits the Constitution imposed on government for over 100 years have, in recent decades, been severely eroded by judicial interpretations guided by the false notion that wide-ranging governmental discretion is a force for social good. Few are naive enough to believe that an individual, given the ability to confiscate the wealth of others, would be blind to personal advantage and trustworthy to use this ability to promote only the public interest. Yet the “sophisticated” view of many of our intellectual elite is that the collection of individuals who comprise government can be trusted with enormous, and unrestrained, power to promote the public interest.

Despite the wishful thinking that often passes as scholarship, there is a desperate need for the enforcement of clear constitutional limits on the federal government’s ability to create and spend money. Without such limits we can be sure that an undisciplined federal government will continue inflating the currency and expanding its wealth at the further expense of the productive sector of the economy. We may want to debate the form the restraint should take; a return to the gold standard, a balanced budget amendment, a limit on government spending, or some combination of these and other restraints. But only the most naive would argue that we can continue to trust the government to restrain itself.
REINDUSTRIALIZATION: The Capital Question

REINDUSTRIALIZATION. The term is imposing. It con­jures up the image of a devastated economy and of a rebuilding effort of massive proportions. Indeed, the effort has been likened to that of the Marshall Plan which helped rebuild Europe after World War II. It is also a term which is viewed with suspicion in some circles because of the ease with which politicians learned to use the term in an election year. Yet, the sudden popularity of the reindustrialization concept should be welcomed, for it indicates a new consensus as to the seriousness of the problems confronting the American economy—a consensus that cuts across ideological and party lines.

The obvious catalyst for this movement has been the wave of plant closings in the steel and auto industries which have cost tens of thousands of workers their jobs. But these two industries are only the most visible examples of a general decline in the strength of the American economy. The foreign penetration of the American market and the decline in America’s share of world trade are not due to any special attributes enjoyed by our European and Japanese competitors but to our own poor performance and mistaken policies.

The key element in any modern economy is capital investment. It is by this investment that workers are provided with more and better tools with which to work. This is the key to productivity. Productivity measures the amount of output produced by each worker for some time period. It was the great accomplishment of industrialization, and is the goal of reindustrialization, to boost this output.

Over the last two decades, the U.S. has lagged behind its foreign rivals in this effort. The myth that cheap

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foreign labor is the cause of our competitive lag is just that, a myth, at least as far as our European and Japanese rivals are concerned. Wage rates in West Germany and Japan are on a par with U.S. rates. It is not that each worker overseas is paid less per hour, but that each worker has been increasing what he produces each hour that has eroded the American position. Our competitors have been improving their productivity at a faster rate than we have because they have been consistently outspending us on capital investment.

**U.S. Lags Behind**

In the period 1960–1978, the U.S. spent 13.41 per cent of its Gross National Product (GNP) on new tools. This was half the percentage spent by Japan and significantly lower than the percentages spent by West Germany, Canada and France. Even England, long considered the “sick man” of Europe, invested more of its resources on tools than did the U.S.

Table 1 shows the parallel between investment and productivity.

Beneath these averages lies a most ominous trend. American productivity gains are slowing. In the period 1968–73 annual gains were only 1.9 per cent. These gains dropped to only 0.7 per cent per year between 1974–79. For six quarters starting with the fourth quarter of 1978, productivity actually declined at a $-1.8$ per cent rate.

There are many factors that have contributed to this recent poor record. The most central is the low rate of capital formation. An economy must generate capital before it can invest it. Personal savings, depreciation, and that portion of business profits retained for internal use are what combine to form the pool of capital from which investment must draw.

**Table 1: 1960–1978 National Averages**

<table>
<thead>
<tr>
<th></th>
<th>Investment (% GNP)</th>
<th>Productivity Gain (Increase in output per hour)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>26.44</td>
<td>8.8</td>
</tr>
<tr>
<td>West Germany</td>
<td>18.43</td>
<td>5.4</td>
</tr>
<tr>
<td>Canada</td>
<td>17.45</td>
<td>4.5</td>
</tr>
<tr>
<td>France</td>
<td>16.85</td>
<td>5.7</td>
</tr>
<tr>
<td>England</td>
<td>14.69</td>
<td>3.3</td>
</tr>
<tr>
<td>United States</td>
<td>13.41</td>
<td>2.6</td>
</tr>
</tbody>
</table>

Source: American Iron and Steel Institute
All of these sources of funds have diminished in recent years relative to the needs of the economy.

**Savings Discouraged**

Throughout the 1970s, personal savings in the United States, as a percentage of disposable (after tax) income has been less than in the industrial states of Europe and Japan. Over this period only about 6 per cent of personal disposable income in the U.S. was saved as opposed to 20 per cent in Japan and 14 per cent in West Germany. The acceleration of inflation in 1979–80 further weakened savings dropping the rate to a mere 3.4 per cent. Inflation undermines both the ability and the incentive to save. As inflation increased faster than the average person’s income, many people cut back on savings in order to maintain their level of spending on consumer goods. Also, as inflation rages, the value of any idle funds, such as bank accounts, insurance and pension programs decline in real value. As the prices of things go up, the value of money goes down so it becomes smart to begin moving out of money and into goods. But what is smart for individuals in such a situation is harmful to the over-all economy. Money that flows into gold or works of art as a hedge against inflation is money that is not available for productive investments.

Tax policy has also hurt savings in a variety of ways. Inflation pushes people into higher tax brackets because of our progressive tax system. As the percentage of income going to taxes increases, the percentage left for disposable income diminishes. Taxes on the income from savings and investment are higher than on normal income, and the U.S. continues to be the only major industrial country to tax capital gains. The recent reduction in the capital gains tax rate had a profound stimulative effect on mobilizing money in the equity market and there is every reason to believe that further reductions or the outright abolition of the tax would have additional beneficial effects.

**Business Depreciation Allowances Inadequate**

The other major sources of capital, business profits and depreciation have also become increasingly inadequate. As recently as 1965 business firms were able to provide 90 per cent of the funds they needed from their own internal sources. But by 1979 this internally generated capital provided only 52 per cent of their requirements. This has placed increased pressure on the external capital pool generated by personal savings at the very time that saving has declined.

Depreciation provides the largest part of these internal funds. The shorter the number of years re-
quired to recover the capital invested in plant and equipment, the easier it is to finance new and improved replacement equipment. Unfortunately, it takes twice as long, under U.S. tax laws, to write off an investment as it does in Japan and two to three years longer than in France or West Germany. This disadvantage is further magnified by the effects of inflation. Clearly, funds generated based on past costs are not going to be adequate to pay current or future costs.

There is widespread interest in liberalizing depreciation. Plans for basing depreciation on replacement costs rather than original cost, and adopting a 10-5-3 schedule for the number of years plant, equipment and vehicles, respectively, can be written off have attracted the most support from business. In the past, when depreciation was liberalized, the result has been as expected: the amount of capital investment increased.

**Declining Profits**

The other source of internal funds is earnings retained from profits.

Business profits as a share of GNP has declined from 13.3 per cent in the 1950s to 9.0 per cent in the 1970s. American business thus threatens to move into a vicious downward spiral. Lower profits generate less capital which slows productivity which loses markets to competitors which means a further lowering of profits.

Currently, the Federal corporate profits tax takes 46 per cent of what profits are earned. Money taken by this tax is, of course, not available for investment. William E. Simon, when he was Secretary of the Treasury, proposed reductions in the corporate profits tax and advocated eventual elimination of the tax as the easiest way to boost capital formation. While abolition of the tax is highly unlikely on political grounds, it is not beyond reason to hope that the tax can be reformed so that all or part of the profits that a firm would plough back into modernization or expansion of its operations could be made exempt from taxation.

**Impact of Inflation**

As if an inadequate capital pool were not enough of a problem, other government policies have had the effect of reducing the portion of that capital pool which is actually available for productive use. The Federal budget was in deficit every year of the 1970s. This deficit has to be financed by borrowing from the capital pool. Robert Dunn of George Washington University has appropriately called this "dis-saving." Since the principal cause of increased Federal spending over the last decade has been income transfer programs, deficit financing has
become a direct conversion of savings into spending. During the 1970s some $302.6 billion was so diverted from private domestic investors, according to the Federal Reserve Bank of St. Louis.

It might surprise many Americans to realize that our foreign competitors do not reside in countries that run deficits as large or as persistently as we do. Table 2 shows the relationship between government spending, deficits and economic growth.

Surplus budgets have the opposite effect of deficit budgets. Instead of absorbing capital, surplus budgets pump money into the pool of capital. By paying off past debts, funds are released from a non-productive use and made available for productive uses.

Increasing the pool of capital is the fundamental prerequisite for the reindustrialization effort. However, capital, once mobilized, must be free to flow to the uses which are most productive. This is not always allowed to happen.

**Misallocation of Resources**

Governments at both the national and local levels have mandated a wide range of projects aimed at improving the environment and the safety of the workplace. These may be worthy goals, but during the 1970s inadequate attention was paid to calculating the full cost of such projects. Business had to divert billions of dollars of capital away from plans for modernization and expansion in order to finance pollution and safety equipment. Whatever the merits of these programs, they are not productive in the normal business sense of the term. They do not improve the competitiveness of American industry relative to its rivals.

If the government is going to

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**Table 2: 1965–74 National Averages**

<table>
<thead>
<tr>
<th>Government Spending (%) GNP*</th>
<th>Budget (+ surplus deficit as % GNP)</th>
<th>Growth Rate</th>
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</thead>
<tbody>
<tr>
<td>Japan</td>
<td>10.4</td>
<td>+1.39</td>
</tr>
<tr>
<td>France</td>
<td>14.0</td>
<td>+0.34</td>
</tr>
<tr>
<td>Canada</td>
<td>16.2</td>
<td>+0.78</td>
</tr>
<tr>
<td>West Germany</td>
<td>20.4</td>
<td>-0.30</td>
</tr>
<tr>
<td>United States</td>
<td>23.2</td>
<td>-0.71</td>
</tr>
<tr>
<td>England</td>
<td>20.7</td>
<td>-1.19</td>
</tr>
</tbody>
</table>

*Source: Hudson Research Europe Ltd. from OECD data. *1961–71 average.*
mandate that scarce capital be invested in non-productive uses, it should recognize its responsibility to follow policies that will generate sufficient new capital to support such endeavors.

An example of the dimensions of the problem, in regard to both capital availability and use, is the troubled steel industry. The average age of American steel producing facilities was 17.5 years in 1979. This means that the bulk of the American industry has not been able to incorporate the technological advances of the last two decades. During the 1970s, the industry invested $2.9 billion per year. To reindustrialize, the American Iron and Steel Institute estimates that the industry will have to invest $7 billion annually in the 1980s. Of this money, 11.4 per cent will go to meet environmental and health standards. Given current tax laws and a moderate rate of inflation (5 per cent) the AISI estimates that the industry will fall short of its goal by about $25 billion over the decade (in constant 1978 dollars). Higher inflation or higher taxes will cause this shortfall to be even larger.

Impact of Tax Reforms

Six times over the last twenty years (1962, 1964, 1967, 1971, 1975, 1978) there have been minor changes in the tax laws that have been beneficial to capital. After each one, investment increased and the economy enjoyed real economic growth. But three times the “reforms” went the other way (1966, 1969, 1976) increasing the tax burden on capital and slowing its formation and use. If the country is serious about revitalizing the economy, it will have to consistently reduce the obstacles to investment contained in our tax system.

There is a push to do more than this by having the government directly intervene to allocate resources to specific industries. This may be useful in certain cases where an industry is in a transition period and the process needs to be speeded up so that the industry can become competitive again before it loses too large a share of its market. However, such programs must be approached carefully. Whenever government becomes directly involved in an issue, it politicizes that issue. Direct aid programs attract special interests. We do not want an American reindustrialization program to become another exercise in “lemon socialism.” Lemon socialism is when resources and capital are poured into lost causes in order to please politically powerful groups. Such practices only create industrial welfare cases which are forever dependent and a drain on the economy. Reindustrialization is meant to strengthen the economy and it can only do this if resources are allo-
cated efficiently to those projects that have the best chance of success.

**Business and Labor**

**Bear Share of Blame**

Of course, government policies cannot be blamed for everything wrong with the U.S. economy. Business and labor must bear their share of the responsibility as well. The steel industry in the U.S. waited too long to adopt the basic oxygen furnace while there was no such hesitation on the part of the Japanese. The auto industry failed to realize the long-run effects of high-priced oil on the market for large cars. Corporate management has gradually lost much of its entrepreneurial aggressiveness. The corporation, that genius of American business, the institution that allowed earlier generations to mobilize capital, penetrate markets, develop mass-production technology and engage in long-run planning has proven as vulnerable to bureaucracy and its stagnation effects as every other institution.

Labor, for its part, has pushed for wage increases that have outstripped productivity, thus adding real costs to American products. These costs have to be reflected in higher prices. Labor has also resisted automation, one of the most promising ways to boost output. Labor fears the loss of jobs to the machine, but has overlooked the greater loss of jobs that results when plants close because they can no longer compete.

Historically, increased capital investment has increased employment. This is for the very logical reason that an expanding economy needs more workers than a contracting economy. That is why mass unemployment is associated with depressions and not with periods of prosperity. And since improved machinery is the only way to increase productivity it is also the only sound way to increase a worker's pay.

There may be a short-term displacement of workers from automation, and every effort should be made to provide retraining for any worker so affected. This is the practice in Japan where the goal is to eliminate all unskilled labor. Japanese firms are willing to take the time to retrain their people, and with the benefits of advanced technology they can afford to do so as well. The United States should do no less.

**Prospects for Recovery**

The United States economy has great residual strength. The U.S., though facing a serious energy problem, is far less dependent on OPEC oil than is Europe or Japan. A serious program to develop alternate energy sources, which should be a part of any reindustrialization scheme, gives the U.S. a realistic chance of solving its problems and
opening a competitive advantage on its rivals who cannot do the same.

American technology is still the world's leader, even if it does not enjoy the complete dominance it once did. Nuclear and solar technology, aerospace and the revolutionary world of microelectronics are only the vanguard of the American scientific capability. Behind this stands a highly educated population and an educational system which spends billions of dollars annually developing the "human capital" of knowledge.

The framework thus still exists for reindustrializing the country as, indeed, it was industrialized in the first place. What is needed is a more enlightened allocation of resources to support the effort and a determination to see it through.

The Growth Objective

ECONOMIC GROWTH is an objective with which few people could quarrel. It means more useful things to serve the needs and desires of the people. It is what men have always striven for in their individual lives and what economists have always pointed to as the greatest hope for material progress in the future. It is an idea, an aspiration, and a reality as old as human history. Despite the immense obstacles placed in its way by ignorance, superstition, physical violence, and political interference, it has been interrupted only temporarily, because it is a product of human nature and normal human behavior.

In a free society protected against violence and fraud, economic growth is an automatic process. It takes place as a result of the desire of individuals to better the material condition of themselves and their families. In this endeavor, people save, invest, devise new and better tools, invent new products and new processes, and employ other people in order to operate more efficiently and on a larger scale. In this respect, individual proprietors and corporations behave in essentially the same way. Under the spur of competition and the profit motive, they strive constantly to produce more and better products at a lower cost. The result is economic growth.

From The Guaranty Survey, March 1959
Edward C. Facey

All men on earth are ceaselessly striving to substitute more suitable conditions, as they view them, for the ones currently confronting them. They trade means for ends because they value the ends more than they do the means.

A land developer expends means, hundreds of thousands of dollars, acquires a portion of land and constructs a department store or an apartment block. He has decided to do this because he anticipates that the proceeds from the store or apartments will be greater than the sums he expends so as to make the chosen venture worth his while. In the process the real estate developer must bring forward apartments or store products that his fellow men will appreciate and pay money for; otherwise, "all is lost." And all across society other persons are, in turn, determining what is the best use (end) now for their properties (which are their means to happiness) so that the difference between the value of the ends they seek and the means they employ will be the greatest and will advance them the farthest on the road to happiness.

Enterprisers—and we are all enterprisers in determining where to place our labor and land—are careful to avoid loss. An enterpriser using his land for a bookstore, when a grocery store might have done better, may suffer the loss of his property by bankruptcy. However, when he anticipates consumer preference well and consumers eagerly respond to his offerings, he begins to expand his business. He may have orders for his products from far and near. He bids for laborers to work for him. He buys equipment. Other enterprisers, noting his outstanding financial success, are enticed to buy lands to set up enterprises similar to his. Still more products of this nature are brought to the public and the price of the product is reduced. Soon there may no longer be enough return to warrant still further expansion or the rearing of new business structures for this business; capital, land and labor will no longer be withdrawn from other possible uses.

In the market the land and property owner in business to serve must
"love his neighbor as himself." If he does not serve his neighbor he, him­self, cannot succeed.

In a free market society the land will be assigned to those ends high­est in the esteem of the owners in relation to their costs. If a land is in residential use then an owner might value that use more than the $40,000 he expends to get possession of the property. If another person should offer him $50,000 for the property, planning to make another use, then the owner might decide to take the $50,000 and move somewhere else, his place being taken by someone who values the property more than $50,000. All involved prosper.

A Vital City

A city can be seen to expand in this manner. A former home may be converted into a tenement building or a storehouse. Jane Jacobs in her book The Death and Life of Great American Cities acknowledges the wondrous diversity in the variation of uses in a vital city. She notes buildings in various states of age with old buildings being acquired for businesses just starting out or for businesses with low clienteles, such as bookstores, bars, foreign restaur­ants. On the other hand, she sees other more successful businesses able to expand into newer structures (chain stores, chain restaurants) and able to afford the higher rents that go with these new buildings. In this way the customers of the city street get a variety of goods to choose from at stores serving many different tastes and preferences.

To plan the enterprise of a com­munity is beyond the knowledge of any one person. How each part fits in with the other parts takes wis­dom and planning, feasibility stud­ies and surveys, and, perhaps, a call for Divine guidance as each individ­ual enterpriser sets down his struc­ture on a portion of one side of a street. The business may succeed and it may not. If it does, the profit seeker will cultivate it with care and it will become an established and valuable addition to the community. If it does not, then the property may have to be redirected by someone to a more satisfactory use.

Diversity of Use

In the market there will be sepa­ration as well as diversity of use. Gasoline stations will not locate in the interior of a residential section because there is little business for them there. They will be found, instead, at strategic locations con­fronting major thoroughfares. Heavy industries that emit sounds or odors will not seek sites near residences. Junk yards will be found in remote or low valued sites; they cannot compete in successful city districts notes Jane Jacobs:

Deaden­ing and space taking low eco­nomic uses like junk yards and used-car
lots grow like pigweed in spots which are already uncultivated and unsuccessful. They sprout in places that have low concentrations of foot traffic, too little surrounding magnetism and no high-value competition for space.¹

These are some of the evolutions which may be seen in a free society where persons’ rights are respected and where the persons are free ever to strive for more well-being and an improved state in life. Now, let us see what happens when the politicians intervene.

Eminent Domain and Zoning

When I talk of the politicians I refer to people who use the political means of acquiring wealth. The political means, according to the sociologist Franz Oppenheimer in his book *The State* would be the acquiring of another man’s property by expropriation. The most easily noted instance of this is taxation. Another instance of it is eminent domain.

Objectors might say that, while with eminent domain the person’s property is taken for public use, he is provided with just compensation. I would quarrel with that in that first, the government, not the original owner, decides the compensation and second, the government commits a new aggression when it confiscates the funds to make “retribution” for the previous invasion. And, thus, another compensation should be made to requite the second fellow’s loss . . . and, thus, a third would be confiscated and so on ad infinitum.

Still, eminent domain is a rather costly business. Taxation is not destined to bring hosannas. Political planners using urban renewal with its condemnations and resales have found this very expensive. The beauty of zoning, from the political planners’ point of view, is to move to their ends without the cost of eminent domain and its “just” compensation. Without zoning the political planners are severely handicapped. This is glimpsed by Linowes and Allensworth in *The Politics of Land Use*. They write:

... zoning is planning—that is, it represents the reality of planning. Communities do not really plan at all; they just zone. . . The plan . . . is the outercover; zoning represents the reality of the situation. . .

Zoning determines the basic pattern of development in the community, and subdivision controls must work within the general frame established by zoning. . . Once the zoning ordinance is adopted and applied, the character of community development is set and cannot be changed without a change of zoning. . .

Zoning will have to be tapped by anyone interested in molding land-use patterns, no matter what his objectives might be.²

For those persons who think that men still have their property rights under zoning, let me cite an opinion by Justice Stephen J. Field in the Munn vs. Illinois case:
The same liberal construction which is required for the protection of life and liberty in all particulars in which life and liberty are of any value, should be applied to the protection of private property. If the legislature of a State, under pretense of providing for the public good, or for any reason, can determine, against the consent of the owner, the uses to which private property shall be devoted, or the prices which the owner shall receive for its uses, it can deprive him of the property as completely as by a special act for its confiscation or destruction. If, for instance, the owner is prohibited from using his building for the purposes for which it was designed (and, one might add, for which the owner would like it designed) it is of little consequence that he is permitted to retain the title and possession.

Social Effects of Zoning

The results of zoning in practice for the American market have been striking. The zoners, for example, with their love for single family dwellings and homogeneous use districts have spread the population out into the countryside. This has led to more road travel for the working man and his wife just to get through the day. The government has aided this with tax-supported highways (which has added unnecessarily to the pollutant emissions coming from automobiles). Two cases are cited by John C. Sparks in his article “Zoned or Owned?”:

... zoning ordinances which prohibited buildings of more than thirteen stories in ... Los Angeles ... (and) Washington ... (Robert A.) Futterman contends that as a result of such restriction it is impossible to develop sufficient downtown work population density to support a rapid transit system. Hence, the automobile overtaxes the highway and street facilities.

Without the markets many businesses would not move into the thinly settled districts even if they were allowed. These districts do not have density of use, they do not have shoppers, sight-seers, browsers, people walking to and from work, people coming cross district to specialty shops. And so, instead, mothers get into their cars and drive long distances to shopping centers. Teenagers get into their cars to go where there is excitement. Fathers get into their cars to go to work. All find it necessary to leave their home territories and enter “foreign” lands.

In our history, according to Raymond Buker, “the cities, towns and rural hamlets of our nation have developed as integrated neighborhoods, where people lived close to the stores or factories where they worked. These have been the thriving, happy communities where people visited at the corner groceries and the village stores. They gathered with their neighbors to enjoy good times together and to help each other out in time of trouble. Also these people did a good job of policing themselves because it wasn’t
necessary for them and their young people to travel far outside their own neighborhood."

The zoners have induced many areas to become monotonous with their single use requirement, and with their same lot size, same setbacks, same side, front and back yard requirements. Linowes and Allenworth write:

"Zoning seems to be especially well designed to assure the misuse of land; it promotes sameness and a routine monotony unequalled in the history of man . . . the endless rows of look-alike houses dotting the outlying metropolitan landscape . . . the absence of variety does not permit a proper blending of development styles into the environment.

One might argue that this pattern is dictated by builders who by constructing the same house time and again or by using a few standard models can build at economies of scale . . . So long as zoning requires one house per lot and permits nothing else the building industry will work for the greatest uniformity possible, saving on construction costs so as to be able to charge lower prices and thereby attract the broadest possible segment of the home-buying market. Thus builders and developers cannot be held entirely responsible for the condition of our suburban areas. Their actions are strictly regulated and constrained by local government, especially by zoning."

**Political Corruption?**

When the political planners come to influence where commercial sites and housing projects are to be allowed they become subject to pressures for placing them here instead of there. With the changing forces of the market what was useful for residential in one time period becomes more useful as commercial in the next. Landowners ply the zoning commission with arguments hoping that the members of the commission will allow them to move from a less valuable use to a more valuable one. Will they be allowed? They may or they may not. Some will be glad and some will be sad.

The establishment of more governmental bureaus, more regulatory bodies at a time when the newspapers tell us time after time of the opportunity for and the use of the political positions as means to political privilege and favor is most discouraging. "Reports persist," says the National Taxpayer Union’s *Dollars & Sense* (September, 1972) of campaign contributions being “suggested” to businessmen otherwise they will face enforcement of the environment protection administration’s provisions. And what of zoning? Might not a few favors delivered to members of the commission studying a special use permit, or discussing a use variance, be helpful? Evidence shows they have and indicates they will continue to be helpful.

Bernard Siegan was told by an investor in real estate that a more appropriate title for his book, *Land*
Use Without Zoning, would have been Goodbye Graft. Siegan cites the often fine distinctions between zoning districts and the possibility of dressing up "most any decision on the basis of some 'pure' planning principles." He says:

It is most distressing to speculate how many major developments have come about only as the result of the payment of graft or fees to certain parties. . . .

Dennis O'Harrow known to many as "Mr. Planner," now deceased and formerly executive director of the American Society of Planning Officials, once said at an annual convention of the society that in too many instances zoning has failed because it has become a "marketable commodity." He quoted a planning official who assured him that "you can buy with money any kind of zoning you want in half the communities of the United States." There is of course, no way of investigating or validating the allegation, but that it was cited by one of the most knowledgeable persons in the country on zoning makes it difficult to dismiss. 7

Do not mistake me! I am not hereby entering a plea for stricter enforcement of the codes plus a bureau to be set up to supervise and prevent tribute taking by the officials. I agree with Siegan that tougher enforcement would be worse and that at least with the graft it is possible for some enterprises to make their way through the regulations rather than be stopped entirely. The answer to this problem is repeal of the zoning ordinances!

Other Consequences of Zoning: Locking Out the Competition

Siegan refers to other problems with zoning. The planners find it necessary to make suggestions in the private development or their (the planners') size requirement may call for more costs than otherwise would be the case. The zoners' prevention of multifamily units will put pressures on rents and lead to a shortage of housing. This can mean poor quality service on the part of those multifamily unit owners in the permissible districts, who do not have to worry about competition from landlords in nearby districts because the latter have been zoned out.

The same can be said of shopping centers. Their competitors are zoned out so as to make the shopping center feasible. Siegan is aware of this. He cites the anti-monopoly tradition in the United States, then compares it with the practice of zoning which promotes monopoly. A reviewer of Siegan's book has written:

If several real estate developers agreed together to restrict the number of apartment buildings in a community so as to give themselves a monopoly advantage, the public would be scandalized. But if these same developers were to go to the local zoning board and suggest that good urban planning, protection of property values, (whose? theirs?) and preservation of the existing pattern of community life called for such restrictions, then this
would be civic responsibility of a high order and applauded by all right-thinking people. This is because we persist in thinking that monopoly is bad but zoning is good. Tunnel vision like this keeps us from seeing zoning for what it is—an agency of monopoly and government granted private advantage.8

Summary and Conclusion

In this time of crisis we need to throw off the costly restraints that government is putting on the productive forces of America. Free men working in the free market can bring the goods forward where they are wanted, when they are wanted and to the extent they are wanted. Politicians are not qualified to make decisions on land development because they are subject to forces other than economic. The political planners are buffeted by constituents, by homeowners and land developers, by political persons and other reformers outside the district where the developing is to be done. These planners will find it necessary to compromise amidst these pressures and, when they do, they will really satisfy no one.

The most qualified persons to develop the land toward socially desirable uses are the owners. Sure they make mistakes, but, unlike the politician, they have investments at stake so they will be careful to avoid mistakes. And, if they err, they will use the experience to do better next time. With opportunity open to them to fulfill demands wherever such demands may appear, they will provide an ever greater array of goods and services that will give us a land of plenty. And, in the process, we will all be free.

But we need planning, say the zoners. Indeed we do. Dr. Ludwig von Mises put the issue most clearly in these words: "The alternative is not plan or no plan. The question is whose planning? Should each member of society plan for himself, or should a benevolent government alone plan for them all? The issue is . . . autonomous action of each individual versus the exclusive action of the government. It is freedom versus government omnipotence."9

—FOOTNOTES—

394 U.S., 113 (1877).
6The Politics of Land Use, pp. 74, 75.
The first assignment I had from Fortune magazine in the mid-Nineteen Thirties was to do a story on the "nine old men" of the Supreme Court. The question of human rights versus property rights was then on everyone's mind. If you were to suggest that the right to own property was pre-eminently a human right, you were obviously influenced by "reactionary" thinkers such as Irving Babbitt or Paul Elmer More. You were also, in Franklin D. Roosevelt's phraseology, a "horse and buggy" thinker.

The judicial heroes of the day in the early Nineteen Thirties were the great "dissenters," Holmes and Brandeis. Sometimes Harlan Stone went with them. The old stalwarts—Van Devanter, McReynolds, Butler and Sutherland—were considered anachronisms. When I visited Professor Felix Frankfurter at Harvard to talk about the court, he said sarcastically of Sutherland that you couldn't get blood from a turnip.

Now, forty-five years later, Bernard H. Siegan, who teaches law and economics at the University of San Diego School of Law, comes along with a book, Economic Liberties and the Constitution (University of Chicago Press, 5801 S. Ellis Ave., Chicago, Illinois 60637, 383 pp., $19.50), that reverses the dictum of much "liberal" history. The old "reactionaries" turn out to be the true liberals. McReynolds in particular emerges as something more than the crusty "aginner" of the New Deal imagination.

What Siegan has done is to deal with Supreme Court history in the light of what the Founding Fathers intended. They believed in Natural Rights philosophy; they read Coke and Blackstone, and were cognizant of the claims of "natural law" theorists that "positive," or enacted, law should go along with fundamentals that were ingrained in the universe and the nature of man.

Economic liberties were protected
in the Constitution, with a guarantee that property could not be seized without just compensation. And, in accordance with the Common Law and traditions going back to Magna Carta, the deprivation of "life, liberty and property without due process of law" made judicial review an absolute necessity in a check-and-balance system. People believed in the "law of the land," and felt safe from ex post facto rulings that would impair the obligation of contracts.

"Due process" was always a nebulous concept to the layman, and the phrase, "substantive due process," doesn't add much to clarification. But "due process" can be taken to mean that legal decisions should not depart from constitutional intention. Before the Civil War the Supreme Court held broadly to Chief Justice Marshall's defense of freedom of contract. "Due process" was affirmed in the Fourteenth Amendment. The legal battles of the late Nineteenth and early Twentieth centuries involved conflicting interpretations of "public needs," and some of the justices whose reasoning is analyzed by Siegan must seem inconsistent when questions of health in bakery shops, for instance, shade off into questions of mere unpleasantness.

The swing in sentiment that resulted in the "liberal" distinction between "human rights" that are more or less absolute and "economic rights" that need not be upheld can be charted by reference to two cases. In one, *New State Ice Co. v. Liebman*, the old dispensation hung on; in the other, *Nebbia v. New York*, we see what Siegan calls the "approaching end of economic due process."

*New State Ice Co. v. Liebman* involved the liberty of businessmen to enter an established market. The Oklahoma legislature had declared that the manufacture and sale of ice was a "public business," and hence subject to regulation. An agency was given wide discretion in issuing certificates to enter the ice business. When an independent ice man challenged the State of Oklahoma, the issue went ultimately to the Supreme Court. Sutherland, speaking for a majority of six, upheld the right of free market entry where there were no considerations of damage to the public health and safety. But Brandeis, in a famous dissent, argued that the Oklahoma statute was not arbitrary. There could be, he said, a natural monopoly in the ice-making business if competition were unchecked. There could be "needless waste." Anyway, the State of Oklahoma should be accorded the right to "experiment."

The importance of the Brandeis dissent was that it foreshadowed national policy in establishing the Civil Aeronautics Board and other agencies designed to control and license
entries in a whole host of fields. In *Nebbia v. New York* the Brandeis "minority" view became the majority opinion. By a five-to-four decision the Supreme Court upheld the conviction of a small Rochester, New York, storekeeper for the "crime" of selling two bottles of milk and a loaf of bread for eighteen cents. This was in defiance of the milk control law. Justice Roberts, speaking for the majority, ruled that it was not unreasonable for New York to enact legislation that deprived Nebbia of the liberty to sell at prices of his own choosing. McReynolds, speaking this time for a minority that included Van Devanter, Sutherland and Butler, questioned the wisdom of interfering with the economic rights of little grocers—and also of "twelve million consumers to buy a necessity of life in an open market."

Siegan says that the prose in "McReynolds' dissent . . . is scarcely in keeping with the image of old-guard reactionaries and those who tread on the rights of the masses." Why, so Siegan asks, "have so many legal commentators missed the point of economic due process? Were Holmes and Brandeis really the heroes of that Court?"

Since the New Deal the Court has followed a general pattern of according "due process" protection to economic issues only when they affect the First Amendment. Beyond that, the Court has tended to reject judicial review of government restraints on economic liberty. Siegan thinks the time has come for a reversal of current policy. Judicial review, he says, is firmly rooted in the Constitution. The judiciary has "no authority to eliminate constitutional protection for economic liberties." Congress and the State legislatures, being subject to pressures from small groups seeking ideological favors, can't be trusted with the "final authority" in socio-economic matters. The Court should rehabilitate our Constitutional principles and bring an end to the substitution of political competition for the economic competition that protected the consumer before the world turned over on its axis in 1933.

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**THOUGHTS RULE THE WORLD**
by Leonard E. Read
(The Foundation for Economic Education, Irvington-on-Hudson, N.Y. 10533), 1981
128 pages • $6.00 cloth

Reviewed by Perry E. Gresham, President Emeritus and Distinguished Professor, Bethany College.

Leonard E. Read has produced his own two-foot shelf of books. *Thoughts Rule the World* is number twenty-seven. This handsomely bound new volume has all of the sparkle and charm of his earlier books with the
added dimension of experience and wisdom which is reserved for what Norman Ream calls "the chronologically gifted."

Napoleon, dejected and in exile, his dream of world conquest faded, reflected on his experience and said — "the pen is mightier than the sword." Had he thought still more deeply he might have arrived at the conclusion that the pen is nothing without thought, and that thought truly rules the world. The world of Leonard Read is made up of learning, thinking and writing about Liberty. His thoughts are not intended for world conquest. He has spent his life in a relentless effort to know the truth and to share his discoveries with those who come to him with seeking minds.

Those who are out for a polemic to correct the left-leaning liberals will find no encouragement in this book. Read is no contentious debater. He bears no relationship to the young philosophers of Plato's Republic who were described as "like puppy dogs who bite and tear one another, without a true vision of truth." Read believes that one who loves liberty must study it, live it and let the example of his integrity and rectitude draw to him those who would learn.

The Sage of Irvington has illuminated one hundred eighteen pages with a most amazing range of pertinent quotations. He begins with his old friend, Ralph Waldo Emerson, and concludes with Oliver Goldsmith. In between is a startling array of philosophers, economists, poets, emperors and presidents with a spate of scientists and saints for good measure. The intellectual companions of Leonard Read are from all ages and all places.

While this book is made up of twenty-six brief essays on liberty, it is not without an underlying unity; nor is it devoid of intellectual rigor. Herein the reader finds "logical reasoning from a sound premise." Answers to important questions are throughout the book. The proper role of government, the miracle of the market, the failure of coercion, the creative power of free individuals and many other truths become self-evident as the book proceeds.

Now and again an insight comes through as an almost poetic image. Take for example the observation: "When little men cast long shadows, the sun is setting on a civilization." The author transcends again the owl wings of economic prose and flies on eagle wings of poesy as he writes: "As to the glory and sublimity of truth, all is mystery."

Few moral philosophers have given adequate notice to the relationship between manners and morals. Read devotes a wise chapter to this very subject and comes out with a conclusion which is both persuasive and brightened with hope. "True, good manners lead to good morals. When
enough individuals thus blest reason justly from a sound premise, Liberty will again prevail!"

Leonard Read is not only a thinker, writer, teacher and executive. He is also a man of great faith. He sees the liberty which rang out from the Liberty Bell as secured by the fact that the Declaration invoked the rule of God rather than the rule of man. Free individuals under God are not easily subjected to the tyranny of command government. The chapter, "Goodness: The First Step to Freedom" views creativity as the hope for humanity, and goodness as participation in the Creation. John Milton's Areopagitica is called in to distinguish between liberty and license. "None can love freedom heartily, but good men, the rest love not freedom, but license." Individual creativity is regarded as goodness which is to be guarded with religious devotion.

Grover Cleveland is seldom quoted. Only Read would find an epochal decision in an obscure administration. Cleveland, on principle and against his political self-interest, refused to sign a bill that would aid some Texas farmers in a time of distress, but thereby turn charity over to the government. Cleveland saw the responsibility for human survival and economic well-being as individual responsibility and voluntary sharing rather than as an opportunity for politicians and bureaucrats to buy votes and power with other people's money. Read commends Cleveland for understanding the role of government as that of "keeping the peace and invoking a common justice." This good press for Cleveland makes me proud of my kinsman, Walter Q. Gresham, who was his Secretary of State.

The book ranges over many fascinating landscapes of the mind. A chapter is devoted to mental growth, another to mutual obligations. The problem of ends and means comes in for full consideration. Conscience, a persistent problem in moral philosophy, gets a new insight and a new definition. Long-range goals for a creative and effective life are brought under the spell of Lecomte du Nouy, Thomas Carlyle and Immanuel Kant.

The story of the Stoic philosopher, Epictetus, is truly inspiring as related in chapter twenty-one. Here is a little Greek slave with a crippled leg derived from the cruelty of his master, who nevertheless lives with so much joy and wisdom that the world made pilgrimage to his obscure home for information and insight. Read calls this "the law of attraction" and a wise formula for anyone who aspires to interest people in the philosophy of freedom.

"Each of us is the architect of his own character," says Leonard Read, and with this remark his students are on their own. Individual freedom is the only freedom that finally matters and individual responsibil-
ity is a concomitant. Governments cannot be creative. Only individuals can bring the insights and innovations which remake the earth and the societies which inhabit it. This does not rule out the important factor of voluntary cooperation. Freedom of association is a fundamental liberty, but coercive association can be tyrannical.

The obnoxious word "mandatory" has no place in this volume. Those who try to impose their wills on others by force are not hated and they are not denounced, but they are invited to consider the folly and indignity of their beliefs and practices. Everyone is invited to study the freedom way of life. The bungling mail service by government, compared with the effective transmission of voice by private industry, is illustrative of the advantages of free enterprise.

Many students of political economy have overlooked the importance of envy and covetousness in social and political affairs. Not so Leonard Read who writes, "We should note the extent to which this 'guiltless' taking of property by coercion is rationalized. Accomplices, bearing such titles as philosophers and economists, rise to the occasion: they explain how the popular depredations are good for everyone, even the looted. Thus, we find that covetousness, unchecked in the individual, lies at the root of the decline and fall of nations and civilizations." The cure for envy and covetousness lies with the attitude of each individual. The person who counts his blessings cannot covet.

Another aspect of the freedom way of life which is frequently overlooked is the fact that free people have more fun. Those who are zealous for mandatory controls on everything are grim and fierce. They miss the excitement and pleasure of free choice. Read sums up this idea with a one-liner: "Have fun, or forget it!"

Leonard E. Read is himself the greatest of his books. His long life of dedication to liberty is the exemplification of all he writes. He not only praises consistency but lives it. He honors humility and admits his ignorance and fallibility. He thinks truth and lives love. Whitehead wrote, "Philosophy begins in wonder and ends in wonder." By that definition Read is a true philosopher, for he has a sense of the numinous which he calls "mystery." The Foundation he has created is a quiet center for the study of liberty which draws thinkers from all over the world. He has not yielded to despair nor failed to find joy in the search for truth and freedom.

The final chapter of Thoughts Rule the World is "Good News." The opening quote for the essay is the author's own. "Experience has convinced me that there is a thousand
times more goodness, wisdom and love in the world than men imagine.” This is no mere optimism. Read has the critical eye to observe and the good judgment to avoid unwarranted assertions. There is a quality of hope and happiness in every sentence. The book is good news indeed!

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**A TIME FOR ACTION**

by William E. Simon  
(Reader’s Digest Press, 200 Park Avenue, New York, N.Y. 10017), 1980  
$2.75 paperback

Reviewed by Timothy G. Nash

THIS latest contribution from the feisty former Secretary of the Treasury—briefer but just as potent as his best-selling *A Time for Truth*—is a compelling indictment of moral, political, and economic decay. This decay is embodied in and promoted by a government run amok—a monstrous bureaucracy which threatens our liberties and our standard of living.

Practically every nook and cranny of the sprawling federal establishment feels Simon’s sting in this book—the regulatory agencies, the executive branch, the State Department, and the Congress, to name a few. The “counterculture” which in recent years has dominated that federal establishment has its roots in four critical elements: “the media, the public interest groups and think tanks, the second and third echelons of the bureaucracy, and, increasingly, the courts.” Simon argues that an uncomprehending public has allowed these groups to do great damage and that disaster and dictatorship loom ahead if the public fails to regain the vision of America’s Founding Fathers.

The new mood in the country may be the beginning of the reawakening which Simon hopes for. Americans are coming to understand that “a government big enough to give you everything you want, is also big enough to take away everything you’ve got.” Americans are also waking up to the fact that in our dangerous world, all the welfarist schemes devisable will be for nought if government neglects its proper function as a peace-preserving agency for defense.

In the final chapter, Simon prescribes solutions to the problems he has described. They include balancing the federal spending, reducing taxes, scaling down money supply growth, harnessing the bureaucracy, and restoring a strong defense posture. That may sound like a broken record to readers here, but as Simon says it, it sure doesn’t.

*A Time for Action* is packed with facts and figures drawn from Simon’s experience in Washington and
by James T. Bennett and Manuel H. Johnson
(Center for Education and Research in Free Enterprise, Texas A&M University, College Station, Texas 77843)
145 pages  $12.95 cloth; $4.95 paperback

Reviewed by Harold C. Gordon, Director of Education for the National Federation of Independent Business

Bennett and Johnson, economists at George Mason University, reveal that official statistics often understate the true burden of government. Agency budgets, for example, do not take account of the enormous sums that businesses must spend in order to comply with regulations. Nor are future pensions, loan guarantees, and other long-term or contingent obligations reflected in current expenditures, despite the fact that they are mounting rapidly.

Employment figures are equally misleading. Thousands of full-time personnel are reclassified part-time every year to circumvent limits on hiring. As many as eight million more individuals—contractors, consultants, and state and local employees—depend on federal grants and programs for their paychecks.

There have been important qualitative changes as well. During the twenty-year period examined by Bennett and Johnson, policymakers at GS-13 to GS-15 levels more than tripled in strength. This is "the bureaucracy," and it has a vested interest in its own expansion.

The rational self-interest of any other actor in the political process is liable to change; that of the bureaucrat is immutable. Civil service protections have made it virtually impossible to fire him, and he gets no rewards for being efficient, economical, or productive. On the contrary, his promotions, salary increases, and status depend almost entirely on his multiplying the number of people working under him.

The authors build a persuasive case for regarding the bureaucrat as the real villain in the piece. They examine his skill in cultivating other political actors and playing them off against each other, his shrewd manipulation of "crises," his use of the media, and (this is increasingly important) his clout at the polls. At a time when low voter turnouts are
common, government workers are one bloc that can always be counted on to show up in force.

The authors’ analysis is also appealing because it suggests a possible solution. If the bureaucrat is the prime mover for growth because the existing incentive system has programmed him for that role, restructuring the system might well improve his behavior. Bennett and Johnson suggest a number of changes that could be made in this respect, utilizing both the carrot and the stick. Promotions and salary increases should be tied to job performance, not to the number of underlings. Discipline and removal procedures should be simplified. In addition, the authors propose that a "tax" be levied on the budgets of agencies that create paperwork for the private sector. If an agency’s appropriations were liable to be reduced every time it introduced another form, there would be less unnecessary paperwork.

In short, an admirable primer on government growth. Short, pithy, and illuminating, it ought to be required reading for every one of Mr. Reagan’s budget cutters.

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Is competition a good thing? Adam Smith thought so. Back in 1776 Smith prescribed heavy doses of competition, believing it to be the best means to satisfy consumers' vast and varied wants. In some quarters today, however, people approach competition with a distinct air of distaste.

For example, in a recent issue of *Sports Illustrated*, a spate of readers' letters decried the inclination, sometimes found among sports participants, to win at any cost. The famous remark of a well-known coach—"Winning isn't everything; it's the only thing"—quickly springs to mind. For some athletes, achieving points on a scoreboard may become a passion that consumes.

By the same token, some students who fail to learn their ABC's, their multiplication tables, and their chemical valences may stoop to anything to get a good grade. If only the ingenuity devoted to cheating had been applied to learning!

But consider that lament. Notice its implication: competition clearly has a noble edge. Students and athletes can—and usually do—compete by honing their skills. Likewise, in our economy, the competitive drive leads to more production, lower prices, and novel products. The competitive thrust of American industry has endowed us with a veritable cornucopia of attractive goods and services.

If people overlook the many benefits of competition and try to stifle it, they may end up making matters worse. Examples are abundant:

Consider the effects of OPEC, the infamous foreign oil cartel. By joining together in a common effort, the member nations cut competition. As a result, they also managed to raise the price of oil to extraordinary levels—as any American motorist can tell you! Is that really admirable?

Such cartels are generally forbidden in the U.S. by our antitrust laws.

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Yet we have many means of circumventing their restrictions.

In some cases producers try to limit or even prohibit foreign imports. Because American auto manufacturers find it hard to compete with Japanese models, they want Japan’s producers to reduce their exports. That is, they want to curb competition. The result will be higher prices and less choice for American car buyers. Is that really beneficial?

Another common device for curbing competition is the government regulatory agency. Examples include the ICC (for railroads and trucks), the CAB (for airlines), the FCC (for radio and TV stations), and the FDA (for the drug industry). In each case, the agency may have been set up to protect consumers. But what consumers actually got was less choice and higher prices.

What’s more, under regulation competition usually takes on new forms. When airlines could not compete by reducing rates, they resorted to champagne breakfasts for their customers and fancy frocks for their stewardesses. Most passengers would probably have preferred to spend less on their transportation in order to have more to spend at their destination.

Nor are programs aimed at curbing competition offered only by government at the federal level. In New York City (and elsewhere) in order to drive a cab, you must buy a license. There, in the land of “free enterprise” and in the very shadow of the Statue of Liberty, fewer than 12,000 people can obtain taxi licenses. But that limit does not deter competition: in their desire to drive cabs, people have driven the price of licenses over $60,000!

Of course, government is not always involved in efforts to curb competition. What happens when labor unions negotiate wage increases with management? They implicitly deny any laborers who would be quite happy to work for less the opportunity to do so!

The motives behind efforts to curb competition vary. Sometimes they are high minded. Environmentalists, deploiring the destruction of natural beauty by developers and others who want to cut down timber and build homes, seek to have vast areas set aside and kept in their pristine state. But to what extent is protecting trees preferable to using them to provide human housing? Is it fair for environmentalists to deny others the right to compete for their share of nature’s resources?

In other instances, the attempt to limit competition emanates from motives that are detestable. According to recent reports from the Texas Gulf Coast, the Ku Klux Klan has rallied residents to drive off Vietnamese fishermen—poor immigrants who have earnestly sought to make an honest living. The Klan’s
purported aim was to reduce competition in the local fishing industry. Sad to say, this is but one of the more blatant efforts of groups which seek to deprive blacks, women, Jews, immigrants, gays, and other minorities of job opportunities—all the while claiming shamelessly to be standard bearers for "patriotism" and "morality"!

No matter what the motive or the mechanism, it would seem that efforts to squelch competition can be just as destructive as competition itself. Attacking the excesses of the competitive drive often provides people an excuse to arrogate for themselves the right to diminish opportunities for others.

Competition is a common ingredient of our human nature and predicament. The question is not whether we will compete, but how? This question was addressed by John Underwood in the *Sports Illustrated* article which inspired the letters mentioned previously.

Underwood quotes former Heisman trophy winner Pete Dawkins as saying, "to win by cheating, by an umpire error, or by an unfair stroke of fate is not really to win at all." Then Underwood goes on to provide an example of truly selfless competition. In the 1964 Winter Olympics, the British bobsled team suddenly found itself desperately in need of a bolt. The Italian bobsled team generously offered to provide one—and then the British went on to win the gold medal.

Isn’t that the sort of example that should inspire us all? In the end, shouldn’t we always try to compete by putting forth our own best effort—that is, by behaving in a way that dignifies, rather than demeans or denies, our humanity?

---FOOTNOTES---

1 One correspondent wrote: "I have long believed that losing can be as powerful a teaching tool as winning can." *Sports Illustrated*, March 9, 1981, p. 82.


3 "Just as a legal minimum wage excludes some people from employment opportunities, so a high wage secured by union contract (perhaps under the threat of a strike, or total withdrawal of labor services) excludes those who would be willing to work for less." Paul Heyne, *The Economic Way of Thinking* (3rd ed.; Chicago: Science Research Associates, 1980), p. 238.

4 A UPI dispatch to this effect from Santa Fe, Texas, was published under the title "Vietnamese Feel Hatred of the Klan" in the *Greenville News*, February 16, 1981, p. 5B.


In the hours immediately following the shooting of President Reagan, the TV anchor man on the channel I was watching raised a persistent question. He asked it not once but several times. “Who’s in control of the country?” The question was even more pointedly raised at the time the President was being operated on and presumably anesthetized. At a news conference presided over by Secretary of State Alexander Haig, reporters pressed for an answer to the question of who was in charge. Secretary Haig finally observed, laconically, that he was in control in the absence of Vice President Bush, who was not yet in Washington. A considerable effort was made by newsmen to turn this into a Haig flap, but not much came of it.

There was a legitimate question, of course, as to who would make the decision in the event that some action needed to be taken which would ordinarily require the approval of the President. Mr. Reagan was surely incapacitated for making decisions of state at the time, and probably would remain so for several hours, perhaps longer. Happily, no occasion arose for any momentous decision of state to be made during this interval. But if it had, we were assured that the senior officials in the administration who could have made it were either assembled for that purpose or in touch with one another.

However, my concern here is not with the legitimate question as to who would exercise his powers during the temporary incapacity of a President. It is the form and manner of the raising of the question by the anchor man that concerns me. He asked repeatedly, “Who’s in control of the country?” There is an unwar-
ranted assumption—a planted assumption, if you will—in the question. The assumption is that when Mr. Reagan is well he is in control of the country. (There is no reason to suppose that Mr. Reagan is guilty of any such presumption; thus, I name him only because he was the person about whom the question was raised.) This is such a gross misunderstanding of the situation and carries with it so many dangerous implications that it is worthwhile to pursue some of its ramifications.

Granted, the anchor man may have been under stress when he asked the question. The President and several of those around him had been shot and their condition was as yet uncertain. It was a dramatic situation, and one in which the news was occurring while it was being telecast, not digested in advance as occurs in regular newscasts. That this particular anchor man felt the stress and was at times even distressed was apparent from his manner. He was short-tempered sometimes as he answered telephones, listened to and read reports, and attempted to get confirmation of items that came to him.

But for two reasons, the question should not be dismissed as merely a product of stress. In the first place, the question was not a product of the stress in any obvious way. There was presented no information which indicated that the "country was out of control." There was no evidence of chaos, domestic insurrection, or portending foreign invasion. The question was reflective, was advanced during quieter moments, and was imposed by the newscaster. There is good reason to believe that if it had been merely a case of careless phrasing he would have corrected himself, because he took great care with his presentation of facts, and corrected himself several times. Secondly, the idea of the President being in control of the country did not surface for the first time in this newscast. It has been around in a variety of forms for a good many years now. There was every indication that the anchor man believed he was posing the question in its usual and acceptable form.

Control of the Government a Complex Matter

The first time the anchor man posed the question I made a mental note that he had made a mistake in the formulation of it. What he should have asked, I thought, was "Who's in control of the government?" That was what he really meant, I thought. On reflection, I can see that even that more modest way of framing the question involves considerable exaggeration and leads to misunderstandings. Actually, no single person is in control of the governments in the United States. Even if the question were rephrased to ask
who is in control of the Federal government it would be misleading. The President is not in control of the Federal government. He is, nominally at least, in control of the executive branch of the Federal government. Beyond that, he has some powers touching upon the legislative and judicial branches, but these hardly extend to “control.”

Actually, authority over and responsibility for—hence, control of—governmental activities is dispersed into many hands in this country. There is not only the separation of powers into three branches at the national level, not only the division of powers between the states and the national level of government, not only the assignment of many powers to local governments by the states, but also a host of elected and appointed officials at all levels who have constitutionally or legislatively derived powers.

No One Person in Charge

Perhaps, a simple question and answer will reveal the travesty involved in even the assumption that one man is in control of the government. Here is such a question: Who is in control of the traffic signals in the town near to me? In the first place, the police are undoubtedly in charge of some phases of their operation. They may turn them off and on, alter the timing, override them by placing a policeman at an intersection, and so on. The mayor and council not only exercise authority over the police but also may make certain decisions about traffic signals. They will ordinarily decide which intersections may have a traffic signal, what type of signal it will be, and, perhaps, how and when it will be employed. If a state or United States highway is involved, the state highway department may have a hand in determining if, when, and where traffic signals may be installed. In no sense that I can conceive of could it be said that the President is in control of local traffic signals. The same can be said for virtually all the operations of government at the state level. Moreover, most operations of government at the Federal level are remote from the control of the President, even those to which his decision-making powers extend.

But I understand the anchor man to have been asking a much broader and more inclusive question than who is in control of the government(s), namely, “Who’s in control of the country?” By my understanding, “the country” includes everything within certain geographical boundaries, i.e., the land and all the structures thereon, the waters, the people, the animals, the plants, and all that personal property which is legally defined as chattels. It is not my contention, of course, that the word is not sometimes used in more
limited or figurative senses. In ordinary speech, for example, we speak of the country in contrast to the city, as in “country living.” Or, we sing, “My Country ‘tis of Thee,” which is a poetic way of expressing our attachment to it, not a means of asserting an exclusive claim upon it. Rather, my point is that by casting the question in the form that he did, by stating it prosaically, and by failing to qualify it, the anchor man invited the broadest and most inclusive construction of the word.

Even the Control of Private Property Is Tenuous

Who is in control of “the country,” then? Let me begin my answer to this complex question at the local and personal level. It happens that I own 3.3 acres, more or less, of the country, as attested by deeds duly recorded. On the day in question, March 30, 1981, so far as anyone could be said to be in control of that portion of the country, I was, along with my helpmate of a goodly number of years standing. The only potential contestants to this claim, so far as I am aware, are: (1) a local bank which has a mortgage covering part of the property; (2) a yellow tomcat of uncertain lineage who, if my suspicions are correct, believes himself to be the proprietor and us the tenants brought there to serve him; and (3) the residual claims of the state should we fail to pay the taxes or die intestate without heirs. Since the taxes have been paid, the mortgage payment is up to date, we are alive, and the cat is among those animals over whom, according to Scripture, man is given dominion, our practical control over this small portion of the United States is for the moment secure and uncontested.

Even so, my control over this property and its inhabitants and intruders is tenuous at best. I do not mean such limitations on my control as arise from the right of way access to my house of electric and telephone wires and the pole located on my property to convey them. Nor does it bother me much that the electric company owns the meter and the telephone company the telephones.

The real limits of my control are posed by the plant and animal life which abound. Theoretically, I could control the plant life, and I make a half-hearted attempt to do so for part of it from time to time. The truth is, however, that on much of the land, trees come up and grow, unbidden, and they are joined in their activity by assorted weeds, vines, bushes, flowers, and what have you. But that I could assert much control over the animals which live on and wander about my property is by no means clear. How does one exercise control over deer, wild turkeys, snakes, terrapins, rabbits, birds, beetles, ants, bugs, and all the creeping, crawling,
and flying things that put in appearances from time to time? I welcome many of these and tolerate the rest as best I can most of the time.

**Millions of Individuals**

What I am getting at is this. Much of the country is not under anybody’s control to any considerable extent. All of it is owned in some fashion by somebody or other and is within the jurisdiction of one or more governments. Millions of individuals and families and thousands of organizations exercise more or less control over the country. By and large, they control it as they will and can, but each separate from the other and rarely in concert with anyone. The answer to the question, then, is that no one, nor any concert of persons, is in control of the country; millions of people exercise greater or lesser control over that portion which is theirs by ownership or assignment. They were exercising that control when President Reagan was shot, while he was anesthetized, and, hopefully, will continue to do so when he is well.

Much of the above is common knowledge, I suppose, and needs only to be recalled to be accepted. Even so, there is something of value in calling to mind that there is much that is under the control of no person, that ownership and control are widely dispersed in this country, and that we are limited beings. For myself, I believe that life is immeasurably enriched by that about us which is under no one’s control.

I stand in awe and wonder at the seashore and am renewed in spirit to see the waves continually coming in to break upon the beach and recede under no man’s command. The squirrels which scamper across our yard to get the chestnuts we have left provide more pleasure than if they came and went on my call. I delight more in the random coming and going of the great variety of birds that find sustenance on my place than I ever could if I had them in cages. These things remind me that there is an order which persists and endures, despite man’s feeble attempts at control, and provides intimations of a harmony that is not of man’s making.

That would be a good place to conclude my answer. It is upbeat, pleasant, and the last sentences have something of the ring of a peroration. Unfortunately, however, to end it there would be to ignore serious political tendencies and developments which underlie the assumption which gave rise to the question in the first place. It is unlikely that anyone would ask repeatedly, and in a context of high seriousness, “Who’s in control of the country?”, if he did not believe someone should be. And the question certainly did not arise in an historical void. Indeed, the movement of ideas and the thrust of
action has been preparing the way for the question for three quarters of a century at least. These developments need to be explored and their significance examined.

The assumption is, of course, that someone should be in control of the country. It bespeaks a passion for having everything and everyone under some sort of central control, a passion that has been gaining sway for most of this century, or longer. The notion that undergirds this passion for control is that without such central human control chaos, disorder, cupidity, and confusion will take place.

A Passion for Control

This passion for control has been most pronounced in the economic realm: control of banking, control of the railroads, control of "trusts," control of prices, control of electricity, control of the stock market, controls of farm products, control of hours of work, control of wages, control of drugs, control of hospitals, control of interstate transport, and so on and on. But it has tended to invade every realm of activity: formal education, the practice of medicine, international relations (e.g., the formation of the League of Nations and United Nations), environmental controls, pollution controls, and such like.

The main thrust of this passion for control has been the centralization of power in the Federal government and its concentration in the executive branch. It is this development which gives such logic as it has to the question, "Who's in control of the country?" when the President is temporarily incapacitated. What this conjures up in my mind is a scenario in which the Oval Office is equipped with a huge console which has wires running to every place in the country. When the President flips one switch it sets off a designated kind of activity in the country. When he flips other switches other kinds of activity can and do take place. Presumably, the President alone knows the combination to the console, and when he is incapacitated, either chaos or inactivity may become universal. In any case, the question conveys to me a conception of concentrated and unlimited government.

This conception of the presidency, however it may be visualized, is dangerous for the safety and well-being of presidents. It is ironic that the same anchor man who raised the question also lamented the fact, several times, that yet another attempt had been made on the life of a President. Apparently, it did not occur to him that by implying that the President is normally in control of the country he was continuing to set the stage for such attempts. After all, if the President were in control of the country, what better target could be
selected for dramatizing a cause, expressing one’s hatred for America, or even for the revolutionary conquest of the country?

I have already made clear, I hope, that the President is not in control of the country. Even so, the centralization and concentration of power that has taken place has been in that direction. The United States government was founded as a limited government, even a strictly limited government. The thrust to extend the control of the Federal government is in the direction of unlimited governments.

**Constitutional Limits**

The United States government was limited in the following ways and according to these principles. The most basic limits are in the Constitution itself. To have a constitutional government is synonymous with having limited government, at least to Americans, for the Constitution specifies limits. The powers of the central government are enumerated. Certain powers are specifically denied to the United States. All powers not enumerated are reserved to the states or to the people respectively. All legislative power conveyed is vested in the Congress; the judicial power is vested in the Supreme Court and such inferior courts as are established by law; and the executive power is vested in the President and the officers who serve under him. This division into three branches conforms to the doctrine of the separation of powers and has long been considered a fundamental principle of limited government.

Actually, the three branches are intertwined. The Congress not only makes the laws but also participates in some executive decisions. For example, the Senate must concur in major presidential appointments before they have legal standing. All executive action depends upon monies which must first be appropriated by Congress. Federal judges are appointed by the President with the advice and consent of the Senate. The power to enforce court orders lies in the executive branch which controls the military forces and marshals. This intertwining has led to questions both as to the extent of the separation of powers and of the independence of the branches. Clearly, the branches are not entirely separate from one another, nor are they wholly independent in their operations. But much of the limitation upon them lies in the fact that they are intertwined. The Senate, for example, limits the President by its potential negative vote over his appointments. The President can limit the legislature by way of the veto. The courts can refuse to apply unconstitutional laws, and so forth.

The Constitution limits the states as well. They are prohibited to do certain things, such as, make any-
thing other than gold or silver legal tender, and their jurisdiction is limited as well. States are required to have republican governments, and they too operate under constitutions which limit them in their actions. County and city (town, village, borough, or what not) governments are creatures of the states, and hence are limited by them in what they can do.

Other Restraints and Limits

There are many other limitations on the powers of the various governments. They are all bound to observe the laws in dealing with the inhabitants. There are prescribed procedures to be complied with before life, liberty, or property may be taken away. Elected officials are limited by the necessity of having to stand for election from time to time. James Madison argued in The Federalist #10 that the broad expanse of the country, the numerous interests contained within it, and territorial dispersion of each interest would make it difficult, if not impossible, for any one interest or combination of interests to gain control of the government. In short, the very contentions for power that would exist would tend to limit the reach of governments. Quite often that has been the case.

Even so, many of the limits that once held governments in check have been evaded, trespassed, and in considerable measure overcome. The main developments have been the subordination of the states and the concentration of power in Washington. This change has been accomplished in many ways: the extension of the regulation of interstate commerce provision to include virtually every kind of trade and commerce, the assumption of authority over labor relations, the taking of control over banking and the money supply, and the intrusion of the Federal courts into such areas as law enforcement in general. The main device, however, for subordination of state and local governments has been by way of grants for programs to these entities. State control over local governments has been greatly impaired as local undertakings have been subsidized in one way or another by Federal grants. Much of the state control over education has come under the authority of the Federal courts. Revenue sharing, in the last decade, has greatly accelerated all these processes.

The main point, however, is the expansion of governmental control over the lives of the populace entailed in these developments. The case for "states' rights," as such, concerns me here only so far as it is a part of the case for limited government. Control over the lives of the citizens by a state government would be no more desirable than control by the central government. But such
control is inherently limited in the federal system. A state cannot raise an army and wage war, for example, because not only is it prohibited by the Constitution but it would not likely be tolerated by the central government. Moreover, any state which expands its controls in comparison with those prevailing in other states would invite the exodus of the oppressed populace, and states like the means to prevent this.

**Freedom without Controls**

Which brings us to the final, and central, point of this essay. Governmental control over the lives of the people is violative of their rights and liberties. Freedom is the antithesis of governmental control. The birds which fly onto and light on my property are free precisely because I do not control them. The squirrels that scamper about my place in search of nuts are free because I do not control them. True, human freedom has other dimensions than such as animals may enjoy; it is more confined in the physical realm than theirs and has mental and spiritual dimensions unknown to them. But in both cases control is antithetical to it. Undoubtedly, our activities are bounded by the property and other rights of others, and we may be committed by contract in certain ways to others, but these, rightly understood and acted upon, are limits, not controls.

"Who's in control of the country?" is a question with totalitarian implications. I do not know that the anchor man who asked it either meant any such thing or understood it in that way. Most likely, he did not. But words are independent of the intent of the speaker, once spoken. Thus, if anyone is in control of the country, his powers over it must be without limit. It follows, too, that the inhabitants are not free. The assumptions underlying our unguarded expressions inform our deeds. They are a key to the direction in which we are inclined to go, just as they have become assumptions because we have already taken that heading. We tend to become what we believe especially when the belief has become so imbedded in our thought that we are no longer aware of it.

It is surely high time to bring the government of the United States under control, to limit and restrain it to its historic and constitutional role. There are signs that President Reagan is committed to accomplishing that goal. The relevant question, the one that occurred to me in those first fearful moments after I had heard that he was shot, was this: "Who will control the government?" As for "Who's in control of the country?", all who value freedom will relish the hope that those who live there are in control of themselves and their lives.
How many times have we stood before a fine painting and heard a viewer say, "That artist certainly has talent. But I can’t even draw a straight line!” Well, there probably was a time when the artist also could not “even draw a straight line.” But between that time and the completion of that fine painting, he drew a great many straight lines, also curved lines, light lines, dark lines, every conceivable kind of line. He exploited his particular interest and aptitudes to the fullest in the attempt to develop his talent. Few days probably passed when he did not devote some time or effort to improving his talent.

Nobody dashes off a masterpiece on a whim between breakfast and an early lunch. To draw even a simple leaf well, a painter will produce more leaves than a tree. He learns to “see” a leaf as the average person cannot. The price of talent is high indeed, a price few of us are willing to pay. I don’t accept the popular, mystical concept with its implication that talent is inborn in the genes of a fortunate few, that it is an innate “seed,” that must inevitably burst forth as excellence in some particular field. I refuse to believe that one either has talent, or one doesn’t, and that there is no use in trying. Talent, as I define it, is the complex of abilities people will develop in a climate of freedom when they are not hampered in pursuing their personal goals. Talent is the outcome of six prerequisites: (1) physical aptitudes, (2) intellectual

Mr. Hood, a businessman in Meredith, New Hampshire, formerly served in the State Legislature.
capacity, (3) environmental influences, (4) perseverance or drive, (5) mental perception or approach and (6) interest. Let us consider each in turn.

**Physical aptitude** is perhaps the least important of the six prerequisites. Let it be sufficient to say that body size, weight, structural detail, and the like can be factors. If one’s voice has all the charm of a rusty wheel on a gravel path, one is ill-advised to pursue a singing career. A person who stands 4 feet 8 inches tall and weighs 93 pounds, will not likely excel in professional contact sports. Physical limitations exist, though even they may largely be overcome by perseverance in the development of the other five prerequisites.

**Intellectual capacity** is to some extent “given,” but perhaps not nearly to the extent that people believe. We are obviously not all born with equal intellectual capacity. That is fortunate indeed. If we all aspired to become profound philosophers, we would surely all be very hungry philosophers. Those of us born without superior intellectual capacity should not try to emulate Einstein. We must realistically recognize our intellectual limitations with regard to brain power, but without stifling the development of our own potential. Much of what is considered limited, innate intellectual ability is merely due to lack of interest, drive or perseverance.

**Environmental influences** may encourage or discourage the development of talent. Consider two persons of equal intellectual capacity, one raised by illiterate parents in a dismal shack where the only goals in life are minimal survival and leisure, the other raised by educated parents in a well kept home, surrounded by books, music, suitable playthings and an atmosphere of intellectual curiosity. The talents developed as reflections of these environmental influences would seem obvious. But they will not always be precisely those anticipated. Environmental influences may be expressed indirectly or by devious routes. A brief encounter as a child with a particular toy, book or idea may lie dormant only to stimulate an interest many years later. The seeds of interest and perseverance in the pursuit of talent, which are usually planted in our formative years, may even be spurred by opposite examples.

By maturity, our physical aptitudes, intellectual capacity and environmental influences are pretty much established. Concern with them then should be primarily to maintain and upgrade them to the best of our ability. It is here that the
fourth prerequisite for “talent” — perseverance or drive — comes into play. In spite of the fact that most people seem to believe one either has talent or one doesn’t, I maintain that the potential for talent abides in most of us. To digress for a moment, I distinguish talent from “genius.” I define genius as that very rare combination of superior physical and intellectual capacity, combined with a profound interest in a specialized, narrow field, which permits some few especially endowed persons to accomplish prodigious amounts, occasionally at a very early age. They are the innovators and pace setters in their areas of specialization. But even the development or fulfillment of “genius” requires perseverance. As Thomas Edison pointed out, genius is “one percent inspiration and ninety-nine percent perspiration.” Olympic contenders persevere with supreme dedication to a self-imposed regime in order to attain a specific goal. Those of us who are not so one-goal oriented, however, should not let the prodigious accomplishments of a true genius discourage us from persevering to develop whatever potential talents we may have in one or several fields.

**Mental perception** or approach is perhaps the most indefinite of the prerequisites for developing talent. But it is no less important. What William James said of genius, that it was “little more than the faculty of perceiving in an unhabitual way,” might also be said of talent. As a matter of fact, it is “the faculty of perceiving in an unhabitual way” which sets those persons, who best succeed in developing their talents, apart from almost anyone else. Most of us are creatures of tradition and habit, victims of a self-imposed lethargic state of mind. We tend to accept the obvious or the plausible without asking “Why.”

Few of us question the reasons for our actions. We all know, or are capable of knowing, much more than we realize. We tend to be blinded, to our own disadvantage, by the obvious, by “what is seen.” Few of us recognize “what is not seen.” The nineteenth century French economist and philosopher, Frederic Bastiat, illustrated this point in a short piece, “The Broken Window.” He described a young hoodlum who broke a window. All observers, with one accord, considered the financial boon this would mean to the glass industry. Blinded by “what is seen,” they failed to consider “what is not seen,” the owner’s forgone purchase of a new pair of shoes because he must pay the glazier. The mental perception which enables one to think things through, to consider more than “what is seen,” to integrate available knowledge, to approach problems in new and different ways,
is an attribute of talent that is derived from the combination of inborn, innate characteristics plus application and perseverance.

We all perceive things with the same sense organs. But many of us fail to integrate our observations. We are like cameras or tape recorders, absorbing and reproducing visual and verbal images, precisely as observed, but failing to integrate, analyze or interpret them. The development of talent requires an approach of mental awareness or intellectual curiosity, so as to integrate perceptions and concepts. It calls for trying to analyze "what is not seen," for looking at things "in an unhabitual way."

The talented painter perceives a landscape far differently than most of us. The novice who is seeking to develop his talent must not only perfect his physical aptitude, expand his intellectual capacity, but also develop the "unhabitual" perception of an artist. The talented musician listens to a symphony and perceives nuances and subtleties of composition, while most of us just hear a melody. The talented actor perceives in the performances of his comrades every movement, facial expression and voice inflection, integrating them into his own store of knowledge, while the rest of us just enjoy the play. A talented writer has spent years reading, writing, studying and practicing that skill, with that same intense quality of specialized perception and integration.

Mark Twain once observed, "the difference between the right word and the almost right word is really a large matter—'tis the difference between the lightning bug and the lightning." One of the finest pieces of American writing is the Declaration of Independence. One has only to view a copy of Jefferson's original manuscript, with its corrections and alterations, to know that even in most inspired moments a well written essay is the result of perseverance. Words seldom flow in an uninterrupted stream of perfection. The writer must call on his store of knowledge, gleaned previously from all he has read, written, thought, judged and assimilated into his total consciousness. His talent rests on the quality of his mental warehouse, his faculty of perception, his ability to create with it, and his willingness to persevere. None of these remains static for any individual.

The sixth prerequisite for talent is interest. Interest is at the same time both a prerequisite of the other five and a product of the other five. It is in one sense "given" and it is also the outcome of innate aptitudes, environment, concentration and perseverance. Interest, whatever its source, is what helps spur us on to persevere, and to concentrate with a sort of tunnel vision on
a special field. It is interest that makes us want to keep on expanding ability, perception, and talent.

The foundation of talent in any field is the sum of past accomplishments and of all of today's knowledge and wisdom. In each generation those who develop their talents add a few more bricks to this structure of intellectual, artistic and technological heritage. But unlike a building, this construct is never finished. The potential of free men for the development of talent would seem almost infinite. The higher we build, the wider the view. The more we learn, the more we realize how little we know. True though this may be, it by no means implies futility in the learning process, for the more we learn, the more we find we are capable of learning. The more we persevere in trying to develop our talents, the more perceptive we become and the broader are the horizons we see.

We all have interests. We all have a certain amount of intellectual curiosity. We are all capable of putting forth some physical and mental effort. Hence we all have the potential for talent in something—be it the trades, sales, teaching, science, art, and so on, or some combination of these. Talent is most emphatically not a gift; it is an achievement!

Joy and satisfaction are to be found in expanding knowledge, developing talent and accomplishing more. By cultivating a free society in which ambition is encouraged and this mental attitude can flourish we will find that, with the application of effort and perseverance, talent will be within our grasp. If we are free to pursue our own peaceful interests, we may expect to contribute something to posterity by adding a brick or two to the structure of intellectual, artistic and technical heritage that will be available to those who follow.

**Freedom and Maturity**

The quest for freedom is not simply a thing added on, as dictators and bureaucrats seem to assume, or even one of the luxuries of integrity. It is part and parcel of the stuff of which human life is made, built in through a hundred million years of evolution, a million years of prehistory, thousands of years of history. When the circumstances of a man's life deprive him of freedom, they also deprive him of sanity and maturity for which he was born. Without freedom he cannot build up and toughen those inner resources which give him the flexibility and initiative so necessary for the give and take of life.

STEPHEN B. MILES, JR.
IDEAS, said the late Richard Weaver, have consequences. But, when it comes to working their way through society, it normally takes at least a generation for ideas to flower in effective action.

Richard A. Viguerie, who runs a most successful computerized direct mail solicitation company, is an action man. He figures his time has now come. The main emphasis of his book, The New Right: We’re Ready to Lead (Caroline House, 186 pp., $8.95), which has an introduction by Moral Majoritarian Rev. Jerry Falwell, is on the art of piecing together an action-dominated coalition to win elections and undo the past half-century of bad lawmaking. Yet it is the mark of Viguerie’s intelligence that he mentions Richard Weaver quite early in the book.

Viguerie is history-minded as well as action-dominated. It is a good combination, for it provides reassurance that the actions of the so-called New Right will be soberly considered, both for pacing and for placement in a scheme of priorities. The New Right is hungry for a lot of things, such as action on the “social issues” of abortion, prayer in the schools and “pro-family” legislation, but it isn’t asking the President or Congress to derail the big issues of inflation, taxation, the money supply and the need to confront Soviet expansion, which have obvious priority if we are to continue at all as a free society.

I like Mr. Viguerie’s book because it tells a lot of new things about the current organization of conservative and libertarian groups in Washing-
ton and around the country without ignoring their historic antecedents. In telling the story of his own gene-
"sis Viguerie shows how the New Right evolved out of the Old Right. He began by taking a job with Young Americans for Freedom in the early Nineteen Sixties, working with Marvin Liebman on money-raising. He called on people like oil man J. Howard Pew, former New Jersey governor Charles Edison and Captain Eddie Rickenbacker for contributions, and found them affably disposed. But, as a shy person, he did not feel comfortable in asking for money directly. He started writing letters instead, and so discovered his true metier. He has been at it ever since.

\[\textbf{Libertarian and Conservative Foundations of the New Right}\]

The early contacts with Bill Rusher, Bill Buckley and Marvin Liebman in New York gave Vi-
guerie, who began his political life as an Eisenhower supporter in Texas, some ideas about the nascent conservative movement. In an appreci-
ative chapter called "The Foundations of the New Right" Viguerie pays homage to a whole host of early libertarians and conservatives, from \textit{Human Events} publisher Frank Hanighen and \textit{National Review} editor Bill Buckley to Russell Kirk, Frank Meyer, Frank Chodorov, Whittaker Chambers, Milton Fried-
man, Stanton Evans, Congressman Walter Judd and others.

His ideas were well in order be-
fore he realized that his mission in life was to take libertarianism and conservatism out of the talking stage. There were coalitions to be made that would transform the Goldwater minority of 1964 into the Reagan majority of 1980. But first there must come a mastery of techniques mak-
ing use of the communication mar-
vels of the electronic age, beginning with the computer, the Xerox ma-
chine, radio and TV itself.

Viguerie began his direct mail business in 1965 in the most labori-
ous way, with one employee and a contributor list of 12,500 names. He got the list by going to the Clerk of the House of Representatives, who had on file the names and addresses of everybody who had given $50 or more to the Goldwater campaign. The law would not permit anyone to make a photo copy of the list, so Vi-
guerie started writing names and addresses down by hand. After a couple of weeks during which his fingers became numb he hired sev-
eral women to finish the job for him. Without this list, he says, he wouldn't be in business today.

Curiously, Senator George McGovern beat Viguerie to the punch in realizing the potency of direct mail. But McGovern had other things to do where Viguerie could spend eighty hours a week on his spe-
cialty. The first big Viguerie fees came from a direct mail campaign to raise enough money to pay Alabama Governor George Wallace’s political debts. Wallace seemed more Populist than conservative to Viguerie, who was still looking for an activist movement on which to spend his enthusiasm along with the money he had already earned.

The search for a second generation of conservatives—the true New Right—led Viguerie to people whose names are still not widely known to readers of the so-called Establishment press. This second generation includes Paul Weyrich, Howard Phillips, Terry Dolan, Lee Edwards, Morton Blackwell, Alan Gottlieb, Reed Larson, Edwin Feulner, Dan Popeo, Lew Uhler and David Denholm. Weyrich heads the Committee for the Survival of a Free Congress, Dolan is the energizing spirit of NCPAC, or “Nicpac” which is short for the National Conservative Political Action Committee. Reed Larson is the indefatigable boss of the Right to Work Committee.

Common Interests Lead to a Winning Combination

Together, the New Rightists began to meet for informal luncheons. They had four things in common. The first was a belief in technical ability—direct mail and mass media manipulation. The second was a willingness to work for each other’s ideas without discrimination. The third was a conviction that philosophy must always come before party. And the fourth was an unquenchable optimism that a Fabianism-in-reverse campaign would ultimately turn America away from collectivist delusions.

Using direct mail in unprecedented fashion, the New Right has run off an impressive list of victories. Viguerie and his friends couldn’t stop the treaty that gave away the Panama Canal. But the campaign they fought to keep the canal brought Ronald Reagan back into public consciousness in a way that made his 1980 presidential nomination inevitable. Terry Dolan’s NCPAC wrote 10,000 leading Republicans urging them to tell Senator Howard Baker that a pro-treaty vote would end his presidential hopes. Howard Phillips’ Conservative Caucus mailed three million letters on the canal issue. This stirring of the waters was instrumental in creating majorities that have changed the whole complexion of the United States Senate. The first-time Senatorial winners for the New Right came in 1978, when Gordon Humphrey beat long-time incumbent Tom McIntyre in New Hampshire, Bill Armstrong won in Colorado, John Warner in Virginia and Alan Simpson in Wyoming. In 1980 came even more impressive victories, with New Right candidates ousting McGovern, Frank
Church, Birch Bayh and other old wheel horses of the Left.

Coalition building by direct mail communication is at the bottom of the Viguerie success. When the Reverend Jerry Falwell brought his Moral Majority to Viguerie's side, it assured Reagan of his election. Now Viguerie is worried by Reagan's failure to appoint more New Rightists to high office. The failure won't make any practical difference: The Left has run out of galvanizing ideas, and Reagan will insist on his own tax and budget cutting programs. The important thing for Viguerie and the New Right is that they are ten years ahead of the Left in organizational ability—and in the possession of key mailing lists.

GOLD, PEACE, AND PROSPERITY: THE BIRTH OF A NEW CURRENCY
by Congressman Ron Paul
(The Foundation for Rational Economics and Education, Inc., P.O. Box 1776, Lake Jackson, Texas 77566), 1981
55 pages ● $5.00 paperback

Reviewed by Roger Ream

Efforts to restore a gold standard are gaining momentum. The 1934 prohibition of the private ownership of gold was repealed in 1974. Three years later, gold clause contracts were legalized. In 1979, a bill to revoke the Treasury's power to seize privately held gold passed in the House of Representatives. And, in 1980, both Houses of Congress approved an amendment to establish a gold commission, which will examine the role of gold in monetary affairs.

The sponsor of the successful gold commission amendment was Congressman Ron Paul of Texas. He is one of the leaders of the effort to establish a redeemable gold dollar and will serve on the commission along with public and private sector representatives. In an effort to clarify the issues involved and add some historical insights to the current debate, Congressman Paul has written a booklet that is clear, elemental, and enlightening. As he demonstrates, "The consequences of monetary destruction are complex, but the solution is not."

Congressman Paul outlines the steps that must be taken to move from a government fiat money system which is headed toward disaster, to a system of honest, free market money. He also refutes some of the commonly raised objections to a gold standard. One such assertion is that there is not enough gold to return to a 100% redeemable-in-gold dollar. Dr. Paul quotes Professor Hans Sennholz: "In a free market economy it is utterly irrelevant what the total stock of money should be. Any given quantity renders the full services and yields the maximum
utility of a medium of exchange. . . . When the stock is relatively large, the purchasing power of individual units of money will be relatively small. Conversely, when the stock is small, the purchasing power of the individual units will be relatively large. No wealth can be created and no economic growth can be achieved by changing the quantity of the medium of exchange. It is so obvious and yet so obscured by the specious reasoning of special interest spokesmen that the printing of another ton of paper money does not create new wealth.”

Inflation is an increase in the quantity of money. It is legalized theft by a means similar to counterfeiting. A small increase in the quantity of money, even if intended to just match the increase in productivity or the economic growth rate “inevitably introduces malinvestment as those getting the new money put it to uses that only later recessions show to have been unproductive.” Free market competition in money gives the people, not the politicians, power over the monetary system. It is “a free people’s ultimate protection from spendthrift and untrustworthy government.”

As this booklet makes clear, “[t]he road to monetary destruction has been long and circuitous, but we are coming to the end of it. Sixty-seven years of central banking have brought us to the edge of depression and hyperinflation. . . . [However, the] alternative to today’s monetary fraud and tomorrow’s chaos is readily available to us. . . . The spirit of freedom, and the desire for honest money, still run strongly among our people.”

History provides many examples of governments of all types destroying the monetary unit through uncontrolled inflation. History also teaches that the only means yet discovered to harness the natural tendency of governments to debase the currency is a monetary system which is backed by a commodity. Over the centuries, countless societies have selected gold as that commodity. However, the particular commodity chosen is of little importance provided the decision is the result of an unhampered market process.

Congressman Paul’s efforts to further the consideration of a new currency are crucial because as this booklet reveals, freedom cannot long exist without honest money.
TODAY'S more immediate problems of high taxes, inflation, regulations and controls all come under the one common heading of government intervention. So, what is one to do to regain or restore lost freedom of choice and action?

Actions vary, of course, tending more and more toward open revolt: a refusal to file any tax return at all or else incomplete or fraudulent reporting; black market and underground transactions; tax shelters and loopholes; above all, the flagrant tactics of terror and violence so much in the daily news.

The problem is not the same for any two of us, and the solution most suitable to one may not please another. We are individuals. But in a sense we are all in the same boat. We are members of a trading economy, greatly dependent upon one another. And it is not that simple or easy to pull out and go it alone in anarchistic fashion—in what a majority generally perceives as antisocial behavior.

Today's situation is somewhat like that faced by the American colonists in the late 1700s in their break with England. So it well behooves us to review the principles of limited government and of human rights identified and upheld in such historic documents as the Virginia Bill of Rights, adopted June 12, 1776. Shortly thereafter, on July 4, came the historic Declaration of Independence with its revolutionary ideas on liberty and the ensuing battlefield confrontation.

The problem then, and perhaps the problem always, is not to abolish government entirely, but to curb its tyrannous aspects. Independence from Britain called for governmental reorganization, first under the Articles of Confederation in 1777, to be updated and replaced by the Constitution of 1787 and especially the first ten amendments or the Bill of Rights adopted December 15, 1791.

Perhaps most helpful of all today is the wise counsel offered in George Washington's Farewell Address of September 17, 1796.

The experiences at the founding of the American republic afford guidance sorely needed in our search for a renewal of liberty in our time.
VIRGINIA BILL OF RIGHTS

Article I
Bill of Rights

A declaration of rights made by the representatives of the good people of Virginia, assembled in full and free convention; which rights do pertain to them and their posterity, as the basis and foundation of government.

1. That all men are by nature equally free and independent, and have certain inherent rights, of which, when they enter into a state of society, they cannot, by any compact, deprive or divest their posterity; namely the enjoyment of life and liberty, with the means of acquiring and possessing property, and pursuing and obtaining happiness and safety.

2. That all power is vested in, and consequently derived from, the people; that magistrates are their trustees and servants, and at all times amenable to them.

3. That government is, or ought to be, instituted for the common benefit, protection, and security of the people, nation, or community; of all the various modes and forms of government, that is best which is capable of producing the greatest degree of happiness and safety, and is most effectually secured against the danger of maladministration; and that
when any government shall be found inadequate or contrary to these purposes, a majority of the community hath an indubitable, unalienable, and indefeasible right to reform, alter, or abolish it, in such manner as shall be judged most conducive to the public weal.

4. That no man, or set of men, are entitled to exclusive or separate emoluments or privileges from the community, but in consideration of publick services; which, not being descendible, neither ought the offices of magistrate, legislator, or judge to be hereditary.

5. That the legislative and executive powers of the state should be separate and distinct from the judiciary; and that the members of the two first may be restrained from oppression, by feeling and participating the burthens of the people, they should, at fixed periods, be reduced to a private station, return into that body from which they were originally taken, and the vacancies be supplied by frequent, certain, and regular elections, in which all or any part of the former members to be again eligible or ineligible, as the laws shall direct.

6. That elections of members to serve as representatives of the people in assembly ought to be free; and that all men having sufficient evidence of permanent common interest with, and attachment to the community, have the right of suffrage, and cannot be taxed or deprived of their property for publick uses, without their own consent, or that of their representatives so elected, nor bound by any law to which they have not, in like manner, assented for the public good.

7. That all power of suspending laws or the execution of laws by any authority, without consent of the representatives of the people, is injurious to their rights, and ought not to be exercised.

George Mason (1725–1792)

Revolutionary leader, author of Virginia Declaration of Rights, delegate to Constitutional Convention.

Courtesy, Independence National Historical Park.
8. That in all capital or criminal prosecutions a man hath a right to demand the cause and nature of his accusation, to be confronted with the accusers and witnesses, to call for evidence in his favor, and to a speedy trial by an impartial jury, of his vicinage, without whose unanimous consent he cannot be found guilty; nor can he be compelled to give evidence against himself; that no man be deprived of his liberty, except by the law of the land or the judgment of his peers.

9. That excessive bail ought not to be required, nor excessive fines imposed, nor cruel and unusual punishments inflicted.

10. That general warrants, whereby an officer or messenger may be commanded to search suspected places without evidence of a fact committed, or to seize any person or persons not named, or whose offence is not particularly described and supported by evidence, are grievous and oppressive, and ought not to be granted.

11. That in controversies respecting property, and in suits between man and man, the ancient trial by jury is preferable to any other, and ought to be held sacred.

12. That the freedom of the press is one of the great bulwarks of liberty, and can never be restrained but by despotic governments.

13. That a well-regulated militia, composed of the body of the people trained to arms, is the proper, natural, and safe defence of a free State; that standing armies in time of peace should be avoided as dangerous to liberty; and that in all cases the military should be under strict subordination to and governed by the civil power.

14. That the people have a right to uniform government; and, therefore, that no government separate from or independent of the government of Virginia ought to be erected or established within the limits thereof.

15. That 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 frequent recurrence to fundamental principles.

16. That religion, or the duty which we owe to our Creator, and the manner of discharging it, can be directed only by reason and conviction, not by force or violence; and, therefore, all men are equally entitled to the free exercise of religion, according to the dictates of conscience; and that it is the mutual duty of all to practise Christian forbearance, love, and charity towards each other.

—Adopted June 12, 1776
In Congress, July 4, 1776

The unanimous Declaration of the thirteen united States of America

When in the Course of human events, it becomes necessary for one people to dissolve the political bands which have connected them with another, and to assume among the Powers of the earth, the separate and equal station to which the Laws of Nature and of Nature’s God entitle them, a decent respect to the opinions of mankind requires that they should declare the causes which impel them to the separation.

We hold these truths to be self-evident, that all men are created equal, that they are endowed by their Creator with certain unalienable Rights, that among these are Life, Liberty and the pursuit of Happiness. That to secure these rights, Governments are instituted among Men, deriving their just powers from the consent of the governed, That whenever any Form of Government becomes destructive of these ends, it is the Right of the People to alter or to abolish it, and to institute new Government, laying its foundation on such principles and organizing its powers in such form, as to them shall seem most likely to effect their Safety and Happiness. Prudence, indeed, will dictate that Governments long established should not be changed for light and transient causes; and accordingly all experience hath shown, that mankind are more disposed to suffer, while evils are sufferable, than to right themselves by abolishing the forms to which they are accustomed. But when a long train of
abuses and usurpations, pursuing invariably the same Object evinces a design to reduce them under absolute Despotism, it is their right, it is their duty, to throw off such Government, and to provide new Guards for their future security. Such has been the patient sufferance of these Colonies; and such is now the necessity which constrains them to alter their former Systems of Government. 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. To prove this, let Facts be submitted to a candid world.

He has refused his Assent to Laws, the most wholesome and necessary for the public good.

He has forbidden his Governors to pass Laws of immediate and pressing importance, unless suspended in their operation till his Assent should be obtained; and when so suspended, he has utterly neglected to attend to them.

He has refused to pass other Laws for the accommodation of large districts of people, unless those people would relinquish the right of Representation in the Legislature, a right inestimable to them and formidable to tyrants only.

He has called together legislative bodies at places unusual, uncomfortable, and distant from the depository of their Public Records, for the sole purpose of fatiguing them into compliance with his measures.

He has dissolved Representative Houses repeatedly, for opposing with manly firmness his invasions on the rights of the people.

He has refused for a long time, after such dissolutions, to cause others to be elected; whereby the Legislative Powers, incapable of Annihilation, have returned to the People at large for their exercise; the State remaining in the mean time exposed to all the dangers of invasion from without, and convulsions within.

He has endeavoured to prevent the population of these States; for that purpose obstructing the Laws for Naturalization of foreigners; re-

Thomas Jefferson, member of the Committee of Congress who was charged with the actual writing of the Declaration.
fusing to pass others to encourage their migration hither, and raising the conditions of new Appropriations of Lands.

He has obstructed the Administration of Justice, by refusing his Assent to Laws for establishing Judiciary Powers.

He has made Judges dependent on his Will alone, for the tenure of their offices, and the amount and payment of their salaries.

He has erected a multitude of New Offices, and sent hither swarms of Officers to harrass our People, and eat out their substance.

He has kept among us, in times of peace, Standing Armies without the Consent of our legislature.

He has affected to render the Military independent of and superior to the Civil Power.

He has combined with others to subject us to a jurisdiction foreign to our constitution, and unacknowledged by our laws; giving his Assent to their Acts of pretended Legislation:

For quartering large bodies of armed troops among us:

For protecting them, by a mock Trial, from Punishment for any Murders which they should commit on the Inhabitants of these States:

For cutting off our Trade with all parts of the world:

For imposing Taxes on us without our Consent:
For depriving us in many cases, of the benefits of Trial by Jury:
For transporting us beyond Seas to be tried for pretended offences:
For abolishing the free System of English Laws in a neighbouring Province, establishing therein an Arbitrary government, and enlarging its Boundaries so as to render it at once an example and fit instrument for introducing the same absolute rule into these Colonies:
For taking away our Charters, abolishing our most valuable Laws, and altering fundamentally the Forms of our Governments:
For suspending our own Legislatures, and declaring themselves invested with Power to legislate for us in all cases whatsoever.
He has abdicated Government here, by declaring us out of his Protection and waging War against us.
He has plundered our seas, ravaged our Coasts, burnt our towns, and destroyed the Lives of our people.
He is at this time transporting large Armies of foreign Mercenaries to compleat the works of death, desolation and tyranny, already begun with circumstances of Cruelty & perfidy scarcely paralleled in the most barbarous ages, and totally unworthy the Head of a civilized nation.
He has constrained our fellow Citizens taken Captive on the high Seas to bear Arms against their Country, to become the executioners of their friends and Brethren, or to fall themselves by their Hands.
He has excited domestic insurrections amongst us, and has endeavoured to bring on the inhabitants of our frontiers, the merciless Indian Savages, whose known rule of warfare, is an undistinguished destruction of all ages, sexes and conditions.
In every stage of these Oppressions We have Petitioned for Redress in the most humble terms: Our repeated Petitions have been answered only by repeated injury. A Prince, whose character is thus marked by every act which may define a Tyrant, is unfit to be the ruler of a free People.
Nor have We been wanting in attention to our British brethren. We have warned them from time to time of attempts by their legislature to extend an unwarrantable jurisdiction over us. We have reminded them of the circumstances of our emigration and settlement here. We have appealed to their native justice and magnanimity, and we have conjured them by the ties of our common kindred to disavow these usurpations; which would inevitably interrupt our connections and correspondence. They too have been deaf to the voice of justice and of consanguinity. We must, therefore, acquiesce in the necessity, which denounces our Separation, and hold them, as we hold
the rest of mankind, Enemies in War, in Peace Friends.

We, therefore, the Representatives of the United States of America, in General Congress, Assembled, appealing to the Supreme Judge of the world for the rectitude of our intentions, do, in the Name, and by Authority of the good people of these Colonies, solemnly publish and declare, That these United Colonies are, and of Right ought to be Free and Independent States; that they are Absolved from all Allegiance to the British Crown, and that all political connection between them and the State of Great Britain, is and ought to be totally dissolved; and that as Free and Independent States, they have full Power to levy War, conclude Peace, contract Alliances, establish Commerce, and to do all other Acts and Things which Independent States may of right do. And for the support of this Declaration, with a firm reliance on the Protection of Divine Providence, we mutually pledge to each other our Lives, our Fortunes and our sacred Honor.  

John Hancock

New Hampshire
Josiah Bartlett
Wm. Whipple
Matthew Thornton

Rhode Island
Step. Hopkins
William Ellery

Connecticut
Roger Sherman
Sam’el Huntington
Wm. Williams
Oliver Wolcott

New York
Wm. Floyd
Phil. Livingston
Frans. Lewis
Lewis Morris

New Jersey
Richd. Stockton
Jno. Witherspoon
Fras. Hopkinson
John Hart
Abra. Clark

Pennsylvania
Robt. Morris
Benjamin Rush
Benj. Franklin
John Morton
Geo. Clymer
Jas. Smith
Geo. Taylor
James Wilson
Geo. Ross

Massachusetts Bay
Saml. Adams
John Adams
Robt. Treat Paine
Elbridge Gerry

Delaware
Caesar Rodney
Geo. Read
Tho. M’Kean

Maryland
Samuel Chase
Wm. Paca
Thos. Stone
Charles Carroll of Carrollton

Virginia
George Wythe
Richard Henry Lee
Th. Jefferson
Benj. Harrison
Ths. Nelson, Jr.
Francis Lightfoot Lee
Carter Braxton

North Carolina
Wm. Hooper
Joseph Hewes
John Penn

South Carolina
Edward Rutledge
Thos. Heyward, Junr.
Thomas Lynch, Junr.
Arthur Middleton

Georgia
Button Gwinnett
Lyman Hall
Geo. Walton
[Preamble]

We the People of the United States, in order to form a more perfect Union, establish Justice, insure domestic Tranquility, provide for the common defence, 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 1. All legislative Powers herein granted shall be vested in a Congress of the United States, which shall consist of a Senate and House of Representatives.

Section 2. The House of Representatives shall be composed of Members chosen every second Year by the People of the several States, and the Electors in each State shall have the Qualifications requisite for Electors of the most numerous Branch of the State Legislature.

No person shall be a Representative who shall not have attained to the Age of twenty five Years and been seven Years a Citizen of the United States, and who shall not, when elected, be an Inhabitant of that State in which he shall be chosen.

Representatives and direct Taxes shall be apportioned among the several States which may be included within this Union, according to their respective Numbers, which shall be determined by adding to the whole Number of Free persons, including
those bound to Service for a Term of Years, and excluding Indians not taxed, three fifths of all other Persons. The actual Enumeration shall be made within three Years after the first meeting of the Congress of the United States, and within every subsequent Term of ten Years, in such Manner as they shall by Law direct. The Number of Representatives shall not exceed one for every thirty Thousand, but each State shall have at Least one Representative; and until such enumeration shall be made, the State of New Hampshire shall be entitled to chuse three, Massachusetts eight, Rhode Island and Providence Plantations one, Connecticut five, New York six, New Jersey four, Pennsylvania eight, Delaware one, Maryland six, Virginia ten, North Carolina five, South Carolina five, and Georgia three.

When vacancies happen in the Representation from any State, the Executive Authority thereof shall issue Writs of Election to fill such Vacancies.

The House of Representatives shall chuse their Speaker and other Officers; and shall have the sole Power of Impeachment.

Section 3. The Senate of the United States shall be composed of two Senators from each State, chosen by the Legislature thereof, for six Years; and each Senator shall have one Vote.

Immediately after they shall be assembled in Consequence of the first Election, they shall be divided as equally as may be into three Classes. The seats of the Senators of the first Class shall be vacated at the Expiration of the second year, of the second Class at the Expiration of the fourth Year, and of the third Class at the Expiration of the sixth Year, so that one-third may be chosen every second Year; and if Vacancies happen by Resignation, or otherwise, during the Recess of the Legislature of any State, the Executive thereof may make temporary Appointments until the next Meeting of the Legislature, which shall then fill such Vacancies.

No Person shall be a Senator who shall not have attained to the Age of thirty Years, and been nine Years a Citizen of the United States, and who shall not, when elected, be an Inhabitant of that State for which he shall be chosen.

The Vice President of the United States shall be President of the Senate, but shall have no Vote, unless they be equally divided.

The Senate shall chuse their other Officers, and also a President pro tempore, in the Absence of the Vice President, or when he shall exercise the Office of President of the United States.

The Senate shall have the sole Power to try all impeachments. When sitting for that Purpose, they shall be on Oath or Affirmation.
When the President of the United States is tried, the Chief Justice shall preside: and no Person shall be convicted without the Concurrence of two thirds of the Members present.

Judgment in Cases of Impeachment shall not extend further than to removal from Office, and disqualification to hold and enjoy any Office of honor, Trust or Profit under the United States: but the Party convicted shall nevertheless be liable and subject to Indictment, Trial, Judgment and Punishment, according to Law.

Section 4. The Times, Places and manner of holding Elections for Senators and Representatives, shall be prescribed in each State by the Legislature thereof; but the Congress may at any time by Law make or alter such Regulations, except as to the Places of chusing Senators.

The Congress shall assemble at least once in every Year, and such Meeting shall be on the first Monday in December, unless they shall by Law appoint a different Day.

Section 5. Each House shall be the Judge of the Elections, Returns and Qualifications of its own Members, and a Majority of each shall constitute a Quorum to do Business; but a smaller Number may adjourn from day to day, and may be authorized to compel the Attendance of absent Members, in such Manner, and under such Penalties as each House may provide.

Each House may determine the Rules of its Proceedings, punish its Members for disorderly Behaviour, and, with the Concurrence of two thirds, expel a Member.

Each House shall keep a Journal of its Proceedings, and from time to time publish the same, excepting such Parts as may in their judgment require Secrecy; and the Yeas and Nays of the Members of either House on any question shall, at the desire of one fifth of those Present, be entered on the Journal.

Neither House, during the Session of Congress, shall, without the Consent of the other, adjourn for more than three days, nor to any other Place than that in which the two Houses shall be sitting.

Section 6. The Senators and Representatives shall receive a Compensation for their Services, to be ascertained by Law, and paid out of the Treasury of the United States. They shall in all Cases, except Treason, Felony and Breach of the Peace, be privileged from Arrest during their Attendance at the Session of their respective Houses, and in going to and returning from the same; and for any Speech or Debate in either House, they shall not be questioned in any other place.

No Senator or Representative shall, during the Time for which he was elected, be appointed to any civil Office under the Authority of the United States, which shall have been
created, or the Emoluments whereof shall have been increased during such time; and no Person holding any Office under the United States, shall be a Member of either House during his Continuance in Office.

**Section 7.** All Bills for raising Revenue shall originate in the House of Representatives; but the Senate may propose or concur with Amendments as on other Bills.

Every Bill which shall have passed the House of Representatives and the Senate, shall, before it become a Law, be presented to the President of the United States; If he approve he shall sign it, but if not he shall return it, with his Objections to that House in which it shall have originated, who shall enter the Objections at large on their Journal, and proceed to reconsider it. If after such Reconsideration two thirds of that House shall agree to pass the Bill, it shall be sent, together with the Objections, to the other House, by which it shall likewise be reconsidered, and if approved by two thirds of that House, it shall become a Law. But in all such Cases the Votes of both Houses shall be determined by yeas and Nays, and the Names of the Persons voting for and against the Bill shall be entered on the Journal of each House respectively. If any Bill shall not be returned by the President within ten Days (Sundays excepted) after it shall have been presented to him, the Same shall be a Law, in like Manner as if he had signed it, unless the Congress by their Adjournment prevent its Return, in which Case it shall not be a Law.

Every Order, Resolution, or Vote to which the Concurrence of the Senate and House of Representatives may be necessary (except on a question of Adjournment) shall be presented to the President of the United States; and before the Same shall take Effect, shall be approved by him, or being disapproved by him, shall be repassed by two thirds of the Senate and House of Representatives, according to the Rules and Limitations prescribed in the Case of a Bill.

**Section 8.** The Congress shall have Power to lay and collect Taxes, Duties, Imposts and Excises, to pay the Debts and provide for the common Defence and general Welfare of the United States; but all Duties, Imposts and Excises shall be uniform throughout the United States; To borrow Money on the credit of the United States; To regulate Commerce with foreign Nations, and among the several States, and with the Indian Tribes; To establish an uniform Rule of Naturalization, and uniform Laws on the subject of Bankruptcies throughout the United States; To coin Money, regulate the Value thereof, and of foreign Coin, and fix
the Standard of Weights and Measures;

To provide for the Punishment of counterfeiting the Securities and current Coin of the United States;

To establish Post Offices and post Roads;

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;

To constitute Tribunals inferior to the supreme Court;

To define and punish Piracies and Felonies committed on the high Seas, and Offences against the Law of Nations;

To declare War, grant Letters of Marque and Reprisal, and make Rules concerning Captures on Land and Water;

To raise and support Armies, but no Appropriation of Money to that Use shall be for a longer Term than two Years;

To provide and maintain a Navy;

To make Rules for the Government and Regulation of the land and naval Forces;

To provide for calling forth the Militia to execute the Laws of the Union, suppress Insurrections and repel Invasions;

To provide for organizing, arming, and disciplining, the Militia, and for governing such Part of them as may be employed in the Service of the United States, reserving to the States respectively, the Appointment of the Officers, and the Authority of training the Militia according to the discipline prescribed by Congress;

To exercise exclusive Legislation in all Cases whatsoever, over such District (not exceeding ten Miles square) as may, by Cession of particular States, and the Acceptance of Congress, become the Seat of the Government of the United States, and to exercise like Authority over all Places purchased by the Consent of the Legislature of the State in which the Same shall be, for the Erection of Forts, Magazines, arsenals, dock-Yards, and other needful Buildings;—And

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 Officer thereof.

Section 9. The Migration or Importation of such Persons as any of the States now existing shall think proper to admit, shall not be prohibited by the Congress prior to the Year one thousand eight hundred and eight, but a Tax or duty may be imposed on such Importation, not exceeding ten dollars for each Person.

The Privilege of the Writ of Habeas Corpus shall not be suspended, unless when in Cases of Rebellion or
Invasion the public Safety may re-
quire it.

No Bill of Attainder or ex post facto Law shall be passed.

No Capitation, or other direct, tax shall be laid, unless in Proportion to the Census or Enumeration herein before directed to be taken.

No Tax or Duty shall be laid on Articles exported from any State.

No Preference shall be given by any Regulation of Commerce or Revenue to the Ports of one State over those of another: nor shall Vessels bound to, or from, one State, be obliged to enter, clear, or pay Duties in another.

No Money shall be drawn from the Treasury, but in Consequence of Appropriations made by Law; and a regular Statement and Account of the Receipts and Expenditures of all public Money shall be published from time to time.

No Title of Nobility shall be granted by the United States: And no Person holding any Office of Profit or Trust under them, shall, without the Consent of the Congress, accept of any present, Emolument, Office, or Title, of any kind whatever, from any King, Prince, or foreign State.

Section 10. No State shall enter into any Treaty, Alliance, or Confederation; grant Letters of Marque and Reprisal; coin Money; emit Bills of Credit; make any Thing but gold and silver Coin a Tender in Payment of Debts; pass any Bill of At-
tainder, ex post facto Law, or Law impairing the Obligation of Contracts, or grant any Title of Nobility.

No State shall, without the Consent of the Congress, lay any Imposts or Duties on Imports or Exports, except what may be absolutely necessary for executing its inspection Laws: and the net Produce of all Duties and Imposts, laid by any State on Imports or Exports, shall be for the Use of the Treasury of the United States; and all such Laws shall be subject to the Revision and Control of the Congress.

No State shall, without the Consent of Congress, lay any Duty of Tonnage, keep Troops, or Ships of War in time of Peace, enter into any Agreement or Compact with another State, or with a foreign Power, or engage in War, unless actually invaded, or in such imminent Danger as will not admit of delay.

Article II

Section 1. The executive Power shall be vested in a President of the United States of America. He shall hold his Office during the Term of four Years, and, together with the Vice President, chosen for the same Term, be elected, as follows:

Each State shall appoint, in such Manner as the Legislature thereof may direct, a Number of Electors, equal to the whole Number of Sena-
tors and Representatives to which the State may be entitled in the Congress: but no Senator or Representative, or Person holding an Office of Trust or Profit under the United States, shall be appointed an Elector.

The Electors shall meet in their respective States, and vote by Ballot for two persons, of whom one at least shall not be an Inhabitant of the same State with themselves. And they shall make a List of all the Persons voted for, and of the Number of Votes for each; which List they shall sign and certify, and transmit sealed to the Seat of the Government of the United States, directed to the President of the Senate. The President of the Senate shall, in the Presence of the Senate and House of Representatives, immediately open all the Certificates, and the Votes shall then be counted. The Person having the greatest Number of Votes shall be the President, if such Number be a Majority of the whole Number of Electors appointed; and if there be more than one who have such Majority, and have an equal Number of Votes, then the House of Representatives shall immediately chuse, by Ballot one of them for President; and if no Person have a Majority, then from the five highest on the list, the said House shall in like manner chuse the President. But in chusing the President, the Votes shall be taken by States, the Representation from each State having one vote; A quorum for this Purpose shall consist of a Member or Members from two thirds of the States, and a Majority of all the States shall be necessary to a Choice. In every Case, after the Choice of the President, the Person having the greatest Number of Votes of the Electors shall be the Vice President. But if there should remain two or more who have equal Votes, the Senate shall chuse from them by Ballot the Vice-President.

The Congress may determine the Time of chusing the Electors, and the Day on which they shall give their Votes; which Day shall be the same throughout the United States.

No person except a natural born Citizen, or a Citizen of the United States, at the time of the Adoption of this Constitution, shall be eligible to the Office of President; neither shall any Person be eligible to that office who shall not have attained to the Age of thirty five Years, and been fourteen Years a Resident within the United States.

In Case of the Removal of the President from Office, or of his Death, Resignation or Inability to discharge the Powers and Duties of the said Office, the Same shall devolve on the Vice President, and the Congress may by Law provide for the Case of Removal, Death, Resignation or Inability, both of the President and Vice President, declaring what Officer shall then act as Presi-
dent, and such Officer shall act accordingly, until the Disability be removed, or a President shall be elected.

The President shall, at stated Times, receive for his Services, a Compensation, which shall neither be increased nor diminished during the Period for which he shall have been elected, and he shall not receive within that Period any other Emolument from the United States, or any of them.

Before he enter on the Execution of his Office, he shall take the following Oath or Affirmation:—"I do solemnly swear (or affirm) that I will faithfully execute the Office of President of the United States, and will to the best of my Ability, preserve, protect and defend the Constitution of the United States."

Section 2. The President shall be Commander in Chief of the Army and Navy of the United States, and of the Militia of the several States, when called into the actual Service of the United States; he may require the Opinion, in writing, of the principal Officer in each of the executive Departments, upon any Subject relating to the Duties of their respective Offices, and he shall have Power to grant Reprieves and Pardons for Offences against the United States, except in Cases of Impeachment.

He shall have Power, by and with the Advice and Consent of the Senate, to make Treaties, provided two thirds of the Senators present concur; and he shall nominate, and by and with the Advice and Consent of the Senate, shall appoint Ambassadors, other public Ministers and Consuls, Judges of the supreme Court, and all other Officers of the United States, whose Appointments are not herein otherwise provided for, and which shall be established by Law: but the Congress may by Law vest the Appointment of such inferior Officers, as they think proper, in the President alone, in the Courts of Law, or in the Heads of Departments.

The President shall have Power to fill up all Vacancies that may happen during the Recess of the Senate, by granting Commissions which shall expire at the End of their next session.

Section 3. He shall from time to time give to the Congress Information of the State of the Union, and recommend to their Consideration such Measures as he shall judge necessary and expedient; he may, on extraordinary Occasions, convene both Houses, or either of them, and in Case of Disagreement between them, with Respect to the time of Adjournment, he may adjourn them to such Time as he shall think proper; he shall receive Ambassadors and other public Ministers; he shall take Care that the Laws be faithfully executed, and shall commission all the Officers of the United States.
Section 4. The President, Vice President, and all civil Officers of the United States, shall be removed from Office on Impeachment for, and Conviction of, Treason, Bribery, or other high Crimes and Misdemeanors.

Article III

Section 1. The Judicial Power of the United States, shall be vested in one supreme Court, and in such inferior Courts as the Congress may from time to time ordain and establish. The Judges, both of the supreme and inferior Courts, shall hold their Offices during good Behaviour, and shall, at stated Times, receive for their Services, a Compensation, which shall not be diminished during their Continuance in Office.

Section 2. The judicial Power shall extend to all Cases, in Law and Equity, arising under this Constitution, the Laws of the United States, and Treaties made, or which shall be made, under their Authority;—to all Cases affecting Ambassadors, other public Ministers and Consuls;—to all Cases of admiralty and maritime Jurisdiction;—to Controversies to which the United States shall be a Party;—to Controversies between two or more States;—between a State and Citizens of another State;—between Citizens of different States,—between Citizens of the same State claiming Lands under Grants of different States, and between a State, or the Citizens thereof, and foreign States, Citizens or Subjects.

In all Cases affecting Ambassadors, other public Ministers and Consuls, and those in which a State shall be Party, the supreme Court shall have original Jurisdiction. In all the other Cases before mentioned, the supreme Court shall have appellate Jurisdiction, both as to Law and Fact, with such Exceptions, and under such Regulations as the Congress shall make.

The Trial of all Crimes, except in Cases of Impeachment, shall be by Jury; and such Trial shall be held in the State where the said Crimes shall have been committed; but when not committed within any State, the Trial shall be at such Place or Places as the Congress may by Law have directed.

Section 3. Treason against the United States, shall consist only in levying War against them, or in adhering to their Enemies, giving them Aid and Comfort. No Person shall be convicted of Treason unless on the Testimony of two Witnesses to the same overt Act, or on Confession in open Court.

The Congress shall have Power to declare the Punishment of Treason, but no Attainder of Treason shall work Corruption of Blood, or Forfeiture except during the Life of the Person attainted.
Article IV

Section 1. Full Faith and Credit shall be given in each State to the public Acts, Records, and judicial Proceedings of every other State. And the Congress may by general Laws prescribe the Manner in which such Acts, Records and Proceedings shall be proved, and the Effect thereof.

Section 2. The Citizens of each State shall be entitled to all Privileges and Immunities of Citizens in the several States.

A person charged in any State with Treason, Felony, or other Crime, who shall flee from Justice, and be found in another State shall on Demand of the executive Authority of the State from which he fled, be delivered up to be removed to the State having Jurisdiction of the Crime.

No person held to Service or Labour in one State, under the Laws thereof, escaping into another, shall, in Consequence of any Law or Regulation therein, be discharged from such Service or Labour, but shall be delivered up on Claim of the Party to whom such Service or Labour may be due.

Section 3. New States may be admitted by the Congress into this Union; but no new State shall be formed or erected within the Jurisdiction of any other State; nor any State be formed by the Junction of two or more States, or Parts of States, without the Consent of the Legislatures of the States concerned as well as of the Congress.

The Congress shall have Power to dispose of and make all needful Rules and Regulations respecting the Territory or other Property belonging to the United States; and nothing in this Constitution shall be so construed as to Prejudice any Claims of the United States, or of any particular State.

Section 4. The United States shall guarantee to every State in this Union a Republican Form of Government, and shall protect each of them against Invasion; and on Application of the Legislature, or of the Executive (when the Legislature cannot be convened) against domestic Violence.

Article V

The Congress, whenever two thirds of both Houses shall deem it necessary, shall propose amendments to this Constitution, or, on the Application of the Legislatures of two thirds of the several States, shall call a Convention for proposing Amendments, which, in either Case, shall be valid to all Intents and Purposes, as Part of this Constitution, when ratified by the Legislatures of three fourths of the several States, or by Conventions in three fourths thereof, as the one or the other Mode of Ratification may be proposed by the Congress; Provided that no
Amendment which may be made prior to the Year One thousand eight hundred and eight shall in any Manner affect the first and fourth Clauses in the Ninth Section of the first Article; and that no State, without its Consent, shall be deprived of its equal Suffrage in the Senate.

Article VI

All Debts contracted and Engagements entered into, before the Adoption of this Constitution, shall be as valid against the United States under this Constitution, as under the Confederation.

This Constitution, and the Laws of the United States which shall be made in Pursuance thereof; and all Treaties made, or which shall be made, under the Authority of the United States, shall be the supreme Law of the Land; and the Judges in every State shall be bound thereby, any Thing in the Constitution or Laws of any State to the Contrary notwithstanding.

The Senators and Representatives before mentioned, and the Members of the several State Legislatures, and all executive and judicial Officers, both of the United States and of the several States, shall be bound by Oath or Affirmation, to support this Constitution; but no religious Test shall ever be required as a Qualification to any Office or public Trust under the United States.

Article VII

The Ratification of the Conventions of nine States, shall be sufficient for the Establishment of this Constitution between the States so ratifying the Same.

Done in Convention by the Unanimous Consent of the States present the Seventeenth Day of September in the Year of our Lord one thousand seven hundred and Eighty seven and of the Independence of the United States of America the Twelfth IN WITNESS whereof We have hereunto subscribed our Names,

and deputy from Virginia

Attest William Jackson Secretary

Ratification:

Delaware December 7, 1787
Pennsylvania December 12, 1787
New Jersey December 18, 1787
Georgia January 2, 1788
Connecticut January 9, 1788
Massachusetts February 6, 1788
Maryland April 28, 1788
South Carolina May 23, 1788
New Hampshire June 21, 1788
Virginia June 25, 1788
New York July 26, 1788
North Carolina November 21, 1789
Rhode Island May 29, 1790
(Article I)

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 to petition the Government for a redress of grievances.

(Article II)

A well regulated Militia, being necessary to the security of a free State, the right of the people to keep and bear Arms, shall not be infringed.

(Article III)

No Soldier shall, in time of peace, be quartered in any house, without the consent of the Owner, nor in time of war, but in a manner to be prescribed by law.

(Article IV)

The right of the people to be secure in their persons, houses, papers, and effects, against unreasonable searches and seizures, shall not be violated, and no Warrants shall issue, but upon probable cause, supported by Oath or affirmation, and particularly describing the place to be searched, and the persons or things to be seized.
(Article V)

No person shall be held to answer for a capital, or otherwise infamous crime, unless on a presentment or indictment of a Grand Jury, except in cases arising in the land or naval forces, or in the Militia, when in actual service in time of War or public danger; nor shall any person be subject for the same offence to be twice put in jeopardy of life or limb; nor shall be compelled in any Criminal Case to be a witness against himself, nor be deprived of life, liberty, or property, without due process of law; nor shall private property be taken for public use, without just compensation.

(Article VI)

In all criminal prosecutions, the accused shall enjoy the right to a speedy and public trial, by an impartial jury of the State and district wherein the crime shall have been committed, which district shall have been previously ascertained by law, and to be informed of the nature and cause of the accusation; to be confronted with the witnesses against him; to have compulsory process for obtaining witnesses in his favor, and to have the Assistance of Counsel for his defence.

(Article VII)

In suits at common law, where the value in controversy shall exceed twenty dollars, the right of trial by jury shall be preserved, and no fact tried by a jury shall be otherwise re-examined in any Court of the United States, than according to the rules of the common law.

(Article VIII)

Excessive bail shall not be required, nor excessive fines imposed, nor cruel and unusual punishments inflicted.

(Article IX)

The enumeration in the Constitution, of certain rights, shall not be construed to deny or disparage others retained by the people.

(Article X)

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.

—Adopted December 15, 1791
Friends and Fellow-Citizens:

The period for a new election of a citizen to administer the Executive Government of the United States being not far distant, and the time actually arrived when your thoughts must be employed in designating the person who is to be clothed with that important trust, it appears to me proper, especially as it may conduce to a more distinct expression of the public voice, that I should now apprise you of the resolution I have formed to decline being considered among the number of those out of whom a choice is to be made.

I beg you at the same time to do me the justice to be assured that this resolution has not been taken without a strict regard to all the considerations appertaining to the relation which binds a dutiful citizen to his country; and that in withdrawing the tender of service, which silence in my situation might imply, I am influenced by no diminution of zeal for your future interest, no deficiency of grateful respect for your past kindness, but am supported by a full conviction that the step is compatible with both.

The acceptance of and continuance hitherto in the office to which your suffrages have twice called me have been a uniform sacrifice of inclination to the opinion of duty and to a deference for what appeared to be your desire. I constantly hoped that it would have been much earlier in my power, consistently with motives which I was not at liberty to disregard, to return to that retirement from which I had been reluctantly drawn. The strength of my inclination to do this previous to the last election had even led to the pre-
paration of an address to declare it to you; but mature reflection on the then perplexed and critical posture of our affairs with foreign nations and the unanimous advice of persons entitled to my confidence impelled me to abandon the idea. I rejoice that the state of your concerns, external as well as internal, no longer renders the pursuit of inclination incompatible with the sentiment of duty or propriety, and am persuaded, whatever partiality may be retained for my services, that in the present circumstances of our country you will not disapprove my determination to retire.

The impressions with which I first undertook the arduous trust were explained on the proper occasion. In the discharge of this trust I will only say that I have, with good intentions, contributed toward the organization and administration of the Government the best exertions of which a very fallible judgment was capable. Not unconscious in the outset of the inferiority of my qualifications, experience in my own eyes, perhaps still more in the eyes of others, has strengthened the motives to diffidence of myself; and every day the increasing weight of years admonishes me more and more that the shade of retirement is as necessary to me as it will be welcome. Satisfied that if any circumstances have given peculiar value to my services they were temporary, I have the consolation to believe that, while choice and prudence invite me to quit the political scene, patriotism does not forbid it.

**A Prayer of Gratitude**

In looking forward to the moment which is intended to terminate the career of my political life my feelings do not permit me to suspend the deep acknowledgment of that debt of gratitude which I owe to my beloved country for the many honors it has conferred upon me; still more for the steadfast confidence with which it has supported me, and for the opportunities I have thence enjoyed of manifesting my inviolable attachment by services faithful and persevering, though in usefulness unequal to my zeal. If benefits have resulted to our country from these services, let it always be remembered to your praise and as an instructive example in our annals that under circumstances in which the passions, agitated in every direction, were liable to mislead; amidst appearances sometimes dubious; vicissitudes of fortune often discouraging; in situations in which not unfrequently want of success has countenanced the spirit of criticism, the constancy of your support was the essential prop of the efforts and a guaranty of the plans by which they were effected. Profoundly penetrated with this idea, I shall carry it with me to my grave as a strong
incitement to unceasing vows that Heaven may continue to you the choicest tokens of its beneficence; that your union and brotherly affection may be perpetual; that the free Constitution which is the work of your hands may be sacredly maintained; that its administration in every department may be stamped with wisdom and virtue; that, in fine, the happiness of the people of these States, under the auspices of liberty, may be made complete by so careful a preservation and so prudent a use of this blessing as will acquire to them the glory of recommending it to the applause, the affection, and adoption of every nation which is yet a stranger to it.

Here, perhaps, I ought to stop. But a solicitude for your welfare which can not end but with my life, and the apprehension of danger natural to that solicitude, urge me on an occasion, like the present to offer to your solemn contemplation and to recommend to your frequent review some sentiments which are the result of much reflection, of no inconsiderable observation, and which appear to me all important to the permanency of your felicity as a people. These will be offered to you with the more freedom as you can only see in them the disinterested warnings of a parting friend, who can possibly have no personal motive to bias his counsel. Nor can I forget as an encouragement to it your indulgent reception of my sentiments on a former and not dissimilar occasion.

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.

**In Union Lies Strength**

The unity of government which constitutes you one people is also now dear to you. It is justly so, for it is a main pillar in the edifice of your real independence, the support of your tranquility at home, your peace abroad, of your safety, of your prosperity, of that very liberty which you so highly prize. But as it is easy to foresee that from different causes and from different quarters much
pains will be taken, many artifices employed, to weaken in your minds the conviction of this truth, as this is the point in your political fortress against which the batteries of internal and external enemies will be most constantly and actively (though often covertly and insidiously) directed, it is of infinite moment that you should properly estimate the immense value of your national union to your collective and individual happiness; that you should cherish a cordial, habitual, and immovable attachment to it; accustoming yourselves to think and speak of it as of the palladium of your political safety and prosperity; watching for its preservation with jealous anxiety; discountenancing whatever may suggest even a suspicion that it can in any event be abandoned, and indignantly frowning upon the first dawning of every attempt to alienate any portion of our country from the rest or to enfeeble the sacred ties which now link together the various parts.

For this you have every inducement of sympathy and interest. Citizens by birth or choice of a common country, that country has a right to concentrate your affections. The name of American, which belongs to you in your national capacity, must always exalt the just pride of patriotism more than any appellation derived from local discriminations. With slight shades of difference, you have the same religion, manners, habits, and political principles. You have in a common cause fought and triumphed together. The independence and liberty you possess are the work of joint councils and joint efforts, of common dangers, sufferings, and successes.

But these considerations, however powerfully they address themselves to your sensibility, are greatly outweighed by those which apply more immediately to your interest. Here every portion of our country finds the most commanding motives for carefully guarding and preserving the union of the whole.

The North, in an unrestrained intercourse with the South, protected by the equal laws of a common government, finds in the productions of the latter great additional resources of maritime and commercial enterprise and precious materials of manufacturing industry. The South, in the same intercourse, benefiting by the same agency of the North, sees its agriculture grow and its commerce expand. Turning partly into its own channels the seamen of the North, it finds its particular navigation invigorated; and while it contributes in different ways to nourish and increase the general mass of the national navigation, it looks forward to the protection of a maritime strength to which itself is unequally adapted. The East, in a like intercourse with the West, already finds,
and in the progressive improvement of interior communications by land and water will more and more find, a valuable vent for the commodities which it brings from abroad or manufactures at home. The West derives from the East supplies requisite to its growth and comfort, and what is perhaps of still greater consequence, it must of necessity owe the secure enjoyment of indispensable outlets for its own productions to the weight, influence, and the future maritime strength of the Atlantic side of the Union, directed by an indissoluble community of interest as one nation. Any other tenure by which the West can hold this essential advantage, whether derived from its own separate strength or from an apostate and unnatural connection with any foreign power, must be intrinsically precarious.

**Harmonious Interests**

While, then, every part of our country thus feels an immediate and particular interest in union, all the parts combined can not fail to find in the united mass of means and efforts greater strength, greater resource, proportionally greater security from external danger, a less frequent interruption of their peace by foreign nations, and what is of inestimable value, they must derive from union an exemption from those broils and wars between themselves which so frequently afflict neighbor-
to distrust the patriotism of those who in any quarter may endeavor to weaken its bands.

**Divisive Issues Avoided**

In contemplating the causes which may disturb our union it occurs as matter of serious concern that any ground should have been furnished for characterizing parties by geographical discriminations—Northern and Southern, Atlantic and Western—whence designing men may endeavor to excite a belief that there is a real difference of local interests and views. One of the expedients of party to acquire influence within particular districts is to misrepresent the opinions and aims of other districts. You can not shield yourselves too much against the jealousies and heartburnings which spring from these misrepresentations; they tend to render alien to each other those who ought to be bound together by fraternal affection. The inhabitants of our Western country have lately had a useful lesson on this head. They have seen in the negotiation by the Executive and in the unanimous ratification by the Senate of the treaty with Spain, and in the universal satisfaction at that event throughout the United States, a decisive proof how unfounded were the suspicions propagated among them of a policy in the General Government and in the Atlantic States unfriendly to their interests in regard to the Mississippi. They have been witnesses to the formation of two treaties—that with Great Britain and that with Spain—which secure to them everything they could desire in respect to our foreign relations toward confirming their prosperity. Will it not be their wisdom to rely for the preservation of these advantages on the union by which they were procured? Will they not henceforth be deaf to those advisers, if such there are, who would sever them from their brethren and connect them with aliens?

To the efficacy and permanency of your union a government for the whole is indispensable. No alliances, however strict, between the parts can be an adequate substitute. They must inevitably experience the infractions and interruptions which all alliances in all times have experienced. Sensible of this momentous truth, you have improved upon your first essay by the adoption of a Constitution of Government better calculated than your former for an intimate union and for the efficacious management of your common concerns. This Government, the offspring of our own choice, uninfluenced and unawed, adopted upon full investigation and mature deliberation, completely free in its principles, in the distribution of its powers, uniting security with energy, and containing within itself a provision for its own amendment, has a
just claim to your confidence and your support. Respect for its authority, compliance with its laws, acquiescence in its measures, are duties enjoined by the fundamental maxims of true liberty. The basis of our political systems is the right of the people to make and to alter their constitutions of government. But the constitution which at any time exists till changed by an explicit and authentic act of the whole people is sacredly obligatory upon all. The very idea of the power and the right of the people to establish government presupposes the duty of every individual to obey the established government.

**Special Interests and Factions**

All obstructions to the execution of the laws, all combinations and associations, under whatever plausible character, with the real design to direct, control, counteract, or awe the regular deliberation and action of the constituted authorities, are destructive of this fundamental principle and of fatal tendency. They serve to organize faction; to give it an artificial and extraordinary force; to put in the place of the delegated will of the nation the will of a party, often a small but artful and enterprising minority of the community, and, according to the alternate triumphs of different parties, to make the public administration the mirror of the ill-concerted and incongruous projects of faction rather than the organ of consistent and wholesome plans, digested by common counsels and modified by mutual interests.

However combinations or associations of the above description may now and then answer popular ends, they are likely in the course of time and things to become potent engines by which cunning, ambitious, and unprincipled men will be enabled to subvert the power of the people, and to usurp for themselves the reins of government, destroying afterwards the very engines which have lifted them to unjust dominion.

Toward the preservation of your Government and the permanency of your present happy state, it is requisite not only that you steadily discountenance irregular opposition to its acknowledged authority, but also that you resist with care the spirit of innovation upon its principles, however specious the pretexts. One method of assault may be to effect in the forms of the Constitution alterations which will impair the energy of the system, and thus to undermine what can not be directly overthrown. In all the changes to which you may be invited remember that time and habit are at least as necessary to fix the true character of governments as of other human institutions; that experience is the surest standard by which to test the real tendency of the existing consti-
tution of a country; that facility in changes upon the credit of mere hypothesis and opinion exposes to perpetual change, from the endless variety of hypothesis and opinion; and remember especially that for the efficient management of your common interests in a country so extensive as ours a government of as much vigor as is consistent with the perfect security of liberty is indispensable. Liberty itself will find in such a government, with powers properly distributed and adjusted, its surest guardian. It is, indeed, little else than a name where the government is too feeble to withstand the enterprises of faction, to confine each member of the society within the limits prescribed by the laws, and to maintain all in the secure and tranquil enjoyment of the rights of person and property.

The Spirit of Party

I have already intimated to you the danger of parties in the State, with particular reference to the founding of them on geographical discriminations. Let me now take a more comprehensive view, and warn you in the most solemn manner against the baneful effects of the spirit of party generally.

This spirit, unfortunately, is inseparable from our nature, having its root in the strongest passions of the human mind. It exists under different shapes in all governments, more or less stifled, controlled, or repressed; but in those of the popular form it is seen in its greatest rankness and is truly their worst enemy.

The alternate domination of one faction over another, sharpened by the spirit of revenge natural to party dissension, which in different ages and countries has perpetrated the most horrid enormities, is itself a frightful despotism. But this leads at length to a more formal and permanent despotism. The disorders and miseries which result gradually incline the minds of men to seek security and repose in the absolute power of an individual, and sooner or later the chief of some prevailing faction, more able or more fortunate than his competitors, turns this disposition to the purposes of his own elevation on the ruins of public liberty.

Without looking forward to an extremity of this kind (which nevertheless ought not to be entirely out of sight), the common and continual mischiefs of the spirit of party are sufficient to make it the interest and duty of a wise people to discourage and restrain it.

It serves always to distract the public councils and enfeeble the public administration. It agitates the community with ill-founded jealousies and false alarms; kindles the animosity of one part against another; foments occasionally riot and insurrection. It opens the door to foreign influence and corruption,
which find a facilitated access to the government itself through the channels of party passion. Thus the policy and the will of one country are subjected to the policy and will of another.

**Dangerous in a Free Country**

There is an opinion that parties in free countries are useful checks upon the administration of the government, and serve to keep alive the spirit of liberty. This within certain limits is probably true; and in governments of a monarchical cast patriotism may look with indulgence, if not with favor, upon the spirit of party. But in those of the popular character, in governments purely elective, it is a spirit not to be encouraged. From their natural tendency it is certain there will always be enough of that spirit for every salutary purpose; and there being constant danger of excess, the effort ought to be by force of public opinion to mitigate and assuage it. A fire not to be quenched, it demands a uniform vigilance to prevent its bursting into a flame, lest, instead of warming, it should consume.

It is important, likewise, that the habits of thinking in a free country should inspire caution in those intrusted with its administration to confine themselves within their respective constitutional spheres, avoiding in the exercise of the powers of one department to encroach upon another. The spirit of encroachment tends to consolidate the powers of all the departments in one, and thus to create, whatever the form of government, a real despotism. A just estimate of that love of power and proneness to abuse it which predominates in the human heart is sufficient to satisfy us of the truth of this position. The necessity of reciprocal checks in the exercise of political power, by dividing and distributing it into different depositories, and constituting each the guardian of the public weal against invasions by the others, has been evinced by experiments ancient and modern, some of them in our country and under our own eyes. To preserve them must be as necessary as to institute them. If in the opinion of the people the distribution or modification of the constitutional powers be in any particular wrong, let it be corrected
by an amendment in the way which the Constitution designates. But let there be no change by usurpation; for though this in one instance may be the instrument of good, it is the customary weapon by which free governments are destroyed. The precedent must always greatly overbalance in permanent evil any partial or transient benefit which the use can at any time yield.

**Religion and Morality**

Of all the dispositions and habits which lead to political prosperity, religion and morality are indispensable supports. In vain would that man claim the tribute of patriotism who should labor to subvert these great pillars of human happiness—these firmest props of the duties of men and citizens. The mere politician, equally with the pious man, ought to respect and to cherish them. A volume could not trace all their connections with private and public felicity. Let it simply be asked, Where is the security for property, for reputation, for life, if the sense of religious obligation desert the oaths which are the instruments of investigation in courts of justice? And let us with caution indulge the supposition that morality can be maintained without religion. Whatever may be conceded to the influence of refined education on minds of peculiar structure, reason and experience both forbid us to expect that national morality can prevail in exclusion of religious principle.

It is substantially true that virtue or morality is a necessary spring of popular government. The rule indeed extends with more or less force to every species of free government. Who that is a sincere friend to it can look with indifference upon attempts to shake the foundation of the fabric? Promote, then, as an object of primary importance, institutions for the general diffusion of knowledge. In proportion as the structure of a government gives force to public opinion, it is essential that public opinion should be enlightened.

As a very important source of strength and security, cherish public credit. One method of preserving it is to use it as sparingly as possible, avoiding occasions of expense by cultivating peace, but remembering also that timely disbursements to prepare for danger frequently prevent much greater disbursements to repel it; avoiding likewise the accumulation of debt, not only by shunning occasions of expense, but by vigorous exertions in time of peace to discharge the debts which unavoidable wars have occasioned, not ungenerously throwing upon posterity the burthen which we ourselves ought to bear. The execution of these maxims belongs to your representatives; but it is necessary that public opinion should cooperate. To
facilitate to them the performance of their duty it is essential that you should practically bear in mind that toward the payment of debts there must be revenue; that to have revenue there must be taxes; that no taxes can be devised which are not more or less inconvenient and unpleasant; that the intrinsic embarrassment inseparable from the selection of the proper objects (which is always a choice of difficulties), ought to be a decisive motive for a candid construction of the conduct of the Government in making it, and for a spirit of acquiescence in the measures for obtaining revenue which the public exigencies may at any time dictate.

Observe good faith and justice toward all nations. Cultivate peace and harmony with all. Religion and morality enjoin this conduct. And can it be that good policy does not equally enjoin it? It will be worthy of a free, enlightened, and at no distant period a great nation to give to mankind the magnanimous and too novel example of a people always guided by an exalted justice and benevolence. Who can doubt that in the course of time and things the fruits of such a plan would richly repay any temporary advantages which might be lost by a steady adherence to it? Can it be that Providence has not connected the permanent felicity of a nation with its virtue? The experiment, at least, is recommended by every sentiment which ennobles human nature. Alas! is it rendered impossible by its vices?

**International Policy**

In the execution of such a plan nothing is more essential than that permanent, inveterate antipathies against particular nations and passionate attachments for others should be excluded, and that in place of them just and amicable feelings toward all should be cultivated. The nation which indulges toward another an habitual hatred or an habitual fondness is in some degree a slave. It is a slave to its animosity or to its affection, either of which is sufficient to lead it astray from its duty and its interest. Antipathy in one nation against another disposes each more readily to offer insult and injury, to lay hold of slight causes of umbrage, and to be haughty and intractable when accidental or trifling occasions of dispute occur.

Hence frequent collisions, obstinate, envenomed, and bloody contests. The nation prompted by ill will and resentment sometimes impels to war the government contrary to the best calculations of policy. The government sometimes participates in the national propensity, and adopts through passion what reason would reject. At other times it makes the animosity of the nation subservient to projects of hostility, instigated by pride, ambition, and other
sinister and pernicious motives. The peace often, sometimes perhaps the liberty, of nations has been the victim.

So, likewise, a passionate attachment of one nation for another produces a variety of evils. Sympathy for the favorite nation, facilitating the illusion of an imaginary common interest in cases where no real common interest exists, and infusing into one the enmities of the other, betrays the former into a participation in the quarrels and wars of the latter without adequate inducement or justification. It leads also to concessions to the favorite nation of privileges denied to others, which is apt doubly to injure the nation making the concessions by unnecessarily parting with what ought to have been retained, and by exciting jealousy, ill will, and a disposition to retaliate in the parties from whom equal privileges are withheld; and it gives to ambitious, corrupted, or deluded citizens (who devote themselves to the favorite nation) facility to betray or sacrifice the interests of their own country without odium, sometimes even with popularity, gilding with the appearances of a virtuous sense of obligation, a commendable deference for public opinion, or a laudable zeal for public good the base or foolish compliances of ambition, corruption, or infatuation.

As avenues to foreign influence in innumerable ways, such attachments are particularly alarming to the truly enlightened and independent patriot. How many opportunities do they afford to tamper with domestic factions, to practice the arts of seduction, to mislead public opinion, to influence or awe the public councils! Such an attachment of a small or weak toward a great and powerful nation dooms the former to be the satellite of the latter. Against the insidious wiles of foreign influence (I conjure you to believe me, fellow-citizens) the jealousy of a free people ought to be constantly awake, since history and experience prove that foreign influence is one of the most baneful foes of republican government. But that jealousy, to be useful, must be impartial, else it becomes the instrument of the very influence to be avoided, instead of a defense against it. Excessive partiality for one foreign nation and excessive dislike of another cause those whom they actuate to see danger only on one side, and serve to veil and even second the arts of influence on the other. Real patriots who may resist the intrigues of the favorite are liable to become suspected and odious, while its tools and dupes usurp the applause and confidence of the people to surrender their interests.

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.

**Avoid Political Alliance**

Europe has a set of primary interests which to us have none or a very remote relation. Hence she must be engaged in frequent controversies, the causes of which are essentially foreign to our concerns. Hence, therefore, it must be unwise in us to implicate ourselves by artificial ties in the ordinary vicissitudes of her politics or the ordinary combinations and collisions of her friendships or enmities.

Our detached and distant situation invites and enables us to pursue a different course. If we remain one people, under an efficient government, the period is not far off when we may defy material injury from external annoyance; when we may take such an attitude as will cause the neutrality we may at any time resolve upon to be scrupulously respected; when belligerent nations, under the impossibility of making acquisitions upon us, will not lightly hazard the giving us provocation; when we may choose peace or war, as our interest, guided by justice, shall counsel.

Why forego the advantages of so peculiar a situation? Why quit our own to stand upon foreign ground?

Why, by interweaving our destiny with that of any part of Europe, entangle our peace and prosperity in the toils of European ambition, rivalship, interest, humor, or caprice?

**The Simple Rules of Trade**

It is our true policy to steer clear of permanent alliances with any portion of the foreign world, so far, I mean, as we are now at liberty to do it; for let me not be understood as capable of patronizing infidelity to existing engagements. I hold the maxim no less applicable to public than to private affairs that honesty is always the best policy. I repeat, therefore, let those engagements be observed in their genuine sense. But in my opinion it is unnecessary and would be unwise to extend them.

Taking care always to keep ourselves by suitable establishments on a respectable defensive posture, we may safely trust to temporary alliances for extraordinary emergencies.

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; consulting the natural course of things; diffusing and diversifying by gentle means the streams of commerce, but forcing nothing; establishing with powers so disposed, in order to give trade
a stable course, to define the rights of our merchants, and to enable the Government to support them, conventional rules of intercourse, the best that present circumstances and mutual opinion will permit, but temporary and liable to be from time to time abandoned or varied as experience and circumstances shall dictate; 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; that by such acceptance it may place itself in the condition of having given equivalents for nominal favors, and yet of being reproached with ingratitude for not giving more. There can be no greater error than to expect or calculate upon real favors from nation to nation. It is an illusion which experience must cure, which a just pride ought to discard.

Suggestions to Guide Peaceful National Affairs

In offering to you, my countrymen, these counsels of an old and affectionate friend I dare not hope they will make the strong and lasting impression I could wish—that they will control the usual current of the passions or prevent our nation from running the course which has hitherto marked the destiny of nations. But if I may even flatter myself that they may be productive of some partial benefit, some occasional good—that they may now and then recur to moderate the fury of party spirit, to warn against the mischiefs of foreign intrigue, to guard against the impostures of pretended patriotism—this hope will be a full recompense for the solicitude for your welfare by which they have been dictated.

How far in the discharge of my official duties I have been guided by the principles which have been delineated the public records and other evidences of my conduct must witness to you and to the world. To myself, the assurance of my own conscience is that I have at least believed myself to be guided by them.

In relation to the still subsisting war in Europe my proclamation of the 22nd of April, 1793, is the index to my plan. Sanctioned by your approving voice and by that of your representatives in both Houses of Congress, the spirit of that measure has continually governed me, uninfluenced by any attempts to deter or divert me from it.

After deliberate examination, with the aid of the best lights I could obtain, I was well satisfied that our country, under all the circumstances of the case, had a right to take, and was bound in duty and interest to take, a neutral position. Having taken it, I determined as far as should depend upon me to main-
tain it with moderation, perseverance, and firmness.

The considerations which respect the right to hold this conduct it is not necessary on this occasion to detail. I will only observe that, according to my understanding of the matter, that right, so far from being denied by any of the belligerent powers, has been virtually admitted by all.

The duty of holding a neutral conduct may be inferred, without anything more, from the obligation which justice and humanity impose on every nation, in cases in which it is free to act, to maintain inviolate the relations of peace and amity toward other nations.

An Independent Nation

The inducements of interest for observing that conduct will best be referred to your own reflections and experience. With me a predominant motive has been to endeavor to gain time to our country to settle and mature its yet recent institutions, and to progress without interruption to that degree of strength and consistency which is necessary to give it, humanly speaking, the command of its own fortunes.

Though in reviewing the incidents of my Administration I am unconscious of intentional error, I am nevertheless too sensible of my defects not to think it probable that I may have committed many errors. Whatever they may be, I fervently beseech the Almighty to avert or mitigate the evils to which they may tend. I shall also carry with me the hope that my country will never cease to view them with indulgence, and that, after forty-five years of my life dedicated to its service with an upright zeal, the faults of incompetent abilities will be consigned to oblivion, as myself must soon be to the mansions of rest.

Relying on its kindness in this as in other things, and actuated by that fervent love toward it which is so natural to a man who views in it the native soil of himself and his progenitors for several generations, I anticipate with pleasing expectation that retreat in which I promise myself to realize without alloy the sweet enjoyment of partaking in the midst of my fellow-citizens the benign influence of good laws under a free government—the ever-favorite object of my heart, and the happy reward, as I trust, of our mutual cares, labors, and dangers.

—September 17, 1796
CONSTITUTIONAL GOVERNMENT
Additional Readings

Among the books published by The Foundation for Economic Education or stocked for resale from other publishers, the following are especially commended for further study of the principles underlying the Constitution.

FREDERIC BASTIAT
The Law
The law, it has been said, is nothing more than the will of tyrants. So it has been many times in history. But just laws depend upon a law which underlies the law passed by legislatures or declared by rulers. It is a law which provides the framework of liberty. Emancipation from the doleful theories of the compulsive state awaits discerning readers of this brief treatise.

CLARENCE B. CARSON
The American Tradition
Is the libertarian position incompatible with conservatism? Somewhere, perhaps, but in the United States, NO! This becomes clear in this careful and illuminating work on the American tradition. In the United States, a great tradition took shape that was protective of and in harmony with liberty. This book describes, too, how the tradition has been distorted and is being undermined.

The Rebirth of Liberty
Liberty has been all too often stillborn in the revolutions of our era. The promises of freedom were but deceitful allure from would-be tyrants. One revolution was different, however; it was the American Revolution. How the promise was turned into reality is the subject of this contemporary study of the great men and events of that revolt by Americans from English rule.

JOHN CHAMBERLAIN
The Roots of Capitalism
The connection between economic thought and practice is a vital one. In similar manner, the precondition of private property to the effective use of capital is essential. Chamberlain has woven these and other threads together to tell the modern story of freedom and production.
W. M. CURTISS
The Tariff Idea
No notion has been more persistently held in our era than the one that obstacles ought to be placed in the way of goods entering a country. Even today auto stickers proclaim "Every foreign car imported cost 10 jobs for Americans." W. M. Curtiss has exposed this fallacy in this brief, easy-to-read and hard-to-put-down booklet. The case for freedom is clearly and forcefully made.

GOTTFRIED DIETZE
The Federalist: A Classic on Federalism and Free Government
It is generally conceded that The Federalist was the greatest American contribution to political thought. It follows that a clear understanding of these papers and the thought of the men who wrote them is vital both to thinking about politics and to an understanding of the United States Constitution. Professor Dietze has provided invaluable aids to doing this in his seminal work on The Federalist.

VERNA M. HALL
The Christian History of the Constitution of the United States
The Constitution of the United States was founded upon the conception of a Higher Law. The Higher Law concept is itself founded in the belief in the laws of God. Verna Hall has collected and arranged in a single volume the evidences of the Christian foundation of our Constitution.

ALEXANDER HAMILTON, JOHN JAY AND JAMES MADISON
The Federalist
Serious students of government, and particularly American government, may well begin with these papers written by John Jay, Alexander Hamilton, and James Madison. It is the most brilliant justification and explanation of the Constitution that has been made. The principles of effective government and liberty are set forth in this great work!

CLARENCE MANION
The Key to Peace
Those who think that the American way can somehow be evoked by a vague and general term such as "Democracy" should be especially
interested in this booklet. With great economy, Clarence Manion covers the key ideas in the Declaration of Independence and describes the basic institutions and practices. It reawakens pride in America and respect for the heritage.

**LUDWIG VON MISES**

**Planned Chaos**
The destruction of liberty in America as elsewhere has been accomplished both by private violence and by the near irresistible force of the modern state. This “easy, bloodless and non-violent” transition to socialism is the subject of *Planned Chaos*. Professor Mises tells why the popularity of this policy is not a safe test of its soundness, why it fails in its avowed purposes, and what it does to nations which pursue it.

**LEONARD E. READ**

**Anything That's Peaceful**
If Leonard Read simply announced that he favored anything that was peaceful, what man of good will could disagree with him? But he does not leave it there. He goes on to name and demonstrate that a great many things we are doing do not make for peace. He shows that the peacemakers are greatly outnumbered by the aggressors. The core of his philosophy is set forth in this book.

**GEORGE CHARLES ROCHE III**

**American Federalism**
What is the essence of the American system of government? Is it a centralized democracy? May a majority rightfully do whatever it pleases? What roles do the states play in our system? In this succinct study, George Roche covers the past, the present, and offers some thoughts for the future of federalism.

Copies of “A Literature of Freedom” catalogue and order form are available on request:

**The Foundation for Economic Education, Inc.**
**Irvington-on-Hudson, New York 10533**
Time to Abolish the FED?  
Elgin Groseclose 451
Turn back to the market as the regulator of the money supply.

Why Right Does Not Triumph  
Ridgway K. Foley, Jr. 456
Seven stumbling blocks examined—and ways around them.

The Seen vs. the Unseen:  
A Modern Example  
John Semmens 467
How conservation measures by-pass the market, and backfire.

Zoning: A Tragic Public Policy  
Walter Block 470
Why government zoning should be abolished in favor of market determinations.

What Causes Wealth?  
Roger Ream 478
Poverty persists where the processes of production are unknown.

Paternalism and Charity in a  
Free Society  
Esler G. Heller 485
Civilized progress is possible in the absence of compulsion.

Missing Chapters from  
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Clarence B. Carson 489
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To propose that the time has come for abolition of the Federal Reserve System will appear novel, if not heretical, considering how most conservative inflation fighters regard it as the lever by which the careening wagon of inflation will be braked to a halt without jarring its occupants. Note, for instance, the reverence toward it in the Republican Party platform (that tactfully omits mention of the Reserve’s responsibility for the bloated currency circulation). Note that the President vows to “respect the independence” of the System. Note finally the enormous new powers conferred upon the Reserve by a compliant Congress in the Depositary Institutions Deregulation and Monetary Control Act of 1980.

Yet it is this very legislation that will demonstrate the incapacity of the System to meet the continually widening responsibilities laid upon it and force re-examination of its raison d’être. For in a supposedly free market and private enterprise society it has become an economic Politbureau with authoritarian power for state planning and control of the economy approaching that of totalitarian governments. As with a Politbureau, its power has been concentrated in a Presidium (the Open Market Committee) of twelve persons (11 men, 1 woman) with terms of 14 years that isolate them from reality and make them independent of any influence from the elected government.
Baffling Rise in Interest Rates

If evidence were needed of the inability of this select company to make the profound decisions and judgments required to manage an economy so vast and complex as the U.S., one need only note the consternation in the market at the current surge in interest rates, "money supply" and unabated price rises, all contrary to the design of the policy makers. To many FED watchers, the actions of the Presidium are like those of an amateur hi-jacker of a 747—pulling this lever and pushing that, now playing with federal funds rates, now with reserve ratios, now with meaningless concepts like M, M₁, M₂ ad infinitum, meantime leaving the market lost in the wild blue, not knowing whether the economy is headed for a crash, or aboard a Voyager soaring toward an outer nebula.

Good men (and woman) though they may be, skilled no doubt in the intricacies of banking, it is doubtful if they are acquainted with the elementary composition of money which they are supposed to govern. (We will mention this later.) For that matter, the Federal Reserve System was never designed to deal with money but only with debt—bankers' debt. When the National Monetary Commission was set up in 1910 to devise a means of preventing credit crunches—"panics" such as that which struck Wall Street in 1907 and frightened the country, it produced some 24 volumes of reports on banking practices around the world and one thin volume on money itself that is less than a primer on the subject.

A Pawnshop for Indigent Banks

Actually what emerged in the Federal Reserve Act of 1913, and what has remained ever since, under a catalog of euphemisms trotted out every time a crisis arises, is a glorified pawnshop for indigent banks. That is, under the guise of a "flexible currency" for seasonal or sporadic needs, it allowed member banks to sell to the FED qualifying debt instruments in exchange for cash.

There were certain safeguards, however, in the System as originally enacted. Thus, accommodation to banks was limited to advances collateralized by short-term commercial paper of not more than three months' maturity (six months for certain agricultural paper). Reserve banks could also buy short-term government bonds in the market. Cash meant gold coin, or depositary receipts therefor, but Federal Reserve notes, redeemable in gold, were unfortunately authorized as legal tender up to 2½ times the amount of gold held in reserve for their redemption.

These narrow limits were soon broken. To finance World War I, the
powers of the Reserve were expanded to acquire vast quantities of government debt, issuing its circulating notes therefor. In 1922 the Presidium began—tentatively at first—to use its powers in the direction of state planning of the economy, first to influence the price level, later the amount of debt the country could stand (the volume of bank loans) and eventually the level of employment.

The Federal Reserve Act was heralded as an instrument that would end panics; despite the fact that within 20 years of its establishment the country was plunged into the worst financial debacle in its history, Congress and the public have continued to confide to the System more and more authority, climaxed with the Monetary Control Act of 1980.

New Inflationary Powers to FED

This Act, in essence, brings every check-paying institution in the country under the authority of the Reserve, and requires them to maintain in Reserve banks such reserves as the Reserve authorities determine. Heralded as a measure to control inflation, its effects are the opposite. By concentrating reserves in Reserve banks, the System was furnished with enormous new lending powers. Yet it is all like playing with mirrors, for the Reserve, freed from any necessity to maintain gold in its vaults can increase bank reserves at will simply by buying government bonds in the market and paying for them by deposit credit or notes. Moreover, in exchange for greater supervision, the Act gave the check-paying institutions certain goodies in exchange. They can now hold their cups—or buckets—at the gushing fountain of Reserve credit. That is, under almost any conditions that the Reserve authorities determine under Regulation A banks can exchange their secured or unsecured debt obligations for the Reserve’s legal tender currency. (Of course, since the Reserve notes are irredeemable, this is only an exchange of one frozen asset for another.)

Not only can banks obtain cash in this manner but the Act permits the Reserve to bail out corporations in trouble, even individuals in financial straits.

The capstone of the Act is the provision that allows the Reserve to bail out Banks’ holdings of frozen foreign securities—such as those of Poland and Turkey—so long as they are “guaranteed” by the government of the borrower.

Out-Doing John Law

Thus, the Reserve enjoys a power greater than that of John Law, the 18th century financial wizard who captivated France by his undertaking to “coin the soil of France.” The
Reserve may now liquify the wealth—pardon, the debts—of the entire world.

Here, then, is the flood that no fiscal restraint can dam, no balanced budget prevent. While the Reserve authorities no doubt will hope to use these enormous powers sparingly, that is an idle hope. If the Reserve attempts to tighten its purse strings a howl from the market will rise so overpoweringly as not to be resisted. No power sitting in Washington with such a wand to convert debt into cash at the stroke of a pen will be able to resist a demand that it be used. If examples are needed, we need only look at New York City, the Franklin National Bank, the Chrysler Corporation. Others will follow.

If then the Federal Reserve were abolished, and its pawnshop functions transferred to, say, the Federal Deposit Insurance Corporation, what system of money regulation should follow? An answer to this question is that referred to earlier—an understanding of the essence of money. Contrary to fractional reserve and monetarist theory, that regards money as purchasing power from created debt, rather than a store of value, money consists of a substance and a principle: the substance may be anything from the great stones of Yap to such fragile items as tobacco, used in Colonial Virginia—but historically, gold or silver. The principle is that of integrity. This may be illustrated in the first commercial transaction of which we have account—the purchase of a field for a burial ground by the Patriarch Abraham from the Hittite Ephron for 400 shekels of silver, recorded in Genesis, which states that Abraham weighed the silver unto Ephron. (The shekel was a weight, never a coin.) The account does not explain who certified the accuracy of the scales or the fineness of the silver—it was unnecessary. Abraham was a man of integrity.

True Nature of Money

Later in history precious metal was struck in pieces of uniform size and fineness known as coins. This permitted trade to proceed by tale rather than weight. As certification of the weight and purity of the coinage the first mints were established in the temple and under the aegis of the presiding deity and the coins bore the image or symbol of the deity. This was true in Athens, where drachma bore the image of the sacred owl. In Rome, where the mint was that of Juno Moneta (the Warner), the coinage was known as moneta.

When coinage passed from the temple to ruler, after Alexander the Great began to put his effigy on the coins, integrity gradually seeped away and coinage began to suffer debasement by clipping and alloy—
so that coinage eventually lost its prestige as money. Nevertheless, throughout history to the present time money has always meant coinage, and is so meant in the U.S. Constitution.

Stable money will not return to the economy until money again means coinage and not spurious Federal Reserve notes.

The Loss of Integrity, Gold Contracts Repudiated

The second ingredient of money, that of integrity or public credibility, was lost in 1934 when the paper circulation was made irredeemable, when the government repudiated its gold contracts, when it violated the Constitutional prohibition against impairment of contract by annulling all private contracts for payment in coin, and finally when, again contrary to Constitutional provision, all privately held gold was sequestered without due process of law.

Restoration of public confidence requires first the restoration of free coinage, which means that anyone can bring metal to the mint and have it coined.

Free coinage is an English innovation in 1666 during the reign of Charles II. By opening the mints to the public, the government’s monopoly of money that had been the historic practice since Roman times, was surrendered to the free market. So successful were the results in providing an abundance of circulating media that England in the succeeding centuries became the premier commercial power of Europe, and when the U.S. was founded, free coinage became the rule here until 1934.

Here is the great regulator of the “money supply”—the market. Worries about an adequate supply of money under such conditions are groundless, as experience with petroleum supplies has demonstrated once governmental controls are removed.

A second measure necessary to restore public confidence in the monetary system is a Constitutional amendment securing the electorate in their private possession of monetary metal, by excluding such metal from seizure under government power of eminent domain. This would remove the fear of a second seizure as occurred in 1934.

A final necessity for restoration of confidence in the money is that of making explicit what is explicit in regard to the states but only by inference in regard to the federal government—namely a Constitutional amendment declaring that the federal government may declare as legal tender only gold and silver coin.
Ponder a question which perplexes most of those persons professing allegiance to the political, economic, social and moral principles characterizing the right side of the political spectrum: Why does the position fail to gain adherents and reach ascendancy? Why do the pillars of propriety and good sense appear to crumble round about us?

Initially, allow me to sound a caveat: labeling persons or philosophies involves inherent risks. Indeed, an analysis of the political spectrum, with its terminology of "old right," "new right," "old left," "new left," and "center," deserves a separate discourse.

For the purposes of this essay, I interchangeably utilize the terms "right," "conservative," "voluntarist," or "libertarian" to indicate persons possessing varying degrees of commitment to the concepts of limited government, personal liberty and a willing exchange economy, recognizing the intrinsic hazards in throwing together a mass of discrete individuals and applying an all-encompassing mark or brand to them. Such conduct tends to obliterate the essential differences in outlook and philosophy which attach to the individual within the group. Use of the label merely facilitates analysis of the political system in broad-brush terms sufficient for our purpose herein.

By like fiat, I have applied the labels "statist," "left," or "liberal" to those citizens generally placed upon the opposite end of the political spectrum; the "left" normally refers to persons viewing man as subject to

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social engineering and favoring government intervention and control of at least some aspects of human life. The issue posed appears particularly vexing in light of the certainty that the postulates of limited government, individual freedom, personal responsibility, private property, and free market exchange merit universal acceptance. These conditions, existing as both ends and means, demonstrably reflect human nature and better man's lot on earth. The free society ought to prevail because it is just and because it harmonizes with the essential truth of the universe. Why, then does the free society falter and fail to even gain a foothold in our culture? At least seven causes coalesce to produce this state of affairs.

1. Cohesion and Dispersion

First, the individualist rails against programs, organizations, and suffocating details which seem so necessary to shape and mold a doctrine into publicly acceptable form. The herd instinct preponderates in those enthused by the liberal or statist approach; the identical characteristic evaporates when one observes a libertarian. The liberal seems quite able to chant, shout, or cry in unison with other milling beings, unlike the individualist who follows his own inner directions. In simple prose, the statist by his nature, can mass-produce and orchestrate the endeavors of myriad like-minded beings, bringing power and numbers to bear upon the specific problem confronting him at the moment. Such computerized directives abrade the voluntarist who exhibits the traditional traits of self-reliance, self-sufficiency, and internal motivation.

The end result of this human tendency produces a fragmented right and a cohesive-appearing left in western political tradition. The conservative wing (and the majority of intelligent persons interrogated in recent opinion polls tend to categorize themselves as "conservative") splits into dozens of different branches, often soliciting support from the identical played-out sources, often waging internecine warfare among themselves. In part, this trend reflects the diverse interests of the participants, each lending his efforts to the matters considered most pressing; yet unquestioning acceptance of this view masks the underlying reality.

To be certain, members of the right diversify, some concerned with national security, some with the threat of international communism, some with monetary matters and a return to the gold standard, some with outrages against decency, some with political contests, some with free market philosophy, to identify but a few endeavors. Yet the left, both old and new, focuses upon at least as
many if not more real or imagined needs: national health insurance, energy, ecology, senior citizens, housing, welfare rights—the list goes on and on.

Perhaps one major difference between statist and libertarian lies in how each views his allies. By and large, the liberal maintains a working truce if not genuine harmony with his fellow zealots; while A may expend the bulk of his energy campaigning for cleaner water or better apple pie, he is not above running over to assist B in the latest drive for more mothballs for the senior citizens’ home. The conservative, to the contrary, tends to cast watchful, wary, and downright covetous and envious eyes upon the ranks of those ideologically related to him. He often begrudges their money and manpower and devotes at least a part of each day cutting away at the support achieved by those who should serve as his adjuncts. Divide and conquer—we save the liberal the trouble for we do it to ourselves!

2. Pragmatism Versus Messianic Zeal

Second, and related to the first reason, one discerns in the libertarian a messianic rigidity absent in the liberal, an inflexibility which tends to be counterproductive to the ends sought. In a word, the liberal practices pragmatism while the conservative retains an uncompromising idealism. This trait explains, to some degree, the earlier tendency considered, the lack of allegiance between groups and individuals expressing common bonds.

While the left does not lack for uncompromising metaphysicians, the right seems destined to carry this aggressive crusader characteristic to an extreme. All too often, prophets and practitioners of libertarianism act as though they had a lock on Eternal Truth, and would allow their fellowmen but a glimpse through the keyhole in their own good time and upon their restrictive conditions. Inability to tolerate the slightest deviation from the party line marks this type of individual and inevitably leads to verbal brawling. In addition, the religious fervor and doctrinaire approach tend to quell any interest abiding in the casual onlooker, the person who might conceivably join the cause if only he were not put off by all the shouting. Thus, this self-defeating trait loses both new members and old friends already active in the movement.

The liberal appears more ready to live and let live, to work in concord with those in fundamental agreement on one or more principles. The doctrinaire tendency has gained some ascendancy in the old left, but fundamentally the statist agrees that government possesses the answer to solve all ills, and agrees to disagree.
on implementation of the program. This is not to say, however, that principle does not deserve an honored place in our lives. An ethical man cannot morally compromise his fundamental principles. Yet there exists a wide gulf between compromising one's principles and eating with publicans and sinners. I may believe social security to constitute the greatest hoax, pox, and fraud ever perpetrated upon the American public. I adhere to my principles by refusing to accept social security payments and by writing and lecturing upon the evils of the plan; I do not compromise these revered tenets by working with those who disagree with me on social security if we encounter a common disinclination for the Federal Reserve System and decide to present a united front in favor of private, disciplined banking.

3. Creators and Takers

Third, the value structures between right and left differ significantly. This essential truth appears to most observers, but the ramifications of the proposition may remain disguised. The left values power and manipulation, for all its prattle about personal needs; the worth of the individual forms the epicenter of the right. View and value of man qua man colors the entire mode of thinking of each point of view. If man is a mere plaything of the social architect, to be molded and folded like ever so many computer cards, it becomes exceedingly simple to denigrate the worth of the individual and to submerge him for the good of the social whole.

On the other hand, if man can be defined as a fallible yet improving being possessing intrinsic worth because he is a man, deserving of freedom and differentiated from the rest of the worldly beasts and birds by his power of choice, quite a different set of values follow. Man becomes a creative, productive, worthwhile creature, capable of conceiving, designing and achieving his own destiny, not mere clay to be kneaded and cast by unworthy hands.

One salient concomitant to these distinct views of human worth characterizes the competing philosophies and partially explains the seeming failure of the right to prevail. The conservative tends to be more engaged in creative and productive efforts and unable or unwilling to devote substantial time and energy to the business of expounding a philosophy. The liberal often seems quite willing to expend considerable time and energy in destructive pursuits, forging alliances and importuning those clothed with political power to transfer some tax-funded largess or coercive power to a person or cause or group deemed just. The conservative is too busy producing the bounty which the lib-
eral uses to mulct and enslave the creator. The right produces; the left takes. And the right often fails to understand what to do to protect the value created.

4. Understanding and Explaining Liberty.

Fourth, the conservative exhibits an almost total inability to grasp, comprehend and propound the system of freedom, while the liberal mouths half-truths and invalidities repeatedly until they become readily accepted. The right manifests a curious, almost mystic, faith in freedom, yet ever so many of the practitioners fail to understand the system and the philosophy which feeds their success and sustains their being. Indeed, little systematic research and defense of individualism appeared for many decades; common acceptance of the doctrines and lack of organized antagonists rendered it apparently unnecessary for men to school themselves in ancient truths. Yet during this very time of almost universal lip service to a seemingly healthy doctrine, the opposition had organized and inoculated the body politic with a deadly strain of virus: the cancer of socialism.

Even during the populism of the New Deal and the Fair Deal, few voices cried aloud for a return to a fiscal and moral sanity. The conservatives appeared stunned and unable to defend themselves or their values. Like those early people of Israel, the right dispersed and splintered into many tribes.

While the miasma continues, the perceptive observer over the past quarter century has witnessed and come to recognize an awakening, a gradual alteration in attitude. Conservatives have resurrected the thoughts of earlier thinkers, long dead and almost forgotten. New and exciting defenses of freedom and the market score the current scene. Yet the bulk of proponents of the right remain untaught in their own doctrine, unable to defend the system against the onslaughts of the left which, after all, own a splendid head start.

Related to this subject looms one
eternal verity: truth does not teach itself. Too long the conservative has naively assumed that he knew the truth and because truth was valid it would prevail. Truth would triumph in a perfect world, but we do not inhabit such a place. Instead we are fallible human beings sojourning on a bit of rock in a vast universe governed by natural laws, norms which permeate the social as well as the physical realm. Just because a government undisciplined by a gold standard is foredoomed to economic tragedy does not mean that all men (or even a majority of them) will see, or accept, this truth and take action to avoid disaster. Man is not perfectly rational. He does not know all of the laws governing his existence. And when he glimpses truth, no matter how darkly, he must repeat it over and over again else the next generation will not hear and heed it.

Let there be no misunderstanding. Just because we do not perceive reality does not destroy its essence. Natural rules of order exist and control this flotsam on the sea of the universe whether we like it or not, whether we know it or not, and whether we care or not. One fundamental rule exceeds most others: the law of cause and effect. If we do not heed this command it will work vengeance upon us. Enslaved people produce less material goods than free men; therefore, if one ignores the law of cause-and-effect, and enslaves a person or a nation, the material wealth of that community will decrease.

**Flight from Reality**

The statist, unlike the right, fails to comprehend most of the laws governing the universe or, if he does grasp their working, thinks that he can alter, delay, or thwart the ordained reactions. Oh, to be sure, even the liberal recognizes some natural rules, but fairly analyzed, his world does not comport with reality and his philosophy bares a mass of inconsistencies and contradictions.

For example, the current gospel of the left prates about national health insurance “so that all people will be afforded decent medical care,” yet natural laws dictate that a market economy in medicine will produce better health care at a lower cost than a coercive system. The end result of national health insurance: good physicians will evacuate the field (since they cannot receive a fair return for their created value) to the less talented and devoted; perhaps some persons who would not have received medical assistance under a market system (because it did not coincide with their values) will obtain substandard (by the market system) health care coercively subsidized by others, but many individuals will acquire lessened quality and quantity of service at a high cost including subsidies for the tak-
ers and salaries for the administrators.

Despite his inability to perceive and understand actuality, the liberal persists in braying his particular brand of "truth" (usually half truth or falsehood) to the public at large. The left knows what the right does not: if you want to get your point across, repeat it on every available occasion. The left may lack insight; it does not lack exposure. The liberal at least comprehends his system and can articulate it.

5. Human Heartstrings and Basic Insecurity

Fifth, the nature of the messages carried to the mass of people by left and right vary in impact.

Remember the fact that a relatively few individuals display commitment to the theories of left or right: most remain in an uncommitted center. Those in the center not only represent the bulk of the population but also the epitome of power, for they carry the social vote in political elections and the dollar vote in the marketplace. The left succeeds and the right fails because the former overwhelms the latter in the political arena. While verbiage veils the reasons for this continual victory, one matter remains certain: the center finds the message transmitted by the left more palatable than that emanating from the right. The right oftentimes disdains political solutions to market problems; it must, nevertheless, learn to cope with the political world, if only by effective expression of opinion.

The liberal entreaty tugs at the human heartstrings and appeals to man's fundamental fears and insecurities; in essence, the left tells the center what it wants to hear. Both left and right manifest that real human concern which attends all persons: A desire that no one be ill clothed, ill housed, or ill fed, that misery and fear be avoided. The left, however, poses as the champion of the downtrodden and defenseless and offers to "do something" for the needy or to "solve" their problem—always accompanied by massive doses of government funds and the coercion of eternal bureaucracy. The right, by contrast, appears heartless because it insists that each should follow his own path to his own star. The liberal offers a patent solution, the right an open-textured one. The left says the state should alleviate suffering, the right evinces belief that free men acting freely can solve more problems more quickly.

Moreover, the liberal suggests attainment of a perfect world while the conservative knows that imperfect man can never create perfection. Thus, the statist addresses a base need, the drive of man for security, while the individualist puts man on his own, to sink or swim. Freedom offers neither easy an-
swers nor a guaranty of success. Many enterprises falter and wither in the free market. Man expresses an essential need to believe in something permanent and eternal, and the liberal fulfills that need in this world by providing cradle-to-the-grave care by the state. People want to accept and believe their leaders, to know that someone is looking out for their best interests; the liberal nourishes this wish with an abundant bureaucracy supposedly coddling the citizen, assuaging his ego, caring for his needs (with his money) and making him feel safe and important.

Reality teaches us that the panaceas of the left do not really cure any ill, although they may beget a desired narcotic effect upon the aggregate of the population. Indeed, application of state coercion not only creates more problems than it solves but also stifles individual initiative and creativity. Who will work and produce to care for himself and those he loves if someone else promises to do it for him? But the barrenness of the statist opiates does not dispel their effectiveness in swaying the center. As Marshall McLuhan has taught us, it is not what you say that is important, it is what people think that you say. And, one might add, it is not whether what you prescribe works or not that is important, but whether the recipient believes that it works. Statism doesn’t work, but the left has convinced the center that it does and the right has not counteracted that message.

6. Internal Inconsistency

Internal inconsistency of the conservative represents one salient reason for the failure of the right to convince the citizenry of the propriety of freedom.

Review the myriad factions of the libertarian philosophy, each steeped in its own particular brand of ideology and search for harmony with everlasting truth. All too often, the adherents of one branch or point of view reveal logical and moral ambivalence when discussing or acting upon a distinct problem. Thus, the businessman who parrots the lingo of free enterprise while accepting government subsidies or government regulations as a precondition for government contracts, and who argues for monopolies sanctioned by the state in areas “affected by the public interest,” or in the “national security” interest, does little to advance his individualistic cause. By the same token, the farmer who decries government interference in pricing but accepts quotas and soil bank payments exhibits grave inconsistency.

An endless list meets the observing eye, for most freedom lovers seem all too willing to make an exception to the rule of freedom when it affects their interests or their particular
passion. Free me, but regulate others! Exposure of this hypocrisy to the uncommitted surely does not encourage devotion to the cause.

This inherent paradox partakes of the fifth reason, the drive for security. Man, driven by his nature, does seek certainty in an uncertain world. Freedom entails risk, for liberty means that not every man can achieve his chosen goals when competing with every other man in a finite world peopled with fallible beings and supplied with scarce goods. Freedom does include freedom to fail.

The Urge for Security

The impulse for security sometimes overcomes the longing for liberty; the actor may want the state to assure his success in a particular endeavor by compelling other beings to approve his goals and bear his risks. Thus, the entrepreneur engaged in the enterprise of selling widgets refuses to trust the market mechanism of free men acting freely, for in such a milieu, widgets may not accord with the values of other men and they might not trade with the maker so as to guarantee his continuance in business. Therefore, the producer induces the state to compel consumption of widgets, or to exclude other manufacturers, so as to protect the producer and enhance his position.

Again, let there be no misunderstanding: the left flaunts substantial discrepancies and deviations from reason in its philosophy. Indeed, as viewed from this vantage point, statism doesn’t work and can’t succeed because it commences with a faulty conception of man and proceeds upon a disharmony with reality. Thus, the professor who chatters about academic freedom while enjoying tenure and teaching socialism displays as much ambivalence as the newspaper publisher indulging in all manner of socialist editorials while asking the public to buy his product produced by nonunion labor during a union strike. But, by and large, the left wins debaters’ points and converts from the center precisely because it has molded a cohesive and consistent, if incorrect, philosophy: the belief that all real or imagined ills or problems stemming from man-to-man encounters in society can only be solved by the organized force of the state.

7. Play It by the Rules—and Lose

Methodology and ethics coalesce to determine the victor in the right-left conflict. The left plays by no rules, because its very ideology considers that the end justifies the means and man represents a mere pawn to be molded and manipulated for the good of the community. On the other hand, the right adheres to traditional values of propriety and fair play, consistent with its view
that the end pre-exists in the means and the concept of man as possessing value and intrinsic worth.

A harsh indictment? To be sure, but one supported by both rational and empirical evidence. Review of newspapers, magazines, and other accounts of the passing scene presents a plethora of data reinforcing this conclusion. Look around you. Local school districts often require voter approval for budgetary matters. Control of the election equipment resides in those favoring state intervention in education, i.e., passage of the budget. Somehow, election notices prominently reach those anticipated to support the budget (e.g., parents of school-age children), while those disinclined to cast a ballot for state interference often have difficulty discovering the location of the polling place. State law normally prohibits pressure on public employees to support measures submitted to the people, yet the left finds varied and subtle (and sometimes not so subtle) ways to coerce teachers to vote for the budget and to prostitute their principles to convince others to do likewise.

Do you require more evidence? Then consider the biased reporting of media in the United States. Documented elsewhere beyond cavil, the media picks and chooses that which will be emphasized and that which will be ignored. All too often, the right is ignored and, if “balance” is sought in programing, the representative of the libertarian point of view selected by the statists hardly depicts the true position, or is given inadequate exposure.

Can you stand another example? Many states offer voters' pamphlets in which candidates and organizations can explain their positions and offer their wares to the citizenry. Yet the left so fears the truth that in some states those voicing different values are locked out of the voters' pamphlet by restrictive legislation; only that material which meets the criteria of the liberal establishment can be distributed to the voters, even if the partisans offer to pay their own way!

The issue contains moral overtones. To the conservative, free men should not be defrauded or coerced. He retains the conviction that truth will out, that right will triumph, if all positions gain equal airing. He believes in the free marketplace of ideas, as much as in the free market for material goods, and force does not belong in a market because initiation of force is immoral. To the contrary, however, the liberal, no matter how much he proclaims an interest in the individual, lacks the moral restraint exercised by an overwhelming belief in the worth of the individual. One who views a person as so much clay to be modeled and fit into a master plan cannot vaunt a convincing concern for
the means of discerning truth. He thinks that he knows, better than anyone else, what is good for mankind and, vested with this arrogant attitude, he proceeds to impose his will upon others by any means available.

**Conclusion: Steps to the Preservation of Freedom**

This essay addresses the question, why right does not triumph. It does not offer answers, in the form of a master plan. That task belongs to each of us as we evaluate our talents, our desires, and our commitment to the cause of freedom.

Nonetheless, to avoid the charge of being remiss in my obligation, allow me to offer some conclusory comments in the full knowledge that mere conclusions sans rationale may tempt the challenge of the dissenter who cannot agree unless the underlying logic of the position appears point by tedious point.

Initially, not all of the seven reasons offered were intended as criticism of the right. Certainly one cannot decry the attendance upon a moral position as wrong. Rather, the analysis sought to isolate some pertinent reasons in the hope that each devotee to the freedom philosophy could bear them in mind and seek to counteract their effect.

In end result, some constructive suggestions appear. Conservatives should coordinate their efforts with one another and work more closely with their natural allies in the pursuit of common goals. They should seek to identify, inform and incorporate like-minded persons into the mainstream of libertarian thinking in the hope that it will become a welling tide. They should avoid inconsistency and fervent zeal which detract from their position. They should learn their philosophy, expand upon it, and live it: a never-ending labor. They should devote time normally accorded to the production of goods and services to the nurture of freedom. Finally, they should remain alert to the positions of the left and the methods it employs, never failing to articulate and publicize liberalism and its failings. If we all do this, right shall triumph.

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**John Jewkes**

**IDEAS ON LIBERTY**

As contrasted with the ideal ways of organizing effort in other fields, what is needed for maximizing the flow of ideas is plenty of overlapping, healthy duplication of efforts, lots of the so-called wastes of competition, and all the vigorous untidiness so foreign to the planners who like to be sure of the future.
ACROSS the country, state after state is chafing under the imposition of the 55-mile-per-hour speed limit. Self-appointed critics of the wisdom of the American public shake their heads knowingly, remonstrating against this "typically shortsighted return to pre-crisis energy profili­gacy." The Federal Highway Ad­ministration weighs in with its own threat to withhold Federal aid to those states not abiding by the 55-mph edict.

The intent, of course, is to force us to conserve precious resources. What isn't realized is that the 55-mph speed limit does not conserve resources. A strictly enforced 55-mph speed limit would result in a sub­stantial increase in the resources consumed in order to produce the same output of goods and services. Even more ironic, though, is that the original enactment of the re­duced speed limit set in motion a chain of events which has led di­rectly to the accelerated deteriora­tion of the highway system.

It is a classic case of the seen vs. the unseen that was first portrayed by Frederic Bastiat in the early 19th century. On the surface, it is plain to see that vehicles driven at 55 mph will generally consume less fuel than vehicles driven at faster speeds. Less obvious is the fact that reducing the speed limit from 70 mph to 55 mph decreases efficiency through in­creased travel times of up to 25 per­cent.

In the bosom of the bureaucracy, time may have little or no value.

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However, in the real world "time is money." People ordinarily must be offered an inducement to get them to spend their time. If we are to make a valid analysis of the advantages and disadvantages of lower speed limits, we need to consider the element of time consumed or saved, as well as the amount of fuel used.

If the 55-mph speed limit were enforced to achieve 100 per cent compliance, the maximum fuel saving would amount to only 18 per cent. Matched against the time loss of 25 per cent, this does not seem a very good trade-off. When we pursue the analysis further to take into account the relative prices of fuel vs. time, the consequences of this public policy appear even worse. In terms of the value of human time consumed in the trip alone, for every $1.00 of fuel saved $1.50 in time is lost.

The above analysis does not even begin to go into the question of the consequences of reduced transportation capacity. On the one hand, the reduced transportation efficiency will raise the cost of transporting goods more than would have occurred if greater speeds were allowed and more fuel burned. In addition, less efficient transportation would increase the incidence of business inventory "stockouts," unless inventories are enlarged to compensate for increased transportation delay. Financing enlarged inventories in today's expensive credit markets puts even more upward pressure on interest rates.

Another answer to the problem of reduced transportation capacity under the 55-mph speed limit is to increase the size or number of long haul trucks. Increasing the number of trucks requires major capital investment to produce power units and trailers. Even so, the manufacture of more trucks does little, if anything, to lower the per trip operating costs. Therefore, it should not be surprising to discover that the option most attractive to the long haul trucking industry was to increase the size of the vehicles.

Fueling their case with fumes of the energy crisis, the trucking industry persuaded Congress to increase the allowable limits on vehicle size and weight. In January of 1975 Congress raised the weight limit to 80,000 pounds. This enabled the heaviest long haul trucks to increase their operating efficiency potential by nearly 10 per cent. Everybody went home happy.

Little noticed in this valiant effort to reduce energy consumption and improve motor carrier operating efficiency was the potential impact on the highway system. At the same time that the increased vehicle size was producing a 10 per cent efficiency gain for truck operators, it was also producing a 40 per cent increase in pavement wear and tear caused by heavy vehicles.
Now, eight years after the decrease in highway speed limits and six years after the increase in allowable vehicle weights, we discover that the roadways are deteriorating at a faster pace than was anticipated when they were designed. The consequence is that these roadways will require heavier maintenance outlays and many will have to be rebuilt at a cost of multiple millions of dollars per mile.

The whole episode is a classic demonstration of what can go wrong when government seeks to resolve "crises" by overruling market-based decisions. The time honored market solution to shortages is a rising price. The rising price serves the twofold purpose of dampening demand while stimulating supply. Yet, this most efficient equilibrating mechanism was rejected and upset by the government's determination to find a "better" solution, one that would be less costly to the society than letting fuel prices rise.

Of course, there is no "less costly" solution than a free market for meeting the material needs of a society. This fact has become painfully apparent over the last eight years. Fortunately, many of the emergency energy rules have been dismantled or abandoned. Unfortunately, some of them, including the 55-mpg speed limit, are stubbornly still in place.

Perhaps, though, there is a silver lining in the whole sorry episode. The legacy of prematurely deteriorated highways can serve as a poignant reminder of the folly of tampering with the allocation functions of the market. Making use of this lesson will not be easy. Current discussion of the accelerated roadway deterioration problem conveys the impression that it is something that "just happened," or worse, that it is merely a result of inadequate taxing and spending.

But, the causal chain, lengthy and complex though it may be, is there. It can be traced and documented. The accelerated wear and tear on the nation's highways is an endproduct of a chain reaction set into motion by the government's attempt to suppress the energy resource allocation mechanisms of the market. It is a high price to pay, but it won't be a total loss if the experience serves to keep us from making the same mistakes in the future.

Self-Reliance

IDEAS ON LIBERTY

If it were ever true that we grow strong by bearing burdens, it's true today. It follows, and is equally true, that we grow weak and flaccid when our burdens are taken away.

VOLLIE TRIPP
In the view of most concerned professionals, zoning legislation is a necessary bulwark against chaos in urban land use. Without zoning, it is contended, external diseconomies will abound: pickle works will come to rest next to single family homes, glue factories beside country clubs, and oil refineries in proximity to restaurants. Moreover, it is feared that rapacious land developers will erect, profit from, and then abandon buildings, placing undue strain on the capacities of municipal services. Further, the unzoned city will be one of haphazard construction, falling property values, instability, disregard for neighborhood "character," irrational allocation of property—and a haven for unscrupulous speculators.

Zoning is the attempt to suppress these supposed market defects by legislatively prohibiting incompatible uses of land. Under this ordinance, the pickle factory would be prohibited from residential neighborhoods and required to locate itself in a special industrial area, reserved for that kind of operation. There, surrounded by similar uses, it would presumably do little harm.

The zoning idea has a certain appeal. What, after all, could be more simple and obvious? If land usage seems imperfect, all that is needed is the enactment of a set of laws compelling proper behavior. Arguments for zoning are so widely made and frequently accepted that even those who otherwise appreciate the merits of the competitive market system have felt constrained to make an exception in this instance. In view of this state of affairs, and given the serious drawbacks in zoning which are continually making themselves felt, it is of the utmost importance to
consider such legislation clearly and dispassionately.

Confronting the charge that zoning is all that stands between a viable urban environment and chaos is "Exhibit A," the City of Houston—which has never enacted such legislation. The very existence of a large North American city (an area in excess of five hundred square miles and a population of 1.6 million) which can function normally and continue to grow without zoning is a major piece of evidence against the traditional view that zoning supposedly protects against chaos.

**Divergent Tastes**

In *Zoning: Its Costs and Relevance for the 1980s* (The Fraser Institute, British Columbia, 1980) a survey is made of several empirical land use studies in Pittsburgh, Boston, Rochester, Houston, and Vancouver. The effects of "incompatible uses" on property values are traced. The overwhelming preponderance of evidence casts serious doubt upon the presence of uniform external diseconomies. (External diseconomies are said to prevail when A harms B by doing C, and B cannot collect damages nor force A to cease and desist from such activities. Uniformity would mean that all market participants view C as harmful.)

The reality appears to be that either there are few significant interdependencies and externalities in urban property markets or that "One man's meat is another man's poison." One and the same phenomenon, such as the presence of commerce in an otherwise residential neighborhood, is interpreted in a positive way by some people and in a negative way by others.

The point is that market processes exist naturally to eliminate such externalities that would arise from the proverbial glue factory on the corner of Park Avenue and East 65th Street. In a system based on the inviolability of private property rights, the laws of nuisance would prevent the dispersion of invasive odors, or dust particles. But the market process functions even without this protection. Quite simply, land prices in the residential or business neighborhoods are too expensive for the glue factory; they effectively prohibit any but the most valuable, concentrated uses—such as large office buildings or high-rise residential dwellings.

This view is supported by Roscoe H. Jones, Houston's Director of City Planning. In his opinion the market "has tended to create a reasonably well-ordered pattern. Because of private 'marketplace zoning,' we find no filling stations at the end of cul-de-sacs; ship channel industries are, naturally, located along the Ship Channel, and so on."

The natural proclivities of the market would also protect against the "hit and run" land developer who
is said to leave an excessive population in his wake, swamping municipal services.

A developer who tried to pack too many people into an office building would have difficulty finding mortgage assistance. Lenders would realize that such compressed conditions would overload services, resulting in tenant dissatisfaction, lower rents, and the possibility of mortgage default. It is of course true that builders and lenders can make mistakes, and that some overcrowded structures might be built, but the inexorable forces of profit and loss would ensure that such errors were few in number. Zoners are likewise subject to miscalculation; the problem is that there are no automatic bankruptcy procedures to weed out bureaucrats with poor judgment. One of the most persuasive arguments against zoning is the fact that it institutionalizes errors. In effect, planners do not have the incentives to "get it right," nor do they suffer the consequences of "getting it wrong." The competitive system thus can obviate the need for building height restrictions, set back requirements, floor space ratios, and other bureaucratic measures which artificially attempt to limit density.

Undue Strain on Public Services

The typical pro-zoning argument is couched not in terms of undue strain on halls and elevators, which are internal to the building, but rather in terms of the effects of high density on social overhead capital: electricity, gas, water, sewers, roads, sidewalks, parking, public transit, parks—all of which are external to the subject premises, i.e., externalities.

But this should give us pause for thought. For surely there are other amenities necessary for the successful functioning of a large office building, which are or can be considered externalities, but which do not concern the city planner nor unduly worry anyone else: for example, restaurants, barber shops, banks, jewelry stores, pharmacies, stationers, and the like. One reason may be that every member of the former category is run by public or quasi-public enterprises while the latter are all managed privately.

When the excavation for a new office building is begun, the small merchants in the neighborhood roll up their sleeves in anticipation of the new customers and additional profits likely to come their way. Their first thoughts are concerned with physical expansion, adding extra shifts, providing more services. The contrast with the bureaucratic orientation is stark indeed. At the prospect of new building, the bureaucratic tendency is to ponder the "strain" additional hordes of people will place on public services. Their answer is to place a myriad of zon-
ing restrictions on the new builders, instead of encouraging coordinated expansion.

Thus it appears that if error and hence the need for correction lies anywhere, it is not with the "rapacious builder" who places "strains" on public services, but rather with those charged with the provision of the infrastructure: those in the government sector. Perhaps the answer lies in improving the provision of these services, not in holding down new construction.

The Case of Houston

A useful comparison is the case of Houston. Here the practice is not to hem in the private market with a bewildering array of complex zoning restrictions, but rather to cooperate with the land developer by forecasting the growth patterns in order that the city government may supply the necessary municipal facilities and services. It must be emphasized that zoning is only one weapon in the planning arsenal: even were these restrictions scrapped in their entirety, the public authorities would still exercise great control over land use patterns through (1) provision of infrastructure and amenities, such as parks, water mains, sewer placements, and the layout of freeway and major arterial streets; and (2) direct land use controls concerning building heights, set backs, floor space ratios, and the like, but applied uniformly to an entire city, and not differentially to districts within its boundaries.

This does indeed undercut much of the case for zoning. But in the interest of creating further discussion, one might even question whether government has a comparative advantage, vis-a-vis the market, in the creation of such products and controls. Without a market-created price system, it is extremely difficult for the public official to rationally allocate resources. Moreover, no profit or loss automatically accrues to him as a spur in decision making. He risks none of his own money, and can earn no honest profit from correct choices.

Declining Property Values

There are few things feared more by the average urban property owner than declining residential values. This is understandable, for much of the real savings of the typical citizen is tied up in a single family house. Perhaps this is the most important explanation for the high regard with which many citizens hold zoning legislation—it is supposed to protect property values.

But the view that zoning is the best guarantee of stability is inconsistent with the evidence: The stability of neighborhoods that zoning seeks to protect thus appears to be endangered by the rezoning that is part and parcel of the enactment of
zoning by-laws in the first place. What security can zoning provide against the possible ravages of the glue factory if its provisions can be rescinded at any time?

Of far greater reliability may be the system of deed restrictions, or restrictive covenants, as practiced in Houston, whereby the property owner may contract with his neighbors concerning the uses to which land may subsequently be put. Alternatively, land developers may require, as a condition of sale, that all purchasers agree to continued land usage, either for a stipulated (long) period of time or until a majority vote of such buyers overturns the agreement.

This system is far more flexible. Even the maintenance of single-family neighborhoods by zoning statutes is questionable: by keeping land and buildings in the same use over time, zoning can promote neighborhood decay and speed the demise of the single family neighborhood. Zoning is a rigid control, and is likely to fracture during times of change in consumer tastes, neighborhood demographic structure, urban growth, and transportation and building technologies.

**No Guarantee of Values**

Ultimately, of course, there can be no absolute guarantee against declining property values. A fall in the price of wood, an increase in the market rate of interest, the sale of publicly held lands, technological improvements in prefabrication methods can all reduce housing prices. One might perhaps contract with an insurance company for the preservation of home values, but the cost of the premium payments would have to be subtracted, thus defeating the plan.

Value preservation is a will-o’-the-wisp, for price is a manifestation of the worth placed on an item not by one person, but by two groups: potential sellers and potential buyers of items like the one in question. We can not speak with certainty of the value an owner will place on his home in the future; it is even less possible to assess the worth a future hypothetical buyer will give it. It is clear, moreover, that that which is owned is the physical house, and not its value. For while the owner has a right to collect damages from the boy who breaks a window with a ball, he has no such right with respect to the man who invented prefabricated housing—even though the latter might well have been responsible for a greater drop in the value of his house than the former.

While citizens have a clear and obvious right to have their homes protected from physical damage, this does not apply to the *value* of their property. Yet this is precisely what zoning seeks to preserve. Thus not only must such legislation fail to ac-
Uniformity

Another shortcoming associated with zoning is the uniformity it engenders. And this is not surprising: to divide all building into residential, commercial, and industrial, as the early enactments did, and then to impose these three categories upon the entire pattern of future construction, is hardly likely to foster architectural innovation.

This rigidity soon became evident, and an effort was made to become more "flexible." The zoning codes added variances, exceptions, Planned Unit Developments (any excess building in one parcel is to be offset by a reduction in another within the planning district), mixed-use zones, performance zoning systems, land use contracts, and development permits. In one respect these reforms were a plus, for the system became less rigid. But this change ushered in a new crop of problems. For one thing, the system became even more complex. Literally dozens of districts have been defined; what may and may not be done with each is subject to a bewildering and growing number of regulations. The days of three-district zoning with two or three pages of regulations have long since passed. Today's ordinances are continually growing to accommodate more detailed regulations of use, lot size, building height and bulk; more reasons for granting variances, bonuses, and special exceptions; and much more complicated procedures for appeals and reviews. Today few sets of zoning regulations appear in tomes of fewer than 500 pages.

A system with so many complications, exceptions and changes could no longer be governed by any clear set of rules or principles. The procedure instead became one of "judging each case on its merits" in an ad hoc manner.

Although this might appear to some as fair and judicious, the flaws in it are grave. First, it is a clear retreat from the idea of zoning itself. According to this philosophy, urban planners were assumed to have enough wisdom to forecast, at least in broad brush strokes, the future spatial organization of the city. But the very need to grant numerous exceptions, as a continuing institutionalized process, has belied this claim. Ability to incorporate the needs of a changing future is simply incompatible with patchwork changes as reality confronts the master plan. It is akin to claiming the ability to forecast inflation for the next five years—and then changing the prognostication each week.

Secondly, as Nobel Laureates Milton Friedman and Friedrich Hayek have so eloquently shown, "judging
each case on its merits” is the absence of lawfulness—not its presence. Each has demonstrated (the former in his analysis of “rules not authorities” in monetary policy; the latter in his work on the “rule of law”) that to consider matters on a “case by case” basis is to color the judicial process with stultifying arbitrariness.

The Rule of Law

The proper scope of government, in this view, is to set down the rules of the game, clearly, and before the contest begins—and then not to continually alter them in the midst of the fray. Under these conditions, the individual is free to pursue his lawful ends, secure in the reasonable knowledge that the government powers will not suddenly be used to frustrate him at every turn. But a zoning system, especially a “flexible” or “reformed” one, can change the uses to which a land parcel may be put at any time. It is thus clearly destructive of these ends.

Thirdly, zoning complexity and changeability have spawned graft and corruption. The reason for this is easy to discern: a less restrictive variance may be worth millions of dollars to the land developer. Be the bureaucrat ever so honest, he will be sorely tempted by a share in these gains—especially in an era where rezoning is an easily contrived and commonplace occurrence. Paradoxically, this is not necessarily all to the bad. If a bribe can convert a land parcel to a use more highly prized by consumers, wealth and the allocation of resources will have been much more nearly optimized. This is not the first case on record attesting to the benefits of black markets. The great loss, however, is the general disrespect for the law engendered by this practice.

Private Zoning

If zoning can be defined as matching specific areas of land with particular uses, then nothing said above should be interpreted as opposing private zoning. Indeed, it is impossible for any rational land developer to act in any other way. He must, if he is to function at all, decide to place the garage here, the house there, and the backyard elsewhere. How else could he conceivably operate? But this is all that is meant by private zoning.

The case is an exact parallel to the planning debate. As has been said many times before, people must plan if they are to act rationally. The debate, then, is not between planning and non-planning. It is between central planning, on the part of the government, and individual planning, as coordinated through the marketplace. Similarly the real issue here is not the choice between zoning and non-zoning; it is between private and governmental zoning. What has been
criticized above is government zoning, not the private variety.

What is private zoning? The most well-known example is, of course, Houston's system of deed restrictions. Private zoning also takes place every time a glue factory is priced out of a residential neighborhood, or whenever the gas station locates on a major thoroughfare, not in a side street. But it also includes such prosaic activities as the individual's arrangement of household furniture, the office's placement of desks and room dividers, the factory's disposition of machines and guardrails, and the shopping mall's apportionment of its tenants.

Items for sale must be deployed in the most advantageous manner possible. Thus merchants match store areas to particular uses. The success of each enterprise rests, in great part, upon the skill in such "zoning." If the grocer discovers, for example, that apples and oranges sell better in close proximity, or that the juxtaposition of corn and peas detracts from the sale of both, without any offsetting benefits on the remainder of the stock, he can profit by incorporating this information into his "zoning" decision making. He will gain a competitive advantage over those of his colleagues who are not similarly skilled. It is in this way that the market promotes efficient zoning.

The same process is at work in shopping centers and malls. Since the various tenants are contractually unrelated to one another, the situation is closely analogous to governmental zoning. Private entrepreneurs, however, are judged, in their profit and loss accounts, by how well they promote positive externalities and repress negative ones. And, in fact, it is difficult to imagine two "incompatible" tenants adjacent to each other in a shopping mall. Any such mal-zoning would only, in the long run, reduce the landlords' total receipts.

There is a vast reservoir of private zoning efforts operating in the economy, unreported, under-publicized. This brief discussion has barely scratched the surface. But it can be viewed as one more aspect of the case against public zoning efforts.

What public policy recommendations follow? Although one must always be cautious and realize that no one solution can offer a total panacea, there is a strong presumption toward the non-zoning extreme of the spectrum. After all, zoning has not worked very well. The externalities that it is designed to ameliorate have been shown to be minimal or non-existent. The maintenance of single-family neighborhoods by zoning statutes is also questionable.

One might even take an extreme position here, and advocate abolishing the system of government zoning—root and branch.
What Causes Wealth?

The poor are still with us. Despite tremendous advances in agriculture and industry, poverty persists. But why? Why do some people suffer lifelong poverty? Why do others enjoy high standards of living? What makes possible decent, even comfortable, conditions? These are age-old questions.

Over the centuries the normal human condition has been subsistence in a state of relative poverty. Wealth was the exception rather than the rule. The first major work of economics, written in 1776 by Adam Smith, was appropriately entitled An Inquiry into the Nature and Causes of The Wealth of Nations. It was the existence of wealth and prosperity that required an explanation, not the fact of poverty; hence economists and social scientists beginning with Smith have sought to discover the cause of wealth. An examination of the shortcomings of many common explanations for the existence of poverty offers insight into the real cause of prosperity.

Over-population. One popular claim is that poverty exists because of over-population. It is said that countries with large populations, such as India, Bangladesh, and the People's Republic of China, suffer from poverty because production cannot possibly be great enough to feed, clothe and house adequately the millions of people. If leaders could only convince their people to practice birth control, so the argument goes, the standard of living would begin to rise to a decent level.

This explanation has shortcom-
ings. It ignores the necessity for considering the size of the population in relation to the area of a country. For every country of high population density that is impoverished, such as Bangladesh, relatively populous and prosperous Japan, South Korea, Taiwan, the Netherlands, Singapore and Belgium may be cited. And among the sparsely populated countries, the prosperous United States may be listed along with some of the poorest countries of Africa. Actual population levels, as well as population densities, fail to explain why some countries are poor and others prosperous.

The poor are "lazy." Another familiar argument is that the poor are lazy people with low levels of intelligence and few natural talents. This line of reasoning often takes on strong racial overtones. It also seems to be inconsistent with a number of basic facts.

We have the examples of millions of supposedly inferior people who left impoverished countries, became prosperous and made tremendous scientific, cultural and material contributions in their adopted nations. In Wealth and Poverty, author George Gilder concluded after studying the remarkable achievements of several Lebanese families in the Berkshires: "Other immigrants in every American city—Cubans in Miami, Portuguese in Providence and New-

ark, Filipinos in Seattle, Koreans in Washington, D.C. and New York, Vietnamese in Los Angeles, to mention the more recent crop—have performed comparable [to the Lebanese] feats of commerce, with little help from banks or government or the profession of economics." He goes on to observe that during the seventies, "America underwent one of its prime epochs of immigration, comparable to the great floods of Irish, Italians, and Jews in the nineteenth and early twentieth centuries. Four hundred thousand legal immigrants a year entered the country along with some eight hundred thousand undocumented aliens, and everywhere they went they found and created jobs."

The peoples of East and West Germany have a common ancestry and history, yet one country flourishes while the other strains under economic difficulties. Likewise with the Chinese in Hong Kong and Taiwan, contrasted with their relatives and former countrymen in communist China. Compare the Ivory Coast with its neighbors. Clearly, poor people in general are not less intelligent, less talented, or inherently ill-disposed toward work; the cause of their poverty is to be found elsewhere.

Poor nations lack natural resources. Another reason people are poor, some analysts contend, is that certain countries are not endowed
with the necessary type or the proper quantity of natural resources. It is difficult to sustain this assertion, considering the fact that many of the most resource-rich countries are poverty-stricken, while many wealthy nations are less well-endowed with resources. Examples of the former include most of the nations in Africa and South America, while in the latter group of poorly endowed can be found Taiwan, Japan, and most Western European countries. Even the member nations of OPEC, rich in oil, are unable to build a strong industrial base and raise the standard of living for their people to above average levels. There is more to prosperity than the mere presence of natural resources.

**Prosperity causes poverty.** One of the most extraordinary sentiments existing in the United States today is that high incomes and high profits are unearned or undeserved, while welfare payments are ethical and necessary for achieving "social justice." According to this view, wealth is obtained through exploitation or luck and therefore is possessed unjustly. This sentiment is the cause of tremendous suffering and poverty. It is doing more harm to the poor than any other idea that has surfaced in the past several decades. Furthermore, it contributes to the conflict, hatred and envy that poison our society.

Derived from this sentiment is the explanation that prosperity causes poverty. As contradictory as this may seem on the surface, it is perhaps the most prevalent explanation. The creation and accumulation of wealth by some individuals causes others to be poor, so runs the theory. Poverty is the consequence of an unequal distribution of income; the prosperity of some comes at the expense of others. The acceptance of this fallacy has given rise to our conflict society, where the haves are blamed for the conditions of the have-nots. Feelings of guilt are often aroused in the former, while in the latter it stirs up envy and covetousness. Overall, it increases tension in society.

This fallacy results from a failure to understand the true nature of both poverty and prosperity. A survey of history and various cultures clearly shows that poverty is the natural state of mankind. It exists without external causes; it is just there. Wealth, on the other hand, is an achievement and requires specific conditions. Wealth will be created and the standard of living will rise only when the necessary preconditions are present.

However, under certain conditions there is some truth to the claim that wealth causes poverty; therefore it cannot be wholly dismissed. In a closed, collectivist society, the slave owner or communist party of-
ficial does indeed gain his wealth at the expense of others. The wealth of the elite comes at the expense of the slave or the proletariat, thus typifying the theoretical model of a zero-sum society in which an increase in one individual's slice of the pie causes another's to shrink. However, this zero-sum (or more probably negative-sum) situation applies only to stagnant systems which are based on slave labor and collectivist economics. In closed societies, the slaveowner and commissar gain at the expense of others; greed, when backed by coercion, causes some to be poor.

Having stated this qualification, it must be made clear that in open, competitive economic systems, wealth and an unequal distribution of income do not cause poverty. It is a myth that the prosperity of some causes others to be poor. The United States is frequently condemned because with less than 5 per cent of the world's population, we consume a large portion of the world's resources. This criticism is based on the fallacy of the fixed pie. Individuals in the U.S. are not consuming at the expense of others; what we consume must be either produced or acquired through voluntary exchange. We do not consume goods and services that have always existed and which we simply grab up; we consume only what we produce, transform or acquire through free trade. In a free market economy, you cannot consume unless you first produce or exchange.

The nature of wealth. Adam Smith recognized the nature and cause of wealth; it results from the development and extension of the division of labor. As Smith observed, "It is the great multiplication of the productions of all different arts, in consequence of the division of labour, which occasions, in a well-grounded society, that universal opulence which extends itself to the lowest ranks of the people." This market process is the source of wealth, since it brings individuals freely pursuing their own interests into voluntary cooperation with others. For example, an individual who specializes in mechanics, cooperates, perhaps unknowingly, with those specializing in physics, chemistry, meteorology, mining, steel production, and hundreds of other fields to create travel by airplane and make it possible to fly to almost any major city in the world. It is through the division of labor, peaceful cooperation, and free exchange—the market process—that wealth is created.

Writing nearly one century after Smith, Herbert Spencer also recognized the source of wealth. In *Man vs. the State* he observed:

It is not to the State that we owe the multitudinous useful inventions from the
spade to the telephone; it is not the State which made possible extended navigation by a developed astronomy; it was not the State which made the discoveries in physics, chemistry, and the rest, which guide modern manufacturers; it was not the State which devised the machinery for producing fabrics of every kind, for transferring men and things from place to place, and for ministering in a thousand ways to our comforts. The worldwide transactions conducted in merchants' offices, the rush of traffic filling our streets, the retail distributing system which brings everything within easy reach and delivers the necessaries of life daily at our doors, are not of governmental origin. All these are results of the spontaneous activities of citizens, separate or grouped.

The market process is the source of new wealth. It does not redistribute wealth to the powerful at the expense of others, such as in a collectivized economy; rather, it enables new goods and services to come into the marketplace. A free market system is a positive sum system. Remarkably, the standard of living can rise, even though the population is increasing, because the total amount of wealth is not fixed. Transfer payments, on the other hand, come at the expense of wealth creators—workers, businessmen, investors, and successful entrepreneurs.

Contrary to popular sentiment, high incomes and high profits are key elements of the process which generates our prosperity. High incomes and profits are the reward a person receives for serving his fellows. More specifically, profits are the reward for reducing costs and using scarce resources most efficiently in the competition to satisfy consumer desires. By rewarding with profits those who successfully satisfy consumer demand, the free market maximizes the incentives to create goods and services. By permitting the accumulation of wealth, it also maximizes the amount of capital available to produce more. Profits direct this capital to where it is most vitally needed in order to meet consumer demand. Even Samuel Gompers, father of the American labor movement, recognized that “the worst crime against working peoples is a company which fails to operate at a profit.”

Envy, covetousness and hatred toward those with wealth is ill-advised. As Ludwig von Mises pointed out in Human Action, “The very principle of capitalist entrepreneurship is to provide for the common man.... There is in the market economy no other means of acquiring and preserving wealth than by supplying the masses in the best and cheapest way with all the goods they ask for.” Evidence of this was the success of that creative genius, Thomas Edison, who fulfilled his pledge to make the light bulb so cheap that only the rich could afford candles. As Brian Summers com-
mented in the Spring, 1981 issue of *The Lincoln Review*, "It is true, ... that a few captains of industry accumulated great fortunes, but they became wealthy through mass production of goods and services which raised the common man's standard of living."

**Prosperity requires liberty.** High incomes and profits, the incentives to invest and produce, are put to work, provided they are not confiscated by government. The motive for wanting a larger income and higher profits should not be a concern of economics; whether for a base reason or a high-minded objective, the only way to get more, in a free market economy, is to serve others. The way to lessen poverty is to create a favorable environment for investment and wealth creation. In fact, when William E. Simon was Treasury Secretary, he suggested to a Senate committee that, "If you really want to help the poor, help the rich. They're the ones who will invest, build more factories, create more jobs." The only "help" the rich need is the same freedom to which all men and women are entitled, the freedom to produce, to trade, and to use their property peacefully and as they choose. Ultimately, the extent of the market process is in direct relation to the amount of freedom in society.

A free market can be restored and the division of labor extended only as barriers to saving, investment, the accumulation of wealth, and the maximization of profits are removed, and most essentially, laws regulating or prohibiting the performance of productive labor are repealed. It will also require government to perform better one of its key functions: protecting every citizen's right to own and exchange property. This fundamental human right is necessary for the production of wealth.

The free market is in the interests of the poor. The alternative, the transfer system, is *not* humane. It locks people into poverty by destroying opportunities and prohibiting many kinds of productive work. The welfare state encourages dependence, rather than self-reliance. The welfare recipient is deluded into believing there is such a thing as a free lunch. In a free market it is necessary to give in order to receive; in the welfare state, the scheme is to try to live at the expense of others.

Scarcity, and therefore relative poverty, are part of the nature of this world in which we live. Historically, mankind has subsisted in what, by today's standards, is abject poverty. However, poverty need not be a permanent condition. It can be and has been overcome by people at various times in history. Our Pilgrim Fathers overcame starvation by replacing their communal system...
of economic organization with a private property order. The experiment worked. A turnaround occurred again in Great Britain in the first half of the 19th century when Parliament replaced mercantilism with free trade policies. Standards of living rose, not just for Englishmen, but for countless individuals throughout the world. And, of course, we have evidence of what relative freedom in this country has meant for not only the American settlers but for the millions of immigrants who came to these shores, not to share the existing material abundance, but to share in the freedom to try to create their own. With this relative freedom a more humane and prosperous society has emerged.

Perhaps the clearest statement concerning the threat we face today, and which all free people will always face, was expressed years ago by President Woodrow Wilson. He observed, "The history of liberty is a history of the limitation of governmental power, not the increase of it. When we resist, therefore, the concentration of power, we are resisting the processes of death, because concentration of power is what always precedes the destruction of human liberties." This astute comment can be aptly rephrased to include the concepts of poverty and prosperity, for concentration of governmental power and poverty go hand-in-hand, while human liberty and prosperity have always accompanied each other. Regardless of the sincerity of the intentions, to restrict freedom in the name of helping the poor is to engage in a destructive endeavor. The creative way to help the needy is to secure the freedom for individuals to pursue their interests voluntarily and peacefully. In such pursuit, free men will bring about an expanding economy, unlimited opportunity, and enduring prosperity.

Edward P. Coleson

To have lived in some remote "native" village long enough to know how their social curbs on progress operate is to understand why the best laid plans of economic development schemes have a way of failing utterly. Without freedom to achieve and without a measure of security for life and property, aid is useless; and with freedom, it is unnecessary. Any enterprising investor is happy to put his money into a going concern and nothing succeeds like success. But the rigidities of a managed economy stifle initiative and scare off venture capital, keeping the depressed area stagnant and backward. Only a rich country can afford the economic interventions of socialism—and they can't afford it for long.
A GREAT TRUTH is very simple; a great error is being perpetuated behind a facade of complexity. The great truth is that only a limited government free society would provide the framework and atmosphere in which human beings (free from arbitrary compulsion in all creative aspects of life) could achieve their greatest spiritual and material growth with the least opportunity for mischief.

The great error is in thinking that to achieve peace, prosperity, and justice, the interdependence, high technology, and infinite complexity of our society require that its guidance and control be vested in a technocratic state of great power and matching complexity.

In spite of its size, complexity and pretensions of equalitarianism, the authoritarian state is unable and unwilling to deal effectively with individual inequalities. Therefore it divides its subjects into special groups and attempts by legislative compulsion to satisfy the "rights" (read demands) of each group at the expense of all others (excepting of course the state and its cohorts). Thus it tramples on the basic principle of freedom: that when the true rights of individuals are protected, the rights of all groups are protected. Government favors to one group must be at the expense of others. The effect is to pit group against group, establishing fairly rigid classes in what was to have been a classless and mobile society.

A cherished myth of statism paints the free society as wonderful for capable, ambitious, self-reliant, self-sufficient, and wealthy persons, but unacceptably harsh toward those of lower levels of ability, motivation,
and resources. The proffered solution is the welfare state. The welfare state may impose a degree of material equality, spiritual atrophy, suppressed rage, and destruction of self-respect among the governed. However, the real inequality of material benefits and power enjoyed by the elite upper echelons of the establishment contrasted with the hardships and impotence of the rest of the people is an ever-widening chasm.¹

Those who have faith in freedom believe that within the limited-government and free society all economic and psychic factors are automatically integrated in the most harmonious arrangements possible for the essentially good, but nonetheless flawed, nature of man. The free society tends to develop virtue and discourage vice, using no compulsion except to restrain the initiation of violence and fraud. History confirms this faith. Periods of greater freedom have invariably coincided with more peace, justice, and prosperity.

Vital Differences

The welfare state establishes a certain inescapable level of dependence and servitude for both ruled and rulers. The free society embodies a free market which offers whatever degree of independence or dependence, self-sufficiency or paternalism, solitary effort or cooperation each unique individual finds most compatible with his estate (age, health, wealth, education, personality, tastes, and character). The free market most efficiently allocates not only material goods, but also psychic, spiritual and emotional values as well. Each member of a free society has the maximum opportunity to choose that degree of independence or subservience, responsibility or submission to authority that best suits him at any given time, and to change this voluntary arrangement as he and his needs change.

Persons, groups, business and religious organizations eager to fill the role of friend, helper, healer, advisor, consultant, teacher, guardian, insurer, employer, master or guru exist today, and more would spring up as government restraints were removed. Their existence and growth in spite of the pre-emption of resources and assumption of responsibility by statist governments, and in spite of the social unrest and resentment generated by government usurpations, is strong proof of man's instinct for freedom. It also reflects a natural rebelliousness to government interference.

In a free society, those in need of help would not have to seek out and importune their prospective "benefactors." Each needs the other, and

from motives of material and psychic profit there would be a mutual search—a competition for clients and services just as producers and buyers of goods in a free market compete to cooperate most advantageously with each other. The same applies to charity. It is also an exchange transaction between willing parties in mutual anticipation of finely interwoven psychic and material benefits.

**Mutual Responsibility**

Without the coercive power of the state to establish or support welfare monopolies, doers of good works must court and gain the consent of their prospective wards, clients, congregations, pupils, and the like. The recipients of charitable acts and gifts must also act to make the exchange attractive—that is, acceptable to the giver. This imposes a degree of responsibility and therefore an opportunity to retain self-respect which tends to be lacking where government favors such as guaranteed income, housing, education, and medical care are treated as "rights" to be claimed, but not necessarily deserved.

The Hebrew prophets and Jesus teach us to do charity willingly, cheerfully, and preferably, anonymously. How, except in a free society, is this possible? Under statism the establishment does its good works with other people's money. It regards redistribution, not even as charity, but as a necessary evil—a prophylactic measure to keep the masses dependent and pacified. The poor recognize the dole for what it is, and are demoralized. Those of a cynical nature push their demands to the utmost. The vicious and audacious see it as confirmation of their self-pity and justification for robbery, theft, rioting, and looting.

This malaise is compounded by the nature of "welfare" laws and social "achievements" such as restrictive child labor, minimum wage, and organized labor laws which keep the poor in enforced idleness. Simultaneously the wealthy and tax-producing members of society are deprived of the opportunity, the incentive, but most of all, the means to perform charity. State-enforced redistribution, far from being charity, is recognized by both expropriated and recipients alike as injustice institutionalized.

Private charity is very much alive in the United States, and growing to compensate for government failures and government-created hardships. The sacrifice and generosity of millions of persons supporting the panoply of recognized voluntary organizations and informal ad hoc groups, together with innumerable daily instances of person-to-person help, is preserving our sense of moral responsibility to aid one another. The total amount of private charity is
vast, and cannot be measured in dollars alone. It is efficient and humane, and characteristically American. It puts the lie to "liberal" assertions that, without government redistribution, suffering and privation would sweep the land. Careful observation reveals misgovernment as the principal cause of the hardship that redistribution purports to relieve. It confirms libertarians in their faith that had people the freedom to control the fruits of their own labors, philanthropy and charity would flourish as never before.

**How to Proceed**

All discussions of the free society eventually lead to the problem of how to get from here to there. Sadly, there is no "freedom button" to press which will instantly remove "all man-concocted restraints against the release of creative energy" together with the cumulative effects of past restraints. While we cannot learn to swim without water, neither should we push the non-swimmer into a raging torrent. Many persons, through little or no fault of their own, are now largely dependent on government dole. It would be an injustice to punish them for the sin of those who encouraged or permitted the government and the establishment to manipulate them into this dependency.

To suddenly impose severe hardship on these unfortunate persons would not advance the cause of freedom. The most recent Libertarian Party presidential candidate, Ed Clark, has said that welfare should be among the last governmental institutions to be dismantled in the move to freedom. Only when the public is prepared to follow leaders truly committed to freedom, who will irrevocably renounce man's ages-long dalliance with authoritarianism, can freedom be approached. At that point a phased withdrawal "with all deliberate speed" from compulsory schemes of redistribution would be possible.

The free society, far from lacking compassion toward persons with physical, mental, moral, social, or economic handicaps, will prove to be both just and compassionate, not only to the disadvantaged, but to all persons and groups. It permits those who can fulfill their own responsibilities and still have human or material resources left for philanthropy, those who would be teachers, helpers, defenders, leaders, to make a myriad of voluntary arrangements with their fellows for mutual betterment and satisfaction. Compulsion can only teach compulsion, but voluntary good works are an encouraging and uplifting example. Absence of compulsion is essential to civilized progress, and is the essence of the free market, true charity, and liberty.
It has fallen to my lot over the past two decades to examine and write reviews of a goodly number of textbooks. Most of those reviewed have been intended for use in the high schools, though some have been designed for use in colleges as well. I have reviewed scores of books on American history, an armful on world history (or European Civilization, as the case might be), several dozen on such varied subjects as American government, civics, problems of democracy, citizenship, and such like, a few on economics, a handful on geography, and several that hardly fit any known category.

Having toiled in this particular vineyard off and on over the years, perhaps, I have qualified myself for drawing some conclusions, particularly about history textbooks. The conclusion I wish to emphasize here, of course, is that there are some chapters missing from history textbooks. But I also want to make clear that their absence is not simply incidental, and that their inclusion could have been of considerable moment. They are at the heart of the American experience, and the lessons which could be learned from them could have changed—and still might change—the direction of our development. The reason for this can be made clearer, however, by calling attention to some other conclusions I have drawn before discussing the missing chapters.

My most general conclusion is that the quality of these books has declined over the years. The quality did not begin to decline when I started reviewing them—at least, I
hope it didn’t—but it has gone down precipitately in recent years. I am not referring, of course, to what might be called the physical attributes, such as binding, paper, print, or any of the aspects of reproduction. So far as I can judge of such things, that has generally improved.

Declining Quality Evident in Contents

What has declined in quality has been the contents. History used to be mainly narrative, supported by explanation and some analysis. Such narrative as remains in many books is now segregated from the rest of the contents by being set in boxes located here and there throughout the book. Analysis is often supplemented or supplanted by “attitudinizing”—as, “What is your opinion of thus and so?” Oversimplifications usually abound, but they are overshadowed by exaggerations which became more commonplace as graduates of the student revolution in the 1960s began writing textbooks.

But the written material in many books has to be squeezed between the overabundant pictures, drawings, charts, graphs, and maps so that if there were a story line to follow only the most tenacious could do so. As illiteracy has spread upward through the grades, the necessity for and the opportunity to read is being progressively removed from the books. Some of the books ape television with its constant shifting from one scene to another, one topic to another, and one idea to another. The assumption informing some of them seems to be that children have an attention span of ten seconds at most, and my suspicion is that it is a self-fulfilling prophecy.

Even so, the decline in the quality of textbooks is more of an effect than a cause, an effect of the general deterioration of education in the United States. Given the premises and the political control of education that prevails, the quality of textbooks must decline. Moreover, given the disorder and indiscipline which is commonplace in many high school classrooms, it would affect matters only marginally if all textbooks had the uniform high quality of Gibbon’s *Decline and Fall of the Roman Empire*. Most schools are far too crowded with those who cannot or will not learn for textbooks to make any critical difference. Laying the responsibility on the textbooks alone would be like placing the blame for sinking in quicksand on the quality of shoes you happen to be wearing.

While there may be a thousand—or ten thousand—particular explanations for the deterioration of education in the United States, there is one basic reason which underlies most, if not all, of them. Virtually every public problem associated with education today is traceable to forced schooling and the extensive and in-
creasing use of force in support of schooling.

For example, why has the quality of textbooks declined? Because as force became a dominant factor, the emphasis shifted from quality to quantity. Because schooling tended to replace education, since education is always qualitative while schooling is quantitative. Because you can force people to attend school, but you cannot force them to learn in any meaningful sense. Because quality of education and equality of schooling are incompatible with one another. Because textbooks are provided free of charge, and their selection is largely dictated by political considerations. Because if forced schooling is even to appear to succeed, what is taught, and the books used to teach it, must be geared toward the lowest common denominator of students. Because each step downward in the desperate effort to reach this lowest common denominator has ramifying effects which extend upward to affect the following years of schooling, the quality of teachers, the quality of administrators, and so on. Because ultimately, even the writers of textbooks will be deficient in that level of understanding which is necessary to produce quality textbooks, even if there were any significant market for them.

It would be possible to trace out many of the other effects of forced schooling in a similar fashion, but there is not space to do so here. Perhaps, it is unnecessary to do so, however instructive the attempt might be. Perhaps, the reason can be sufficiently summed up this way. The state, i.e., government, is incompetent to serve as schoolmaster. Allow me to cast my net wider, however, so as to make the point more expeditiously. Government is incompetent as a provider of economic goods and services. This incompetence has been exposed in theory, demonstrated in practice, been tried on vast scales and found unworkable, and can be illustrated with mountains of evidence. The incompetence of government as a provider of goods and services is directly attributable to its use of force. Force is inefficient in the production of goods and counterproductive in the distribution of goods. Hence, the incompetence of the state as a provider of goods and services.

A Marketable Item

Education is an economic good, or service, if you will. The fact that it has so often been treated as if it were not has misled many of us. Forced schooling makes it appear that it is an economic "bad," and the compulsion tends to make it into that. Charitable and tax support of education tends to set it apart from a whole host of other goods. To the extent that it is free, it takes on the illusory character of being noneco-
nomic in character, useful, perhaps, just as is air, but noneconomic.

But, so far as education supplies some human want, so long as the supply of it is limited, so far as there are costs entailed in its attainment, so far as the allocation of scarce resources—whether they be time, teachers, books, classrooms, or what have you—are involved, it is an economic good. Moreover, education is an economic good which is, can be, and has been provided in the market. It can be broken down into its parts and distributed according to demand. It is possible to buy as little or as much of it as is wanted by the individual, and its distribution does not necessarily entail any imposition upon others. In short, it meets all those characteristics of an economic good which can be provided in the market.

It follows, then, if the above be accepted, that government is both incompetent and unnecessary to the provision of education. But the incompetence of government as a schoolmaster has dimensions which do not apply to many other goods. If government should undertake to monopolize the production and distribution of milk, for example, it probably would register its lack of competence in raising the price of it and show its authority by reducing the number of outlets. Its distributors might adopt the hauteur of postal clerks. Even so, it is doubtful that government provision of milk would carry in its wake the host of ills that attend government provision of schools.

It would probably still be permissible to pray over government-produced milk without violating the establishment clause of the Constitution. If the government should undertake to provide sex education for the cows it would probably arouse no deep human concern. Even the quality of milk would not necessarily be lowered, though it might be unpalatable to the taste because of chemicals introduced into it. I guess the fluoridation of milk would be controversial. But, by and large, government might provide goods for the body with only a limited impact on us. But when government undertakes to provide goods for the mind and spirit it necessarily intrudes into every nook and cranny of life.

The missing chapters from American history not only point toward these conclusions but also offer evidence for more fruitful approaches than some of those we have taken in more recent years.

Religious Freedom

The first missing chapter that comes to my mind is one on the development of religious freedom in America. It is also the one most relevant to education. Most textbooks mention religious freedom, of course. They may touch upon it in some
fashion in their discussion of the settlement of the colonies. It may be well to mention, in this connection, that most high school textbooks give short shrift to the colonial period. There is even an educationist theory, apparently widely accepted, that colonial history should be dealt with extensively in the early grades and treated in a cursory fashion in high school. In consequence, they do not allot anything near the space necessary for adequate treatment of religion. Again, religious freedom may get a sentence, or even a paragraph, in the discussion of the First Amendment. That is about it. (Some government texts cover the constitutional aspects of the question a little more adequately.)

Establishment Clarified

There are several points that should emerge from any kind of adequate treatment of the development of religious freedom in America. The first one would be a clear presentation of the concept of an established church. This could probably best be done by reference to the Church of England at the time of the establishment of the colonies. Such characteristics of an established church as compulsory church attendance, tax support of religion, and liturgical and doctrinal orthodoxy could be listed. There is considerable evidence that even justices of the United States Supreme Court do not understand what an established religion is, so the subject must not have been well taught for quite some time.

The second point is crucial, if the subject is to have an application to government intervention in other realms. It is to make a careful explanation of why religion was once generally established in most countries. Children are inclined to think that any practices other than those with which they are familiar are odd. Thus, in order for them to understand an established church and its reason for being, it needs to be presented in terms they can grasp. In any case, it needs to be made clear that many people in earlier times believed that religion is the most important thing in life. (Some still do.) It was the greatest and highest good. That being the case, they sought to use the strongest means at their disposal, i.e., government, to see to it that people received its benefits. Moreover, it was widely believed that religion was the cement of society, that all authority flowed from it, and that a people would lack unity who did not have a common religion. People have ever found it difficult to be tolerant about that in which they strongly believe, and they still do.

The third point to make is that religious freedom did not animate most of the settlements in America. Some people came in order to be free
to practice their particular reli-
gions, but they were rarely tolerant
of those of different faiths. (The
Quakers and Baptists were honor-
able exceptions to this rule.) Thus,
church establishments were wide-
spread in the colonies.

A fourth point is that the belief in
religious tolerance began to gain hold
and spread during the colonial pe-
riod. Its development paralleled that
of a rising interest in individual lib-
erty in other fields. By the time of
the American Revolution, it was
sufficiently widespread that several
churches were disestablished, and
eventually all were. Disestablish-
ment both freed the churches from
any government control or support
and the people from interference with
their religious beliefs.

The Case Against Intervention

The final point has to do with the
case for religious freedom, which is,
at the same time, the case against
government control, support, or in-
terference with religious belief.
Thomas Jefferson's argument for
freedom of religion points the way.
He viewed government-established
religion as an attempt to control the
mind, an attempt both presumptu-
ous and futile. Men will believe what
they will regardless of the efforts of
government. "It is error alone which
needs the support of government,"
Jefferson said. "Truth can stand by
itself. Subject opinion to coercion;
whom will you make your inquisi-
tors? Fallible men; men governed by
bad passions, by private as well as
public reasons. And why subject it
to coercion? To produce uniformity.
But is uniformity of opinion desir-
able? No more than of face and stat-
ure."¹

Jefferson made it clear, too, that
similar errors were involved in the
use of force in other areas, and no
more to be sought than in religion.
He said, "Were the government to
prescribe to us our medicine and diet,
our bodies would be in such keeping
as our souls are now. Thus in France
the emetic was once forbidden, and
the potato as an article of food. Gov-
ernment is just as infallible, too,
when it fixes systems in physics.
Galileo was sent to the Inquisition
for affirming that the earth was a
sphere; the government had de-
clared it to be as flat as a trencher,
and Galileo was obliged to abjure
his error."²

Jefferson had these stinging re-
marks to make on a bill that would
have placed control over a system of
education in the hands of state offi-
cials. "If it is believed that these el-
ementary schools will be better
managed by the governor and coun-
cil, the commissioners of the literary
fund, or any other general authority
of the government, than by the par-
ents within each ward, it is a belief
against all experience. Try the prin-
ciple one step further and amend the
bill so as to commit to the governor and council the management of all our farms, our mills, and merchants' stores. No, my friend, the way to have good and safe government is not to trust it all to one but to divide it among the many, distributing to everyone exactly the functions he is competent to."

**Economic Freedom**

Thomas Jefferson could argue against state control of education by showing the analogy with state control of farms and mills secure in the knowledge that the reader would share his convictions about how ridiculous the latter would be. We are not so favorably situated, for in our day governments, Federal, state, and local, have seen fit to engage or intervene in a mass of enterprises that were once wholly private. This development can be attributed, at least in part, to another missing chapter in American history.

This missing chapter is one on economic freedom. It would probably fit in a textbook best at some place in the early nineteenth century. But such a chapter would need to begin well back in the eighteenth century and probably should go forward in time past the Civil War and the freeing of the slaves. This was truly one of the great eras in history for the development of ideas, the drawing of constitutions, and the adoption of practices in keeping with economic freedom. During this era the residue of Medieval practices were cast off, the bulk of mercantilistic restrictions removed, property became fully owned and disposable by individuals, indentured servitude and slavery abolished, a large portion of a continent opened up as a common market, and all sorts of protections drawn around the contractual powers of the individual.

Not only do most textbooks fail to highlight these changes but they also fail to attribute the remarkable consequences to them. Most American history books have one or more chapters on agricultural and industrial development, of course. Nor do they ignore the fact that at the beginning of the nineteenth century the United States was, in comparison with much of Europe, an economically backward nation. Whereas, before the end of the century this country had emerged as one of the leading industrial and commercial nations in the world. These developments are usually covered in sufficient detail, even when there is considerable niggling about rural and urban poverty and hardship.

But it has long been the fashion to ascribe these economic developments to almost everything but economic freedom: to innovations in technology, to the development of banking, to foreign investment, to American isolation from European wars, and so on. Perhaps the most
common explanation for American prosperity is what may be called “the abundant natural resources theory.” This is the theory that America was especially blessed with natural resources which go far to account for the eventual prosperity. This explanation is both the most common and the least satisfactory of those usually given.

A Resource Gains Value as Use for It Is Found

The most basic objection to this theory is that what is found in nature ordinarily becomes a resource only when some use is found for it and made of it. A stream may be an obstacle or a resource, for example, depending on whether you wish to cross it or float a boat down it. A forest may be an obstacle or resource depending upon whether you wish to plow the land or make lumber. Iron ore only becomes a resource when it has been mined, smelted, had impurities removed, and is turned into objects of use. So it is with almost everything found in nature.

It should be noted, too, that the early English settlers on this continent had little reason to congratulate themselves on their prospects for prosperity because of any obvious resource advantages. The Indians along the Eastern coast were hardly prosperous generally. Indeed, they were probably among the least prosperous in all the Americas, were less numerous than in many other places, and were among the most backward in development. They did cultivate a few crops, such as corn and tobacco, but by and large they were at the hunting and fishing stage of economic development.

But be that as it may, and whatever other explanations may be adduced for American economic development and prosperity, there is one that is central. It is economic freedom. It is the devising of a system within which the energies of a people could be released and constructively employed. It is the constructive employment of the energies of people which turns obstacles into resources, which makes of peace the occasion for productivity, which invents devices and applies technology, and which turned wilderness and barren plains into farms and locales for factories and built commercial centers.

Of course, there was more behind all this than freedom, but freedom provided the opportunity. Something so central to American development deserves a chapter in history textbooks. And if such chapters had been there, it would have been less likely that we would today be in the slough of despond caused by the growth of the interventionist state. We would have been informed of the advantages of freedom and the dangers of intervention.
Voluntary Cooperation

There is a third missing chapter without which the two discussed above would be incomplete. It is a chapter on the voluntary way of social cooperation. I have never seen a book designed to be used as an American history textbook which had such a chapter. Indeed, I cannot recall seeing one which had a paragraph on the subject, per se, and I am not sure I have ever seen a sentence in one. Of course, some voluntary associations—e.g., the American Red Cross—may be mentioned in textbooks, and there are sometimes references to charitable undertakings of a private nature. But the phenomenon of the voluntary approach to social cooperation is rarely, if ever, covered.

Yet freedom evinced itself in two ways in America. It evinced itself in the development of individual rights and responsibilities. And, it evinced itself in voluntary approaches to social cooperation. Nineteenth-century America has often been described as individualistic. So far as it goes, the description is accurate enough for one aspect of the country’s ethos. But nineteenth-century America was also much given to social cooperation, individually chosen, and voluntary cooperation.

Europeans who visited America and wrote of it in the nineteenth century often remarked the great variety of voluntary undertakings. An Englishman who did so in the 1830s declared that “the Americans are society mad.” He listed a score or so of the most prominent of these, such as, American Education Society, American Bible Society, and so on, but found it necessary to add that there “are many others.” Indeed, he had hardly scratched the surface, for voluntary associations ranged from those made for some temporary task to those which led to permanent organizations. Thus, people gathered in rural America for house raisings, quilting bees, corn huskings, and so on. Of a more permanent nature, they formed fraternal organizations, associations of veterans of wars, sporting clubs, professional groups, charitable organizations, and what have you.

But that way of describing it makes voluntary association appear peripheral rather than central to American life. Churches became voluntary associations after they were disestablished. Most schools and colleges were voluntarily organized and run until well past the middle of the nineteenth century. Above all, much work came to be performed in the framework of voluntary association for social cooperation. All sorts of arrangements were revived or devised for cooperation in the production and distribution of goods.

One of the great triumphs of voluntarism unfolds in the story of the churches and religion after dises-
establishment. There were undoubtedly those who feared for what would come to pass when religion was no longer upheld by the arm of the state. After all, who would see to it that people went to church? How would ministers be paid if not from some sort of tax receipts? Who would build and maintain church buildings? Who indeed? As it turned out, many people supported religious undertakings with greater zeal after than before disestablishment.

**Church Growth the Voluntary Way**

Voluntary religion flourished in nineteenth-century America, and has ever since. When William Byrd of Virginia made an excursion to the back country of Virginia and North Carolina in the early eighteenth century, he reported that there were many communities with no sign of a church. An Anglican clergyman accompanied him on the trip, and he baptized many adults who, presumably, had not been in the vicinity of a minister of their faith since their birth. That changed after the Church of England was disestablished. New denominations were born; revivals swept whole areas, and religion took on a peculiarly American vitality. Even a friend of established churches had this to say: "I believe that in no other country is there more zeal shown by its various ministers, zeal even to the sacrifice of life; that no country sends out more zealous missionaries; that no country has more societies for the diffusion of the gospel; and that in no other country in the world are larger sums subscribed for the furtherance of those praiseworthy objects as in the eastern states of America."\(^5\)

The churches are still with us today. They are still free. They are still voluntary undertakings. There are many fine church buildings, beautifully furnished, surrounded by well-kept lawns, and attended by a great host of seekers and faithful alike. But the significance of all this for many other aspects of our lives has been largely lost from view. In the place of established churches we have erected a large number of other government establishments which provide us with many things we judge to be good and which we fear we would be denied did not government provide or support them. There is a corrective for this, I submit, in some of the missing chapters from American history.

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**FOOTNOTES**


\(^2\)Ibid., p. 169.


\(^5\)Ibid., p. 292.
Gary McGath

THE INVERTED STANDARD OF CENSORSHIP

In the past year or so, a number of religious and conservative groups have been trying to discourage allegedly immoral television programs by promoting boycotts of the programs’ sponsors. Many commentators have denounced these proposed boycotts as acts of “censorship.”

Peggy Charren, president of Action for Children’s Television, says that “censorship . . . is what this movement is about, regardless of what they’re calling it.” James Rosenfield, president of CBS, calls boycotts a “technique of attempting to coerce the advertiser through threats and intimidation.”

Yet a boycott is simply the exercise of free-market power—the power to deal with someone or not, according to one’s own choices. There is nothing coercive about a boycott; the only “threat” involved is the “threat” to take one’s money elsewhere.

The claim that a boycott is coercive rests on the unstated premise that the seller has a right to his market, and that the buyer is violating the seller’s rights by going elsewhere. But a “right to a market” is a contradiction in terms. If someone does not have the right not to buy something, the transaction is not a purchase, but a forced exchange; a

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Mr. McGath, a computer programmer and free-lance writer in Hollis, New Hampshire, writes regularly for Ergo.
sale takes place only if both sides are acting by their own choice.

To be precise, a sponsor boycott is a "secondary boycott"—that is, a boycott designed to influence the actions of a third party. In this case, the boycott of the sponsors is intended to influence the producers of TV shows by undercutting their financial support. Secondary boycotts are unpopular, even among some people who otherwise support a free economy. Dr. Sylvester Petro, for example, has called the secondary boycott a "predatory oppressive practice." But the right to decide how to spend one's money cannot depend on the purpose which the spender is trying to achieve. If a person does not wish to buy a product because he believes that buying it will indirectly promote immorality, it is his right not to buy it. If he tries to convince others that his decision is correct and that they should join him in avoiding that product, it is his right to do so.

Whether the boycotters' standards are correct is a separate issue. "Sex and violence" are the principal evils denounced by the advocates of a boycott. It can certainly be argued that there is something wrong with a moral code that regards sex as evil, and that lumps murder together with the punishment of murder as "violence." It can be argued that people who are concerned with morality on television shows would be better off to concern themselves with the ideas promoted by the shows rather than with the number of fist-fights and low necklines that are presented. And it can be argued that urging people to simply shut off objectionable programs would be a more direct approach to the issue than boycotting sponsors.

But criticisms such as these are legitimate only when it is recognized that every person has the right to take whatever non-coercive actions he chooses. The distinction between having a right to do something and being right is vital in this case.

Seeing the Problem

It is possible that some of those who call boycotts "censorship" are expressing doubt about the boycotters' commitment to a free-market method. It is true that opponents of sex and violence in entertainment have frequently enlisted governmental help in enforcing their views. For example, Jerry Falwell of Moral Majority, while calling for a voluntary boycott of broadcast television, has encouraged district attorneys to seek legal regulation of cable television programs. But if these inconsistencies are the real object of the critics' concern, they should be pointing out the inconsistencies and stating that the resort to governmental action, not the voluntary boycott, is an attempt at censorship.
Moreover, if governmental censorship is anyone’s actual concern, it already exists, not as a threat but as an ongoing occurrence. Under Federal law, the government can shut any broadcaster down simply by taking away or refusing to renew its license. For example, a broadcasting company is not free to decide which views it will promote; if it gives air time to a particular view, it must give equal time to proponents of the opposite view. More vaguely, and therefore more dangerously, a broadcaster is required to promote the “public interest.” If the FCC decides that a station has not acted sufficiently in the “public interest,” the station can be taken off the air, even though it has not been found guilty of any specific offense.

Judging Past Conduct

Why is this governmental control not denounced as “censorship”? One answer that has seriously been offered is that censorship means only restraint of material that has been scrutinized in advance of its release, and that shutting down a station for what it has broadcast in the past is therefore not censorship. In upholding the non-renewal of KFKB’s license, the District of Columbia Court of Appeals stated:

There has been no attempt on the part of the Commission to subject any part of appellant’s broadcasting matter to scrutiny prior to its release. In considering the question whether the public interest, convenience, or necessity will be served by a renewal of appellant’s license, the Commission has merely exercised its unquestioned right to take note of appellant’s past conduct, which is not censorship.4

We may all be greatly relieved to know that when Russia jails dissidents or South Africa shuts down newspapers, they are not engaging in censorship, since they are simply “taking note of past conduct.”

But if this standard is applied, boycotts are not “censorship” either, since they are based on the past conduct of broadcasters and sponsors. This definition of censorship by non-essentials is not a serious criterion for anyone, but a screen for a view of censorship that is even harder to put over: that voluntary action to influence a medium is censorship, but that governmental control over a medium is not. This view was expressed with unusual clarity by FCC head Newton Minow when he spoke to the Conference on Freedom and Responsibility in Broadcasting in Chicago on August 3, 1961:

Naturally our concern here is with two special limitations on censorship: the First Amendment, which prohibits abridgement by the government of freedom of speech, and section 326 of the Communications Act, which very wisely proscribes any censorship by the Federal Communications Commission.
I am going to explore these at length—but first I want to make an admission against somebody else’s interest—there is much censorship—even as it is defined here—there is much censorship in broadcasting today. It is as much to be examined, spotlighted and at times deplored as any form of censorship by a government agency. And since it is done by our own governmental licensees every broadcast day, it violates the spirit of the First Amendment and Section 326 of the Act just as surely as if we had done it ourselves.

The censorship I speak of here takes two forms. First is rating censorship—a result of the almost desperate compulsion of some of our licensees to work and to plan and to live by the numbers, always striving to reach the largest possible audience in order to attract and hold the mass advertising dollar. At best, only the majority interest can be served here and the interests of massive minorities are badly served; and the public interest again is trampled.

... The other form of censorship I speak of is what Clare Boothe Luce has called “dollar censorship.” Here the broadcast licensee simply abdicates his own judgment and turns programming decisions over to an advertiser or his agency.¹

Here we have the inversion at its fullest. By defining censorship not as force, but as control over material prior to its release, Minow makes the broadcasters guilty of censorship by the very fact that they are broadcasters, and makes the government innocent of censorship by virtue of the fact that it does not see the programs prior to their release.

At this point, it is necessary to briefly answer the argument that since broadcast frequencies exist in a limited quantity, government control over the use of those frequencies is justified. Everything exists in a limited quantity, including paper and ink for newspapers and cables for non-broadcast communications. It is this very fact that makes private property necessary. The government’s proper role is not to seize control of something because it is finite, but to establish the legal basis for guaranteeing property rights. In the case of television, this could have meant some sort of “homesteading” for frequencies; today, it should mean recognizing the property rights of broadcasters to the frequencies they are using over a given geographic area.

Censorship Exercised in Licensing Procedures

Someone might have asked Mr. Minow: isn’t the government’s power to take away a station’s license a power of censorship? On the contrary, says Minow; the fact that the government has this power makes the station’s decisions “censorship.” The logic is that since they are licensed by the government, they are subject to whatever restrictions (such as the First Amendment) are placed on the government.

Isn’t the free market best served
by letting stations broadcast whatever they want, since they must broadcast what people want in order to make money? Yes, says Minow, and that is why they shouldn’t have that freedom. The free market would give the greatest number of television viewers what they wanted, and would not permit “massive minorities” to dictate the content of the shows; therefore, according to Minow, the broadcasters must be regulated. A free market is “dollar censorship.”

And this brings us back to the issue of boycotts. We often hear that a person does not have true freedom of speech or freedom of the press if he does not have the means to exercise his freedom—that freedom of the press requires someone to provide him with a press for his own uses. This view of freedom, which confuses freedom with ability and rights with claims upon others, has traditionally been used on behalf of unpublished writers and unfinanced publishers. But the critics of “dollar censorship” are taking it to its logical conclusion and applying it to the sponsors and producers of TV shows.

Minow regards advertisers as the parties guilty of “dollar censorship.” By failing to pay for shows that would not give their products sufficient exposure, they are allegedly depriving the shows’ producers of their “freedom” to have their shows presented. The opponents of the boycott, though, realize that sponsors cannot afford to take losses indefinitely, and that it’s their customers who have to be considered guilty of censorship if “freedom” requires being provided with means.

The implications of defining censorship and freedom in this way are dangerously broad. If the boycotters are guilty of censorship when they decline to buy sponsors’ products, then the rest of us are guilty of the same crime when we buy products that we have seen advertised, rather than products advertised on shows which we have decided not to see, or when we buy one magazine and not another at a newsstand. In every such case, we are failing to provide someone with the financial support that he may need to continue broadcasting or publishing; we are engaging in “dollar censorship.”

The danger in the inverted standard of censorship is that we will be forced, in the name of “freedom,” to pay for publications and broadcasts whether we want to or not. In fact, we are already forced to pay for governmental subsidies to public television and to the arts. The logical conclusion to which these subsidies could be carried is complete governmental control of the broadcast and publications media, with subsidies available only to those who meet the government’s criteria, and with charges of “censorship” being levied against anyone who tries to
spend money on broadcasts and publications of his own choice. The United States is still a long way from this sort of totalitarian "freedom," but this is the actual state of affairs in many countries today. If we want to preserve freedom of speech here, we must not be silent when freedom is attacked in its own name.

Haven Bradford Gow

FREEDOM and AUTHORITY
A Delicate Balance

In his book Power, Adolph Berle discussed what he believed are five laws of power: (1) Power inevitably fills any vacuum in human organization, (2) Power is invariably personal, (3) Power is invariably based on a system of ideas or philosophy, (4) Power is exercised through, and depends upon, institutions, (5) Power is invariably confronted with, and acts in the presence of, a field of responsibility.

Power, in other words, is the capability of accomplishing something. It means control over others. It can mean, but does not necessarily imply, the legal ability to do or accomplish something.

Authority, on the other hand, involves the moral right (and sometimes, too the legal right) to settle

---FOOTNOTES---

2Sylvestre Petro, "Do Antitrust Laws Preserve Competition?", The Freeman, April 1981.
5Ibid., pp. 74–75.
issues or disputes. It means the right to control, command or determine. Authority is natural: that is, it emanates from the intense demands of man's nature. Human beings require and desire authority, even as they desire and demand friendship, love and family. Any human group, organization or institution demands authority. A family needs parents to lead it and set guidelines. A baseball team requires coaches, a manager, a general manager and an owner. A police or fire department requires a chief who will make and enforce the rules for the department. A church group needs leaders who will help decide and enforce church policies. Everyday experience, then, reveals man's need for authority.

But something tragic happened during the past decade: A total war on authority erupted. What resulted was an inordinate emphasis on "freedom," and the wrong sort of freedom at that. As Russell Kirk and other scholars have observed, the consequence of the total war on authority was freedom without order, freedom without discipline or restraint, freedom without authority. Certainly, though, any tolerable social order demands a delicate balance between freedom and authority, for authority helps to teach man self-control and keeps human beings from committing mayhem against their neighbors.

A harmful breakdown of authority in one area of life almost inevitably leads to the erosion of authority in other areas as well. For example, we witness in our society today a virulent and officious assault on authority in the family and in schools—elementary through university.

Restoring Authority

What steps should we take to achieve the restoration of reasonable authority (not blind force or coercion) in our society? One way that authority can and will be restored in society is when those who have (or should have) authority begin to exercise it in their appropriate spheres of responsibility. Thus, authority in the family can be restored when parents fight to regain their right to educate their children. Teachers can help to restore authority by exercising their right to discipline unruly and discourteous students, who are infringing upon the right of other students to learn.

The state too can help to restore authority in society by guaranteeing the authority of other institutions—for example, families, schools and churches—by exercising authority in its own proper sphere, and by not usurping the authority of other bodies. It can serve to promote authority in society by guaranteeing that God-given rights are protected, and by enforcing laws justly.
Bertram D. Wolfe’s *A Life in Two Centuries* (Stein and Day, 728 pp., $29.95) is a fascinating book by a man of great talent who spent most of his life trying experiments that were bound to fail. Eventually he came around to common sense views, but his ordeals were always prolonged by an innate romanticism that gave continuing scope to his imagination while it kept him from giving up on the ideals that fired his youth in Brooklyn slums and at City College in New York.

Wolfe’s biggest mistake was to take a most important part in founding the American Communist Party. The story of how he got into this is one of inadvertences and serendipitous happenings that defy all logic yet are entirely understandable in terms of feeling. The young Wolfe took the atmosphere of the stable years preceding World War I quite seriously. He believed in the Nineteenth Century, which had been one of prolonged peace after sensible men named Metternich and Castlereigh and Talleyrand had thrashed out an enduring treaty at Vienna in 1815. When Woodrow Wilson went back on his campaign promises and took us into the war, Wolfe was outraged. And when a compulsory draft was instituted, giving the state the power to command young men’s bodies, it seemed a violation of everything that America, in contrast to the Old World, had symbolized.

Wolfe’s pacifism could find no place in the Democratic and Republican parties, but socialism, particularly left-wing socialism, made room for pacifists. So Wolfe joined the Socialist Party with no interest whatsoever in its economic theory. He became a socialist street corner orator with no particular knowledge of Marx. The big thing was to oppose the war.
The Marxist Years

Contact with Marxism as a literature came slowly. When right-wing socialists began to buy and sell Liberty bonds, Wolfe found himself pushed to the socialist left by another of those serendipitous circumstances that were to govern his life. Came the Russian Revolution, and left-wing socialism, which to Wolfe was pacifism, merged into Communism. Wolfe found himself editing a journal called *Facts: The People's Peace Paper*. It couldn't last, for when the Espionage Act was passed, sending people to jail for daring even so much as to question the good faith of America's allies, Wolfe had to kill his own magazine merely to protect those who had been his contributors.

Wolfe soon found himself mixed up with what Lenin, the new star on the radical horizon, called "splits, splits, splits," glorying in their purgative value. The left wing of the Socialist Party split with the right wing. With John Reed, Wolfe wrote a left-wing manifesto. Then the left wing itself began to split. Going with his feelings, Wolfe found himself working with the founders of the so-called twin parties, the Communist Labor Party and the Communist Party. As splintering continued, communists of all stripes, including those who were mainly pacifists, had to go underground.

Bert Wolfe never liked the factionalism that had engulfed the "movement." But he put up with it while he edited something called the *Communist World*. One day, as he was putting his paper to bed, he got wind of the fact that seventeen of his friends had been arrested. Knowing that he would be the eighteenth if he were to be caught, he simply failed to go home to Brooklyn. He wound up in California with a changed name and a Van Dyke beard. As "Arthur Albright," he became a West Coast labor leader—and Communist. His wife Ella joined him for an "idyllic" period that came to an end when, as a delegate to the underground Communist convention at Bridgeman, Michigan, he was almost trapped by an F.B.I. raid on the assembled Leninists. Escaping by a Ford car in the darkness while his wife stumbled through the woods in her own separate escape, he had to give up the name of Albright. He went to Boston where, by an inadvertence, he ran into a man who was recruiting English teachers for Mexico. What the man really wanted was a ghost writer to help extol the wonders of the Mexican revolution.

Thinking they were hired to teach English to Mexican girls, Wolfe and his wife settled down in Mexico City. Mexican socialism did not seem to be a paradise to Wolfe—there were too many homeless boys, thrown into the streets to become beggars and pickpockets. So he refused to take Carleton Beals' place as ghost wri-
ter for the school recruiter. On their own, the Wolfes stayed in Mexico, becoming local communists in a socialist state that tended more and more to return to capitalism as retiring presidents departed with funds which they used to float themselves off as influential tycoons.

On to Moscow

Meanwhile, back in the United States, Communism in the East pursued its futile bickering ways. By removing himself to California and then Mexico, Wolfe escaped the dreary factional infighting. He still had his illusions when the Mexicans sent him to Moscow as a delegate. It was the first of Wolfe's trips to the "Holy Land," and he wasn't disillusioned all at once. His final rejection of Communism had to wait until 1929 when, with Jay Lovestone, Ben Gitlow and other American Communists, he had the temerity—and the sublime innocence—to challenge and oppose Joseph Stalin, who retaliated by ordering a minority of subservient hacks to take the American party away from its democratically elected leaders.

Wolfe, Lovestone and Gitlow, among others, found themselves trapped in Moscow when Stalin was completing his theft of the American party. How they managed to get out makes for some spine-tingling reading.

Disillusionment with Stalin didn't turn Bert Wolfe to the right all at once. He became a member of the Lovestone Communist "opposition." But by degrees he was rescued for common sense. He went to Spain, where he sided with John Dos Passos against Ernest Hemingway in condemning the treatment of anarcho-syndicalists, socialists and plain republicans by the Stalinists who had taken command of the anti-Franco armies. Back home, he pursued linked careers as a teacher and writer. A most tenacious researcher, he wrote some great books. Two that stand out particularly are Three Who Made a Revolution: Lenin, Trotsky, Stalin and The Fabulous Life of Diego Rivera. But the most exciting of all is this autobiographical A Life in Two Centuries.

How is it that such a chronicle of mistaken allegiances and foolish political choices can be so compelling? Partly it is a matter of Bertram Wolfe's ability to make you see, hear and feel. Much has been written about the horrors of Stalinism, but Wolfe excels all others in making you feel the malevolence of the man. He is just as compelling in his presentation of the crazy, tender and fundamentally loving Diego Rivera, whose murals, though propagandistic in intention, have the authenticity of great art.

In spite of a lifetime devoted to collectivist causes, Wolfe remained an individual. The truth is that he
was never really a communist. What he liked about Russia in the early Twenties were its NEP peasant farmers, all individualist to the core. What he liked about the Mexican "revolution" was that it gave wall space to great painters. Eventually, after four decades of belief in Bukharin's version of Marxian economics, Wolfe stumbled on the truths of the Austrian marginal utility school. In the last twist of a breathlessly adventurous life Wolfe saw the light as it was vouchsafed to him by Ludwig von Mises. Could anything be more deliciously ironic?

THE PENNILESS BILLIONAIRES
by Max Shapiro
(Times Books, 3 Park Avenue, New York, N.Y. 10016)
308 pages □ $15.00 cloth

Reviewed by Lawrence W. Reed

INFLATION—the debasement of money—is almost as old as money itself. What civilization of the past has resisted the temptation to cheapen its money? What German Chancellor Erhard once called a "burning, destructive, unpardonable, mortal sin of modern society" dates back to the first time some profligate monarch seized control of his kingdom's medium of exchange.

Coinage was invented in the ancient province of Lydia (in Asia Minor) around 650 B.C. It represented a substantial improvement over primitive media of exchange and greatly accelerated the economic progress of the ancient world.

It wasn't long, however, before the Lydian kings discovered that they could reduce the precious metal content of their coins, manufacture great quantities of these debauched pieces, and spend the new money themselves before the unsuspecting public caught on. If prices rose, so what; more money could be manufactured. Weakened by inflation, Lydia was conquered by Cyrus the Great of Persia around 550 B.C.

The ancient Greeks, and the Romans after them, practiced the fine art of inflation, too. From Solon's 27 per cent devaluation of the mina in 594 B.C. to Diocletian's Edict of A.D. 301, only brief periods of monetary stability interrupted centuries of State-fostered inflation.

The Chinese were the first to develop paper money, crudely designed slips of paper backed—at first—by precious metals. The government gradually removed the backing, inaugurating what we call today "fiat money." The money became worth whatever the emperor said it was worth—at least in theory. The rest of the story is what any good historian might expect—rapid depreciation.
Four of the most interesting inflations of history are the subjects of a fascinating new book, *The Penniless Billionaires*, by Max Shapiro. For the non-specialist interested in an entertaining and instructive account of man’s inflation follies, this book more than makes the grade. It is chock full of facts and quotes which leave the reader in today’s inflationary times with a disturbing sense of déjà vu.

The four experiences discussed are those of 5th-century Imperial Rome, 18th-century Revolutionary France, 19th-century Civil War America, and 20th-century Weimar Republic Germany. When each inflation began, officials scoffed at the thought that things might someday get out of control. They argued that, in any event, the inflation was necessary to pay for foreign adventures, to build public projects, to fight poverty, to stimulate the economy, or to keep the government’s creditors at bay. Manufacturing money is a great way for politicians to raise revenue without visibly and directly raising taxes.

**Imperial Rome**

Shapiro’s narrative of the Roman experience begins with Augustus, who embarked upon a massive public works program (à la FDR’s WPA of the 1930s). To finance the huge expenditures, the volume of money Augustus “issued in the two decades between 27 B.C. and A.D. 6 was more than ten times the amount issued by his predecessors in the twenty years before his reign!” Recurrent periods of inflation during the next several centuries so weakened a once great civilization that 5th-century Rome fell an easy prey to the barbarian invaders.

**Revolutionary France**

Ignorance of history has doomed many nations to stupidly repeat the most inexcusable of errors. The French should have learned their lesson in 1720 after John Law’s paper money scheme fell apart and impoverished the nation. Some did learn, but that didn’t stop the ruinous inflation of the assignats later in the century.

On December 19, 1789, the French Assembly authorized the creation of the first of the paper assignats. The notes were to be “backed” by confiscated Catholic Church properties. Issue after issue poured forth as the Revolution gave way to the Reign of Terror. Prices soared and controls were imposed, to no avail. Blood flowed in the streets amid riots, pillaging, and the monstrous appetite of the guillotine.

When Napoleon came to power in the coup d’état of November 10, 1799, he found the assignats worthless, the economy in shambles, and the people demanding a strongman to bring order out of chaos. “While I live,” he proclaimed, “I will never
resort to irredeemable paper.” The promise was in vain.

**Civil War America**

Salmon P. Chase was the man entrusted by the newly-elected president, Abraham Lincoln, to be Secretary of the Treasury in 1861. With war preparations underway, Chase looked for a way to pay the bills. Unwilling to bear the responsibility of proposing new taxes, he inched the administration in the direction of issuing unbacked paper money.

With the budget deficit zooming and banks suspending specie payments at the encouragement of the government, President Lincoln signed the bill creating the “greenbacks” on February 25, 1862.

What followed was a threefold rise of the money supply in the North by the end of the war. A hyperinflation and the complete destruction of the currency was prevented by the war’s end and the subsequent restoration of hard money—one of the few inflations in history which stopped short of the abyss.

**Weimar Republic Germany**

The world saw its first modern-day quadrillionaire with the incredible inflation of Weimar Republic Germany. Starting with the outbreak of war in 1914, the printing press gathered steam until money "slammed out... in lunatic fury, prices roared upward in mad, quantum leaps.” In November 1923, the wholesale price index stood at almost one trillion four hundred twenty-three billion times its 1913 level, resulting in the silent, cruel, and demoralizing impoverishment of a whole people. The countless personal tragedies engendered by this financial debacle are the sum and substance of the book’s title, *The Penniless Billionaires*.

Max Shapiro, a research partner in a securities firm, does more in this book than supply facts, figures and dates. He ties events, centuries apart, together in a coherent thesis. The reader is moved by the ominous parallels which emerge.

One such common thread, he maintains, is the existence during inflations of a class of people who actually promote and profit from the process. These may be certain government officials or private entrepreneurs. They amass fortunes because they understand the phenomenon of inflation and use this knowledge in all their financial operations. This observation brings to mind the words of a 20th-century architect of inflation, John Maynard Keynes:

Lenin is said to have declared that the best way to destroy the Capitalist System was to debauch the currency. By a continuing process of inflation, governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens. By this method they not
only confiscate, but they confiscate *arbitrarily*; and, while the process impoverishes many, it actually enriches some. The sight of this arbitrary rearrangement of riches strikes not only at security, but at confidence in the equity of the existing distribution of wealth. Those to whom the system brings windfalls . . . become "profiteers," who are the object of hatred of . . . those whom the inflationism has impoverished. . . . As the inflation proceeds . . . the process of wealth-getting degenerates into a gamble and a lottery.

Lenin was certainly right. There is no subtler, no surer means of overthrowing the existing basis of society than to debauch the currency. The process 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. . . . *(The Economic Consequences of the Peace, 1920)*

In the closing chapters of the book, Shapiro traces the course of the present U.S. inflation. The Federal Reserve, he charges, is the chief culprit in the dollar's plight. Corporate executives, labor union leaders, politicians, bankers, and others among the general public who pressure the Fed to manufacture money are accomplices in the crime. Time, he says, is running out. Failure to put a stop to printing press madness soon will toss this country's currency on the same scrapheap with the denarius, the assignat, and the mark. "Nothing can replace the dollar," some wit remarked, "and it almost has!"

**COMING ATTRACTIONS**

The September 1981 issue of *The Freeman* will be in special tribute to Ludwig von Mises on the centenary of his birth, September 29, 1881.

The issue will consist primarily of excerpts from *Human Action*, selected and arranged topically by George Koether, a former student of Professor Mises.

Anyone who may want substantial quantities of that special issue at the bulk rate of 25 cents a copy is urged to place an advance order.
A MEMORIAL

With this issue of The Freeman we celebrate the centenary of the birth of economist Ludwig von Mises who was born on September 29, 1881, in Lemberg, Austria. In his honor, this issue is devoted primarily to excerpts from his great work Human Action, selected and arranged topically by one of his former students, George Koether.

SUBJECTS

Accounting
Advertising
Banking
Boom and Bust
Bureaucracy
Capital
Capitalism
Charity
Competition
Debt
Devaluation
Economics
Education
Entrepreneurship
Equality
Exchange Rates
Gold Standard
Government
History
Human Action
Ideology
Individualism
Inflation
Interest
Intervention
Investment—Domestic
Investment—Foreign
Labor Unions
Laissez Faire
Land Reform
Machines
Market
Mathematics
Money
Money “Supply”
Monopoly
Morality
Praxeology
Prices
Profit and Loss
Public Opinion
Reason
Religion
Science
Selfishness
Sex
Socialism
Society
Speculation
Statistics
Tariffs
Taxes
Theory
Time
Underdeveloped Nations
Unemployment
Value
Wages
War
There are people who assert that something must be wrong with the social sciences because social conditions are unsatisfactory. The natural sciences have achieved amazing results in the last two or three hundred years, and the practical utilization of these results has succeeded in improving the general standard of living to an unprecedented extent. But, say these critics, the social sciences have utterly failed in the task of rendering social conditions more satisfactory. They have not stamped out misery and starvation, economic crises and unemployment, war and tyranny. They are sterile and have contributed nothing to the promotion of happiness and human welfare.

These grumblers do not realize that the tremendous progress of technological methods of production and the resulting increase in wealth and welfare were feasible only through the pursuit of those liberal policies which were the practical application of the teachings of economics. It was the ideas of the classical economists that removed the checks imposed by age-old laws, customs, and prejudices upon technological improvement and freed the genius of reformers and innovators from the straitjackets of the guilds, government tutelage, and social pressure of various kinds. It was they that reduced the prestige
of conquerors and expropriators and demonstrated the social benefits derived from business activity. None of the great modern inventions would have been put to use if the mentality of the pre-capitalistic era had not been thoroughly demolished by the economists. What is commonly called the "industrial revolution" was an offspring of the ideological revolution brought about by the doctrines of the economists. The economists exploded the old tenets: that it is unfair and unjust to outdo a competitor by producing better and cheaper goods; that it is iniquitous to deviate from the traditional methods of production; that machines are an evil because they bring about unemployment; that it is one of the tasks of civil government to prevent efficient businessmen from getting rich and to protect the less efficient against the competition of the more efficient; that to restrict the freedom of entrepreneurs by government compulsion or by coercion on the part of other social powers is an appropriate means to promote a nation's well-being. British political economy and French Physiocracy were the pacemakers of modern capitalism. It is they that made possible the progress of the natural sciences that has heaped benefits upon the masses.

What is wrong with our age is precisely the widespread ignorance of the role which these policies of economic freedom played in the technical evolution of the last two hundred years.

It is true that economics is a theoretical science and as such abstains from any judgment of value. It is not its task to tell people what ends they should aim at. It is a science of the means to be applied for the attainment of ends chosen, not, to be sure, a science of the choosing of ends. Ultimate decisions, the valuations and the choosing of ends, are beyond the scope of any science. Science never tells a man how he should act; it merely shows how a man must act if he wants to attain definite ends.
The Wisdom of Ludwig von Mises

*Human Action*, generally considered to be the greatest work of the greatest economist of our times, is a towering monument to the mind of a genius. Its 885 pages of text contain insights that have revolutionized economic thought and are moving the world toward a true and complete understanding of human freedom.

Because of the "warp and woof" nature of all human action—with one strand of action by one individual affecting and being affected by the action of all other individuals, and because of the necessity for recognizing and explaining this connexity of all economic phenomena—*Human Action* is not a book one *reads*; it is a book one *studies*.

As every human action bears on every other human action, so every principle of economic analysis relates to every other principle. Thus, in dealing topically with one subject, Professor Mises never overlooked its relation to all others. Hence his convictions on any one topic were spread throughout his book.

In these extracts I have sought to capture the essence of his thought on a number of topics, but for purposes of brevity and ease of comprehension, sentences have been shortened and juxtaposed, words eliminated, paragraphing changed and punctuation sometimes altered. Yet, with the exception of a very few words in brackets, every word in these extracts is pure Mises, every word is taken from *Human Action*.

May those who have never savored the fine flavor of this wine of wisdom be tempted, by this small sip, to enjoy deep draughts from the full bottle.

—George Koether
ACCOUNTING

The numerical exactitude of business accounts and calculations must not prevent us from realizing the uncertainty and speculative character of their items and of all computations based on them.

The essential elements of economic calculation are speculative anticipations of future conditions.

There is accuracy in the keeping of books. But they are accurate only with regard to these rules. The book values do not reflect precisely the real state of affairs. The proof is that the Stock Exchange appraises them without any regard to these figures.

ADVERTISING

The consumer is, according to legend, defenseless against "high-pressure" advertising. If this were true, success or failure in business would depend on the mode of advertising only. However, nobody believes that any kind of advertising would have succeeded in making the candle-makers hold the field against the electric bulb, the horsedrivers against the motorcars, the goose quill against the steel pen and later against the fountain pen. Advertising pays the advertiser only if examination of the first sample bought does not result in the consumer's refusal to buy more of it.

BANKING

The demand of the public for credit is a magnitude dependent on the banks' readiness to lend, and banks which do not bother about their own solvency are in a position to expand circulation credit by lowering the rate of interest below the market. Lowering the rate of interest is tantamount to increasing the quantity of what is mistakenly considered as the fair and normal requirements of business.

Banknotes became fiduciary media within the operation of the unhampered market economy. Deposits subject to check are money-substitutes and, as far as their amount exceeds the reserve kept, [are] fiduciary media, and consequently no less a vehicle of credit expansion than are banknotes. The begetter of credit expansion was the
banker, not the authority. But today credit expansion is exclusively a government practice.

While the size of the credit expansion that private banks and bankers are able to engineer on an unhampered market is strictly limited, governments aim at the greatest possible amount of credit expansion. Credit expansion is the governments' foremost tool in their struggle against the market economy.

What is needed to prevent further credit expansion is to place the banking business under the general rules of commercial and civil laws compelling every individual and firm to fulfill all obligations in full compliance with the terms of the contract.

Free banking is the only method for prevention of the dangers inherent in credit expansion. Only free banking would have rendered the market economy secure against crises and depressions.

No government is willing today to give any thought to the program of free banking because no government wants to renounce what it considers a handy source of revenue. Those Americans who twice succeeded in doing away with a central bank were aware of the dangers of such institutions; it was too bad that they failed to see that the evils they fought were present in every kind of government interference with banking.

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**BOOM AND BUST**

An increase in the quantity of money or fiduciary media is an indispensable condition of the emergence of a boom. The recurrence of boom periods, followed by periods of depression, is the unavoidable outcome of repeated attempts to lower the gross market rate of interest by means of credit expansion. There is no means of avoiding the final collapse of a boom brought about by credit expansion. The alternative is only whether the crisis should come sooner as the result of voluntary abandonment of further credit expansion, or later as a final and total catastrophe of the currency system involved.

The breakdown appears as soon as the banks become frightened by the accelerated pace of the boom and begin to abstain from further credit expansion. The change in the banks' conduct does not create the crisis. It merely makes visible the havoc spread by the faults which business has committed in the boom period.

The dearth of credit which marks the crisis is caused not by contraction but by the abstention from further credit expansion. It hurts all
enterprises—not only those which are doomed at any rate, but no less those whose business is sound and could flourish if appropriate credit were available. As the outstanding debts are not paid back, the banks lack the means to grant credits even to the most solid firms. The crisis becomes general and forces all branches of business and all firms to restrict their activities. But there is no means of avoiding these consequences of the preceding boom.

Prices of the factors of production—both material and human—have reached an excessive height in the boom period. They must come down before business can become profitable again. The recovery and return to "normalcy" can only begin when prices and wage rates are so low that a sufficient number of people assume that they will not drop still more. Therefore the only means to shorten the period of bad business is to avoid any attempts to delay the fall in prices and wages. Any attempt of the government or labor unions to prevent or delay this adjustment merely prolongs the stagnation.

Out of the collapse of the boom there is only one way back. Wage rates must drop; people must restrict their consumption temporarily until the capital wasted by mal-investment is restored.

The belief of the advocates of credit expansion and inflation that abstention from further credit expansion and inflation would perpetuate the depression is utterly false. The remedies these authors suggest would not make the boom last forever. They would merely upset the process of recovery.

The boom can last only as long as the credit expansion progresses at an ever-accelerated pace. The boom comes to an end as soon as additional quantities of fiduciary media are no longer thrown upon the loan market. But it could not last forever even if inflation and credit expansion were to go on endlessly. It would then encounter the barriers which prevent the boundless expansion of circulation credit. It would lead to the crack-up and the breakdown of the whole monetary system.

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**BUREAUCRACY**

*Bureaucratic management*, as distinguished from *profit management*, is the method applied in the conduct of administrative affairs the result of which has no cash value on the market.

Success or failure of a police de-
part of its subdivisions has succeeded.

Bureaucratic conduct of affairs is conduct bound to comply with detailed rules and regulations fixed by the authority of a superior body. It is the only alternative to profit management. Whenever the operation of a system is not directed by the profit motive it must be directed by bureaucratic rules.

No business, whatever its size or specific task, can ever become bureaucratic so long as it is entirely and solely operated on a profit basis. But as soon as it abandons profit seeking and substitutes for it what is called the service principle—it must substitute bureaucratic methods for those of entrepreneurial management.

CAPITAL

From the notion of capital goods one must clearly distinguish the concept of capital. The concept of capital is the fundamental concept of economic calculation, the foremost mental tool of the conduct of affairs in the market economy. Its correlative is the concept of income.

The idea of capital has no counterpart in the physical universe of tangible things. It is nowhere but in the minds of planning men. It is an element in economic calculation.

Capital goods are intermediary products which, in the further course of production, are transformed into consumers' goods. All capital goods, including those not called perishable, perish either in wearing out their serviceableness in production or in losing their serviceableness, even before this happens, through a change in the market data. There is no question of keeping a stock of capital goods intact. They are transient. The notion of wealth constancy is an outgrowth of deliberate planning and acting. It refers to the concept of capital as applied in capital accounting, not to the capital goods as such.

The accumulation of new capital through saving initiates the chain of actions that results in an improvement of economic conditions. Saving is the first step on the way toward improvement of material well-being and toward every further progress on this way.

These additional funds make possible the execution of projects which, for the lack of capital goods, could
not have been executed previously.

Embarking upon the realization of the new projects, entrepreneurs compete on the market for the factors of production. They push up the prices of materials and wage rates. Thus wage earners, at the start of the process, already reap a share of the benefits that the abstention from consumption on the part of savers has begotten.

In the capitalist society there prevails a tendency toward a steady increase in the per capita quota of capital invested. The accumulation of capital soars above the increase in population figures. Consequently the marginal productivity of labor, real wage rates, and the wage earners' standard of living tend to rise continually. But this improvement in well-being is not the manifestation of the operation of an inevitable law of human evolution; it is a tendency resulting from the interplay of forces which can freely produce their effects only under capitalism.

That in capitalist countries the average wage earner consumes more goods and can afford more leisure than his ancestors is not an achievement of governments and labor unions. It is the outcome of the fact that profit-seeking business has accumulated and invested more capital and thus increased the marginal productivity of labor.

Capital as such does not bear interest; it must be well employed and invested not only in order to yield interest, but also lest it disappear entirely.

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**CAPITALISM**

The system of free enterprise has been dubbed capitalism in order to deprecate and to smear it. However, this term can be considered very pertinent. It refers to the most characteristic feature of the system, its main eminence, viz., the role the notion of capital plays in its conduct.

Modern capitalism is essentially mass production for the needs of the masses. The buyers of the products are by and large the same people who as wage earners cooperate in their manufacturing.

Capitalism, says Marx, repeating the fables of the eulogists of the Middle Ages, has an inevitable tendency to impoverish the workers more and more. The truth is that capitalism has poured a horn of plenty upon the masses of the wage earners who frequently did all they
The fear of penury and of the degrading consequences of being supported by charity are important factors in the preservation of man's physiological equilibrium. They impel a man to keep fit, to avoid sickness and accidents, and to recover as soon as possible from injuries suffered.

The experience of the social security system, especially that of the oldest and most complete scheme, the German, has clearly shown the undesirable effects resulting from the elimination of these incentives. No civilized community has callously allowed the incapacitated to perish. But the substitution of a legally enforceable claim to support or sustenance for charitable relief does not seem to agree with human nature as it is. Not metaphysical prepossessions, but considerations of practical expediency make it inadvisable to promulgate an actionable right to sustenance.
In nature there prevail irreconcilable conflicts of interests. Only the fittest plants and animals survive. The antagonism between an animal starving to death and another that snatches the food away from it is implacable. We may call this biological competition. [It] must not be confused with social competition, i.e., the striving of individuals to attain the most favorable position in the system of social cooperation. Social competition is present in every conceivable mode of social organization.

In a totalitarian system, social competition manifests itself in the endeavors of people to court the favor of those in power. In the market economy competition manifests itself in the fact that the sellers must outdo one another by offering better or cheaper goods and services, and that buyers must outdo one another by offering higher prices.

Market economy competition does not involve antagonism in the sense in which this term is applied to the hostile clash of incompatible interests. Psychologists are prone to confuse combat and competition. But praxeology must beware of such misleading equivocations. Military terms are inappropriate for the description of business operations. It is, e.g., a bad metaphor to speak of the conquest of a market. There is no conquest in the fact that one firm offers better or cheaper products than its competitors.

The owners of already operating plants have no particular class interest in the maintenance of free competition. They are opposed to confiscation and expropriation of their fortunes, but their vested interests are rather in favor of measures preventing newcomers from challenging their position. Those fighting for free enterprise and free competition do not defend the interests of those rich today. They want a free hand left to unknown men who will be the entrepreneurs of tomorrow and whose ingenuity will make the life of coming generations more agreeable. They want the way left open to further economic improvements. They are the spokesmen of material progress.

What makes friendly relations between human beings possible is the higher productivity of the division of labor. It removes the natural conflict of interests. A pre-eminent common interest, the preservation and further intensification of social cooperation, becomes paramount and obliterates all essential collisions. Catallactic competition is substituted for biological competition. It makes for harmony of the interests of all members of society.
The long-term public and semipublic credit is a foreign and disturbing element in the structure of a market society. The financial history of the last century shows a steady increase in the amount of public indebtedness. Nobody believes that the states will eternally drag the burden of these interest payments. It is obvious that sooner or later all these debts will be liquidated in some way or other, but certainly not by payment of interest and principal according to the terms of the contract.

Today there prevails a tendency to push banks and insurance companies more and more toward investment in government bonds. The funds of the social security institutions completely consist in titles to the public debt. As far as public indebtedness was incurred by spending for current expenditure, the saving of the individual does not result in capital accumulation. While in the unhampered market economy saving, capital accumulation, and investment coincide, in the interventionist economy the individual citizens’ savings can be dissipated by the government. The individual citizen restrains his current consumption in order to provide for his own future; in doing this he contributes his share to the further economic advancement of society and to an improvement of his fellow men’s standard of living. But the government steps in and removes the socially beneficial effects of the individuals’ conduct.

In the days of Solon the Athenian, of Ancient Rome’s agrarian laws, and of the Middle Ages, the creditors were by and large the rich and the debtors the poor. But in this age of bonds and debentures, mortgage banks, savings banks, life insurance policies and social security benefits, the masses of people with more moderate income are themselves creditors. On the other hand, the rich, in their capacity as owners of common stock, of plants, farms, and real estate, are more often debtors than creditors. In asking for the expropriation of creditors, the masses are unwittingly attacking their own particular interests.

If one looks at devaluation not with the eyes of an apologist of government and union policies, but with the eyes of an economist, one must
stress the point that all its alleged blessings are temporary only. Moreover, they depend on the condition that only one country devalues while the other countries abstain from devaluing their own currencies. If the other countries devalue in the same proportion, no changes in foreign trade appear. If they devalue to a greater extent, all these transitory blessings, whatever they may be, favor them exclusively. A general acceptance of the principles of the flexible standard [floating exchange rates] must therefore result in a race between the nations to outbid one another [i.e., competitive devaluation]. At the end of this competition is the complete destruction of all nations’ monetary systems.

The much talked about advantages which devaluation secures in foreign trade and tourism are entirely due to the fact that the adjustment of domestic prices and wage rates to the state of affairs created by devaluation requires some time. As long as this adjustment process is not yet completed, exporting is encouraged and importing is discouraged. However, this merely means that in this interval the citizens of the devaluing country are getting less for what they are selling abroad and paying more for what they are buying abroad; concomitantly they must restrict their consumption.

Devaluation, say its champions, reduces the burden of debts. This is certainly true. The actual effect is that the indebted owners of real estate and farm land and the shareholders of indebted corporations reap gains at the expense of the majority of people whose savings are invested in bonds, debentures, savings-bank deposits and insurance policies.

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ECONOMICS

Economics opened to human science a domain previously inaccessible and never thought of. The discovery of a regularity in the sequence and interdependence of market phenomena went beyond the limits of the traditional system of learning. It conveyed knowledge which could be regarded neither as logic, mathematics, psychology, physics nor biology.

The science of human action was at the beginning merely a discipline dealing with those actions which can be tested by monetary calculation. Starting from this basis, the economists were bound to widen step by
step the field of their studies until they finally developed a system dealing with all human choices, a general theory of action.

Economics does not allow of any breaking up into special branches. It invariably deals with the interconnectedness of all the phenomena of action. There are no such things as "economics of labor" or "economics of agriculture." There is only one coherent body of economics. There is economics and there is economic history. The two must never be confused. Economics, like logic and mathematics, is a display of abstract reasoning. Economics can never be experimental and empirical.

Economic knowledge is an essential element in the structure of human civilization; it deals with society's fundamental problems; it concerns everyone and belongs to all. It is the main and proper study of every citizen. It rests with men whether they will make the proper use of this knowledge. But if they fail to take the best advantage of it and disregard its teachings and warnings, they will not annul economics; they will stamp out society and the human race.

The early economists devoted themselves to the study of the problems of economics. In lecturing and writing books they were eager to communicate to their fellow citizens the results of their thinking. They tried to influence public opinion in order to make sound policies prevail in the conduct of civic affairs. They never conceived of economics as a profession.

The development of a profession of economists is an offshoot of interventionism. The professional economist is the specialist who is instrumental in designing various measures of government interference with business. He is an expert in the field of economic legislation, which today invariably aims at hindering the operation of the market economy.

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EDUCATION

Public education can work if it is limited to reading, writing and arithmetic. With bright children it is even possible to add elementary notions of geometry, the natural sciences and the valid laws of the country. But as soon as one wants to go farther, serious difficulties appear. Teaching at the elementary level necessarily turns into indoctrina-
tion. The party that operates the schools is in a position to propagandize its tenets and to disparage those of other parties.

Equality of opportunity, it is said, could be provided only by making education at every level accessible to all. There prevails today the tendency to reduce all differences among various peoples to their education and to deny the existence of inborn inequalities in intellect, will power, and character. It is not generally realized that education can never be more than indoctrination with theories and ideas already developed. Education, whatever benefits it may confer, is transmission of traditional doctrines and valuations; it is by necessity conservative. It produces imitation and routine, not improvement and progress. Innovators and creative geniuses cannot be reared in schools. They are precisely the men who defy what the school has taught them.

In order to succeed in business a man does not need a degree from a school of business administration. These schools train the subalterns for routine jobs. They certainly do not train entrepreneurs. An entrepreneur cannot be trained.

General education plays only a minor role in the formation of the political, social and economic ideas of the rising generation. The impact of the press, the radio, and environmental conditions is much more powerful than that of teachers and textbooks. The propaganda of the churches, the political parties, and the pressure groups outstrips the influence of the schools.

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ENTREPRENEURSHIP

What induces an entrepreneur to embark upon definite projects is neither high prices nor low prices as such, but a discrepancy between the costs of production, inclusive of interest on the capital required and the anticipated prices of the products.

The real entrepreneur is a speculator, a man eager to utilize his opinion about the future structure of the market for business operations promising profits. This specific anticipative understanding of the conditions of the uncertain future defies any rules and systematization. It can be neither taught nor learned.

Those who confuse entrepreneurship and management close their eyes to the economic problem. In labor disputes the parties are not management and labor, but entrepreneurship (or capital) and the salaried or wage-receiving employees. The capitalist system is not a man-
It is impossible to eliminate the entrepreneur from the picture of a market economy. The various complementary factors of production cannot come together spontaneously. They need to be combined by the purposive efforts of men aiming at certain ends and motivated by the urge to improve their state of satisfaction. In eliminating the entrepreneur one eliminates the driving force of the whole market system.

What those people who ask for equality have in mind is always an increase in their own power to consume. In endorsing the principle of equality as a political postulate nobody wants to share his own income with those who have less. When the American wage earner refers to equality, he means that the dividends of the stockholders should be given to him. He does not suggest a curtailment of his own income for the benefit of those 95 per cent of the earth’s population whose income is lower than his.

If more than one kind of money is used as a medium of exchange, the mutual exchange ratio between them is determined by their purchasing power.

As soon as domestic inflation begins to affect the prices of some commodities, long before it has exhausted all its effects upon the greater part of the prices of commodities and services, the price of foreign exchange tends to rise. The rise in foreign exchange rates merely
anticipates the movement of domestic commodity prices.

Exchange ratios are permanently fluctuating. There is nothing constant and invariable in them. They defy any attempt to measure them.

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**GOLD STANDARD**

A metallic currency is not subject to government manipulation. The gold standard was an efficacious check upon credit expansion, as it forced the banks not to exceed certain limits in their expansionist ventures. The gold standard's own inflationary potentialities were kept within limits by the vicissitudes of gold mining.

The significance of the fact that the gold standard makes the increase in the supply of gold dependent upon the profitability of producing gold is, of course, that it limits the government's power to resort to inflation. The gold standard makes the determination of money's purchasing power independent of the changing ambitions and doctrines of political parties and pressure groups. This is not a defect of the gold standard; it is its main excellence.

Nationalists are fighting the gold standard because they want to sever their countries from the world market and to establish national autarky as far as possible. Interventionist governments and pressure groups are fighting the gold standard because they consider it the most serious obstacle to their endeavors to manipulate prices and wage rates. But the most fanatical attacks against gold are made by those intent upon credit expansion.

The purchasing power of gold is not stable. But the very notions of stability and unchangeability of purchasing power are absurd. In a living and changing world there cannot be any such thing as stability of purchasing power. It is an essential feature of money that its purchasing power is changing.

The international gold standard works without any action on the part of governments. It is effective real cooperation of all members of the world-embracing market economy. There is no need for any government to interfere in order to make the gold standard work as an international standard.

What governments call international monetary cooperation is concerted action for the sake of credit expansion.
GOVERNMENT

Government has no more ability than individuals to create something out of nothing. What the government spends more, the public spends less. Public works are not accomplished by the miraculous power of a magic wand. They are paid for by funds taken away from the citizens.

The more public works expand and the more the government undertakes in order to fill the gap left by the alleged "private enterprise's inability to provide jobs for all," the more the realm of private enterprise shrinks. Thus we are again faced with the alternative of capitalism or socialism.

There is no reason to idolize the police power and ascribe to it omnipotence and omniscience. It cannot conjure away the scarcity of the factors of production, it cannot make people more prosperous, it cannot raise the productivity of labor.

All this talk about contracyclical government activities aims at one goal only, namely to divert the public's attention from cognizance of the real cause of the cyclical fluctuations of business. All governments are firmly committed to the policy of low interest rates, credit expansion, and inflation. When the unavoidable aftermath of these short-term policies appears, they know only of one remedy—to go on in inflationary ventures.

Currency and credit manipulation is today the main instrument by means of which the anticapitalist governments are intent upon establishing government omnipotence.

As soon as the economic freedom which the market economy grants to its members is removed, all political liberties and bills of rights become humbug. We may define freedom as that state of affairs in which the individual's discretion to choose is not constrained by government violence beyond the margin within which the praxeological law restricts it anyway.

HISTORY

No laboratory experiments can be performed with regard to human action. We are never in a position to observe the change in one element only, all other conditions of the event remaining unchanged. Historical experience as an experience of complex phenomena does not provide us with facts in the sense in which the natural sciences employ this term to
signify isolated events tested in experiments. The information conveyed by historical experience cannot be used as building material for the construction of theories and the prediction of future events. Every historical experience is open to various interpretations, and is in fact interpreted in different ways. History speaks only to those people who know how to interpret it on the ground of correct theories.

**HUMAN ACTION**

Man's freedom to choose and to act is restricted in a threefold way. There are first the physical laws to whose unfeeling absoluteness man must adjust his conduct if he wants to live. There are second the individual's innate constitutional characteristics and dispositions and the operation of environmental factors. There is finally the regularity of phenomena with regard to the interconnectedness of means and ends, viz., the praxeological law as distinct from the physical and the physiological law.

Man has not the power to change the categories of human action. He must adjust his conduct to them.

**IDEOLOGY**

In acting, man is directed by ideologies. He chooses ends and means under the influence of ideologies. The might of an ideology is either direct or indirect. It is direct when the actor is convinced that the content of the ideology is correct and that he serves his own interests directly in complying with it. It is indirect when the actor rejects the content of the ideology as false but is under the necessity of adjusting his actions to the fact that this ideology is endorsed by other people.

Any existing state of social affairs is the product of ideologies previously thought out. Society is always the creation of ideologies temporally and logically anterior. Action is always directed by ideas; it realizes what previous thinking has designed. The power of an ideology consists precisely in the fact that people submit to it without any waver and or scruples.

A man does not himself create his ideas and standards of value; he borrows them from other people. His ideology is what his environment enjoins upon him. Only very few men have the gift of thinking new and original ideas and of changing the traditional body of creeds and doctrines.
Common man does not speculate about the great problems. Yet the common man does choose. He chooses to adopt traditional patterns or patterns adopted by other people because he is convinced that this procedure is best fitted to achieve his own welfare. And he is ready to change his ideology and consequently his mode of action whenever he becomes convinced that this would better serve his interests.

In the days of laissez faire people looked upon government as an institution whose operation required an expenditure of money which must be defrayed by taxes paid by the citizens. In the individual citizens’ budgets the state was an item of expenditure. Today the majority of the citizens look upon government as an agency dispensing benefits. The wage earners and the farmers expect to receive from the treasury more than they contribute to its revenues. The state is in their eyes a spender, not a taker.

What determines the course of a nation’s economic policies is always the economic ideas held by public opinion. No government, whether democratic or dictatorial, can free itself from the sway of the generally accepted ideology.

Never before has the world known such a cleverly contrived system of propaganda and oppression as that instituted by contemporary governments, parties, and pressure groups. However, all these edifices will crumble like houses of cards as soon as a great ideology attacks them.

INDIVIDUALISM

Society is nothing but the combination of individuals for cooperative effort. It exists nowhere else than in the actions of individual men. It is a delusion to search for it outside the actions of individuals.

All actions are performed by individuals. It is always the individual who thinks. Society does not think any more than it eats or drinks. Thinking is always an achievement of individuals. There is joint action but no joint thinking.

A collective operates always through the intermediary of one or several individuals whose actions are related to the collective as the secondary source. For a social collective has no existence and reality outside of the individual members’ actions.

The reason the market economy can operate without government or-
ders telling everybody precisely what he should do and how he should do it is that it does not ask anybody to deviate from those lines of conduct which best serve his own interests. What integrates the individual’s actions into the whole of the social system of production is the pursuit of his own purposes.

In indulging his “acquisitiveness” each actor contributes his share to the best possible arrangement of production activities. Thus, within the sphere of private property and the laws protecting it against encroachments on the part of violent and fraudulent action, there is no antagonism between the interests of the individual and those of society.

Those who want to study human action from the collective units encounter an insurmountable obstacle in the fact that an individual at the same time can belong and really belongs to various collective entities. The problems raised by the multiplicity of coexisting social units and their mutual antagonisms can be solved only by methodological individualism.

The collaboration of collectivist creeds in their attempts to destroy freedom has brought about the mistaken belief that the issue in present-day political antagonisms is individualism versus collectivism. In fact it is a struggle between individualism on the one hand and a multitude of collectivist sects on the other. It is not a uniform Marxian sect that attacks capitalism, but a host of Marxian groups. These groups fight one another with the utmost brutality and inhumanity. A substitution of collectivism for liberalism would result in endless bloody fighting.

Individualism is a philosophy of social cooperation and the progressive intensification of the social nexus. On the other hand, the application of the basic ideas of collectivism cannot result in anything but social disintegration and the perpetuation of armed conflict.

INFLATION

A general rise in prices can only occur if there is either a drop in the supply of all commodities or an increase in the supply of money. If one wants to know whether or not there is credit expansion, one must look at the supply of fiduciary media, not at the arithmetical state of interest rates.

The notions of inflation and defla-
tion are not praxeological concepts. They were not created by economists, but by the mundane speech of the public and of politicians. They implied the popular fallacy that there is such a thing as neutral money or money of stable purchasing power.

However, those applying these terms are not aware of the fact that purchasing power never remains unchanged and that consequently there is always either inflation or deflation.

What many people today call inflation or deflation is no longer the great increase or decrease in the supply of money, but its inexorable consequences, the general tendency toward a rise or fall in commodity prices and wage rates. This innovation is by no means harmless.

Those engaged in futile and hopeless attempts to fight the inevitable consequences of inflation—the rise in prices—are disguising their endeavors as a fight against inflation. While merely fighting symptoms, they pretend to fight the root causes of the evil. Because they do not comprehend the causal relation between the increase in the quantity of money on the one hand and the rise in prices on the other, they make things worse.

The course of a progressing inflation is this: At the beginning the inflow of additional money makes the prices of some commodities and services rise; other prices rise later. The price rise affects the various commodities and services at different dates and to a different extent.

The first stage of the inflationary process may last for many years. While it lasts, the prices of many goods and services are not yet adjusted to the altered money relation. There are still people in the country who have not yet become aware of the fact that they are confronted with a price revolution which will finally result in a considerable rise of all prices, although the extent of this rise will not be the same in the various commodities and services. These people still believe that prices one day will drop. Waiting for this day, they restrict their purchases and concomitantly increase their cash holdings. As long as such ideas are still held by public opinion, it is not yet too late for the government to abandon its inflationary policy.

But then finally the masses wake up. They become suddenly aware that inflation is a deliberate policy and will go on endlessly. A breakdown occurs. Everybody is anxious to swap his money against "real" goods, no matter whether he needs them or not, no matter how much money he has to pay for them. Within a very short time, within a few weeks or even days, the things which were used as money are no longer used as media of exchange. They become scrap paper. Nobody wants to give away anything against them.

It was this that happened with the
Continental currency in America in 1781, with the French mandats territoriaux in 1796 and with the German Mark in 1923. It will happen again whenever the same conditions appear. Inflation is a policy that cannot last. The monetary system breaks down; all transactions in money cease. People return either to barter or to use of another kind of money.

INTEREST

Originary interest is the ratio of value assigned to want-satisfaction in the immediate future and the value assigned to want-satisfaction in remote periods of the future. Originary interest is not "the price paid for the services of capital."

If future goods were not bought and sold at a discount as against present goods, the buyer of land would have to pay a price which equals the sum of all future net revenues and which would leave nothing for a current reiterated income.

In every act of lending, even apart from the problem of changes in the monetary unit's purchasing power, there is an element of entrepreneurial venture. The granting of credit is necessarily always an entrepreneurial speculation which can possibly result in failure and the loss of a part or of the total amount lent. Every interest stipulated and paid in loans includes not only originary interest but also entrepreneurial profit.

The role which the rate of interest plays in the deliberations of the planning businessman is obvious. It prevents him from embarking upon projects the execution of which would not agree with the limited amount of capital goods provided by the saving of the public.

In the rate of originary interest there is no more permanence than in prices or wage rates.

It was a blunder to explain interest as an income derived from the productivity of capital. There were schools of thought for whom interest was merely a price paid for obtaining the disposition of a quantity of money or money substitutes. From this belief they quite logically drew the inference that abolishing the scarcity of money and money substitutes would abolish interest altogether and result in the gratuitousness of credit.

The banks and the monetary authorities are guided by the idea that the height of interest rates as the
free loan market determines it is an evil, that it is the objective of a good economic policy to lower it, and that credit expansion is an appropriate means of achieving this end without harm to anybody but parasitic moneylenders. It is this infatuation that causes them to embark upon ventures which must finally bring about a slump.

The cyclical fluctuations of business are not an occurrence originating in the sphere of the unhampered market, but a product of government interference with business conditions designed to lower the rate of interest below the height at which the free market would have fixed it.

Therefore there cannot be any question of abolishing interest by any institutions, laws or devices of bank manipulation. He who wants to “abolish” interest will have to induce people to value an apple available in a hundred years no less than a present apple. What can be abolished by laws and decrees is merely the right of the capitalists to receive interest. But such decrees would bring about capital consumption and would very soon throw mankind back into the original state of natural poverty.

INTERVENTION

In society's economic organization there are the liberals advocating private ownership of the means of production, the socialists advocating public ownership of the means of production, and the interventionists advocating a third system which, they contend, is as far from socialism as it is from capitalism.

The issue is: How does a system of interventionism work? Can it realize those ends which people, in resorting to it, want to attain?

The interventionist in advocating additional public expenditure is not aware of the fact that the funds available are limited. In his opinion there is plenty of money available. The income and wealth of the rich can be freely tapped.

With the present height of income and inheritance tax rates, this reserve fund out of which the interventionists seek to cover all public expenditure is rapidly shrinking. It has practically disappeared in most European countries. In the United States the recent advances in tax rates produced only negligible revenue results beyond what would be produced by a progression which stopped at much lower rates. From day to day it becomes more obvious that large-scale additions to the
amount of public expenditure cannot be financed by “soaking the rich,” but that the burden must be carried by the masses. Those anxious to get subsidies will themselves have to foot the bill.

All these champions of interventionism fail to realize that their program thus implies the establishment of full government supremacy in all economic matters and ultimately brings about socialism. If it is in the jurisdiction of the government to decide whether or not definite conditions of the economy justify its intervention, no sphere of operation is left to the market. Then it is no longer the consumers who ultimately determine what should be produced, in what quantity, of what quality, by whom, where and how—but it is the government.

It is difficult to find out how many of the supporters of interventionism are conscious of the fact that the policies they recommend directly lead to socialism, and how many hold fast to the illusion that what they are aiming at is a middle-of-the-road system that can last as a permanent system—a “third solution.”

An essential element of the doctrines advanced both by socialists and interventionists is that the recurrence of depressions is a phenomenon inherent in the very operation of the market economy. Yet the evils in the great depression that started in 1929 were not created by capitalism, but, on the contrary, by the endeavors to “reform” and “improve” the operation of the market economy by interventionism. The crash was the necessary outcome of the attempts to lower the rate of interest by credit expansion. Institutional unemployment was the inevitable result of the policy of fixing wage rates above the potential market height.

The interventionist interlude must come to an end because all varieties of interference with the market phenomena not only fail to achieve the ends aimed at by their authors, but bring about a state of affairs which is less desirable than the previous state they were designed to alter. If one wants to correct [this] by supplementing the first acts of intervention with more and more of such acts, one must go farther and farther until the market economy has been entirely destroyed and socialism has been substituted for it.

Men must choose between the market economy and socialism. They cannot evade deciding between these alternatives by adopting a “middle-of-the-road” position, whatever name they may give to it. In abolishing economic calculation the general adoption of socialism would result in complete chaos and the disintegration of social cooperation under the division of labor.
INVESTMENT—DOMESTIC

When governments initiated their policies of long-term irredeemable and perpetual loans, the state offered to the citizen an opportunity to put his wealth in safety and to enjoy a stable income secure against all vicissitudes. It opened a way to free the individual from the necessity of risking and acquiring his wealth and his income anew each day in the capitalist market. He who invested his funds in bonds issued by the government and its subdivisions was no longer subject to the inescapable laws of the market and the sovereignty of the consumers. Henceforth his income no longer stemmed from the process of supplying the wants of consumers in the best possible way, but from taxes levied by the state’s apparatus of compulsion and coercion. He was no longer a servant of his fellow citizens, subject to their sovereignty; he was a partner of the government which ruled the people and exacted tribute from them.

However, even the most ruthless government in the long run is not able to defy the laws determining human life and action. If the government invests funds and no surplus results, or if it spends the money for current expenditure, the capital borrowed shrinks or disappears entirely, and no source is opened from which interest and principal could be paid.

The irredeemable perpetual public debt presupposes the stability of purchasing power. Although the state and its compulsion may be eternal, the interest paid on the public debt could be eternal only if based on a standard of unchanging value.

The investor who for security’s sake shuns the market, entrepreneurship and investment in free enterprise and prefers government bonds is faced again with the problem of the changeability of all human affairs. He discovers that in the frame of a market society there is no room left for wealth not dependent upon the market. His endeavors to find an inexhaustible source of income fail. There are in this world no such things as stability and security and no human endeavors are powerful enough to bring them about.

INVESTMENT—FOREIGN

Under the conditions of the latter nineteenth century it did not matter whether or not a nation was prepared and equipped with the re-
quired capital in order to utilize adequately the natural resources in its territory. There was practically free access for everybody to every area's natural wealth. In searching for the most advantageous opportunities for investment, capitalists and promoters were not stopped by national borderlines. As far as investment was concerned the greater part of the earth's surface could be considered as integrated into a uniform world-embracing market system. In fact the internationalization of the capital market, together with free trade and the freedom of migration, was instrumental in removing the economic incentives to war and conquest.

The inflow of foreign capital did not harm the receiving nations. It was European capital that accelerated considerably the marvelous economic evolution of the United States and the British Dominions. Thanks to foreign capital the countries of Latin America and Asia are today equipped with facilities for production and transportation which they would have had to forego for a very long time if they had not received this aid. Real wage rates and farm yields are higher today in those areas than they would have been in the absence of foreign capital. The mere fact that almost all nations are vehemently asking today for "foreign aid" explodes the fables of the Marxians and the nationalists.

However, the mere lust for imported capital goods does not resuscitate the international capital market. Investment and lending abroad are only possible if the receiving nations are unconditionally and sincerely committed to the principle of private property and do not plan to expropriate the foreign capitalists at a later date. It was such expropriations that destroyed the international capital market. Intergovernmental loans are no substitute for the functioning of an international capital market.

LABOR UNIONS

The improvement in the workers' material conditions is due to the increase in the per capita quota of capital invested and the technological achievements which the employment of this additional capital brought about. As far as labor legislation and union pressure did not exceed the limits of what the workers would have got without them as a necessary consequence of the acceleration of capital accumulation as compared with population, they were super-
fluous. As far as they exceeded these limits, they were harmful to the interests of the masses. They delayed the accumulation of capital thus slowing down the tendency toward a rise in the marginal productivity of labor and in wage rates. They conferred privileges on some groups of wage earners at the expense of other groups. They created mass unemployment and decreased the amount of products available for the workers in their capacity as consumers.

If unions were really bargaining agencies, their collective bargaining could not raise the height of wages above the point of the unhampered market. As long as there are still unemployed workers available, there is no reason for an employer to raise his offer. Real collective bargaining would not differ from individual bargaining.

What is euphemistically called collective bargaining by union leaders and "pro-labor" legislation is bargaining at the point of a gun. It is bargaining between an armed party, ready to use its weapons, and an unarmed party under duress. It is not a market transaction.

It is a dictate forced upon the employer and it produces institutional unemployment. If a government decree or labor union pressure and compulsion fix wage rates above the height of the potential market rates, institutional unemployment results.

The problem is not the right to strike, but the right—by intimidation or violence—to force other people to strike, and the further right to prevent anybody from working in a shop in which a union has called a strike. When the unions invoke the right to strike in justification of such intimidation and deeds of violence, they are on no better ground than a religious group would be in invoking the right of freedom of conscience as a justification for persecuting dissenters.

LAISSEZ FAIRE

In eighteenth-century France the saying laissez faire [let people do or make what they choose] and laissez passer [let pass or go] was the formula into which some of the champions of the cause of liberty compressed their program.

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 govern-
ment alone choose and enforce its rulings by the apparatus of coercion and compulsion.

The alternative is not between a dead mechanism or a rigid automatism on one hand and conscious planning on the other hand. The question is whose planning?

LAND REFORM

Plans aiming at a more or less equal distribution of the soil among the farming population are, under the conditions of the market economy, merely plans for granting privileges to a group of less efficient producers at the expense of the immense majority of consumers. The operation of the market tends to eliminate all those farmers whose cost of production is higher than the marginal costs needed for the production of that amount of farm products the consumers are ready to buy. It determines the size of farms as well as the methods of production applied. If the government interferes in order to make a different arrangement of the conditions of farming prevail, it raises the average price of farm products.

MACHINES

Labor is more scarce than the material factors of production. There are material factors of production which remain unused because the labor required is needed for the satisfaction of more urgent needs. In our world there is no abundance, but a shortage of manpower, and there are unused material factors of production, i.e., land, mineral deposits, and even plants and equipment.

The substitution of more efficient methods of production for less efficient ones does not render labor abundant, provided there are still material factors available whose utilization can increase human well-being. On the contrary, it increases output and thereby the quantity of consumers’ goods. “Labor-saving” devices increase supply. They do not bring about “technological unemployment.”

THE MARKET

It is customary to speak metaphorically of the automatic and anonymous forces actuating the “mechanism” of the market. Such metaphors
disregard the fact that the only factors directing the market and the determination of prices are purposive acts of men. There is no automatism; there are only men consciously and deliberately aiming at ends chosen.

The market is a social body; it is the foremost social body. Everybody in acting serves his fellow citizens. Everybody, on the other hand, is served by his fellow citizens. Everybody is both a means and an end in himself, an ultimate end for himself and a means to other people in their endeavors to attain their own ends.

Each man is free; nobody is subject to a despot. Of his own accord the individual integrates himself into the cooperative system. The market directs him and reveals to him in what way he can best promote his own welfare as well as that of other people. The market is supreme. The market alone puts the whole social system in order and provides it with sense and meaning.

The market is not a place, a thing or a collective entity. The market is a process, actuated by the interplay of the actions of the various individuals cooperating under the division of labor.

The recurrence of individual acts of exchange generates the market step by step with the evolution of the division of labor within a society based on private property. Such exchanges can be effected only if each party values what he receives more highly than what he gives away.

The divisibility of money, unlimited for all practical purposes, makes it possible to determine the exchange ratios with nicety.

The market process is coherent and indivisible. It is an indissoluble intertwinement of actions and reactions, of moves and countermoves. But the insufficiency of our mental abilities enjoins upon us the necessity of dividing it into parts and analyzing each of these parts separately. In resorting to such artificial cleavages we must never forget that the seemingly autonomous existence of these parts is an imaginary makeshift of our minds. They are only parts, that is, they cannot even be thought of as existing outside the structure of which they are parts.

The market economy as such does not respect political frontiers. Its field is the world. The market makes people rich or poor, determines who shall run the big plants and who shall scrub the floors, fixes how many people shall work in the copper mines and how many in the symphony orchestras. None of these decisions is made once and for all; they are revocable every day. The selective process never stops.

To assign to everybody his proper place in society is the task of the consumers. Their buying and abstention from buying is instrumental in determining each individual’s
social position. The consumers determine ultimately not only the prices of the consumers' goods, but no less the prices of all factors of production. They determine the income of every member of the market economy. The consumers, not the entrepreneurs, pay ultimately the wages earned by every worker, the glamorous movie star as well as the charwoman. It is true, in the market the various consumers have not the same voting right. The rich cast more votes than the poorer citizens. But this inequality is itself the outcome of a previous voting process.

If a businessman does not strictly obey the orders of the public as they are conveyed to him by the structure of market prices, he suffers losses, he goes bankrupt. Other men who did better in satisfying the demand of the consumers replace him.

The consumers make poor people rich and rich people poor. They determine precisely what should be produced, in what quality, and in what quantities. They are merciless bosses, full of whims and fancies, changeable and unpredictable. They do not care one whit for past merit and vested interests.

Market prices tell producers what to produce, how to produce, and in what quantity. The market is the focal point to which activities of the individuals converge. It is the center from which the activities of individuals radiate.

The market economy, or capitalism, as it is usually called, and the socialist economy preclude one another. There is no mixture of the two systems possible or thinkable; there is no such thing as a mixed economy, a system that would be in part capitalistic and in part socialist. The market economy is the product of a long evolutionary process. It is the strategy, as it were, by the application of which man has triumphantly progressed from savagery to civilization.

MATHEMATICS AND ECONOMICS

The fundamental deficiency implied in every quantitative approach to economic problems consists in the neglect of the fact that there are no constant relations between what are called economic dimensions. There is neither constancy nor continuity in the valuations and in the formation of exchange ratios between various commodities.

In the realm of physical and chemical events there exist (or, at least, it is generally assumed that there exist) constant relations be-
between magnitudes, and man is capable of discovering these constants with a reasonable degree of precision by means of laboratory experiments. No such constant relations exist in the field of human action outside of physical and chemical technology and therapeutics.

Those economists who want to substitute "quantitative economics" for what they call "qualitative economics" are utterly mistaken. There are, in the field of economics, no constant relations, and consequently no measurement is possible. The mathematical economist, blinded by the prepossession that economics must be construed according to the pattern of Newtonian mechanics and is open to treatment by mathematical methods, misconstrues entirely the subject matter of his investigations. He no longer deals with human action but with a soulless mechanism mysteriously actuated by forces not open to further analysis.

The mathematical economist eliminates the entrepreneur from his thought. He has no need for this mover and shaker whose never-ceasing intervention prevents the system reaching the state of perfect equilibrium and static conditions. As the mathematical economist sees it, the prices of the factors of production are determined by the intersection of two curves, not by human action.

Mathematical economists substitute algebraic symbols for the determinate terms of money as used in economic calculation and believe that this procedure renders their reasoning more scientific. They deal with equilibrium in various mathematical symbols as if it were a real entity and not a limiting notion, a mere mental tool. What they are doing is vain playing with mathematical symbols, a pastime not suited to convey any knowledge. They strongly impress the gullible layman. In fact they only confuse and muddle things which are satisfactorily dealt with in textbooks of commercial arithmetic and accountancy.

The equations formulated by mathematical economics remain a useless piece of mental gymnastics and would remain so even if they were to express much more than they do.

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**MONEY**

Money is a medium of exchange.

A medium of exchange is a good which people acquire neither for their own consumption nor for employment in their own production activities, but with the intention of exchanging it at a later date against those goods which they want to use
either for consumption or for production.

Nothing can enter into the function of a medium of exchange which was not already previously an economic good to which people assigned exchange value before it was demanded as such a medium.

Money is the thing which serves as the generally accepted and commonly used medium of exchange. This is its only function. All other functions which people ascribe to money are merely particular aspects of its primary and sole function, that of a medium of exchange.

What is employed as money is a commodity which is used also for nonmonetary purposes. Under the gold standard, gold is money and money is gold. It is immaterial whether or not the laws assign legal tender quality only to gold coins minted by the government. What counts is that these coins really contain a fixed weight of gold and that every quantity of bullion can be transformed into coins. Under the gold standard the dollar and the pound sterling were merely names for a definite weight of gold. We call such a money commodity money.

A second sort of money is credit money. Credit money evolved out of the use of money-substitutes. It was customary to use claims, payable on demand and absolutely secure, as substitutes for the sum of money to which they gave claim.

As long as these claims had been daily maturing claims against a debtor of undisputed solvency and could be collected without notice and free of expense, their exchange value was equal to their face value; it was this perfect equivalence which assigned to them the character of money substitutes.

Fiat money is money consisting of mere tokens which can neither be employed for any industrial purposes nor convey a claim against anybody. The important thing to be remembered is that with every sort of money, demonetization—i.e., the abandonment of its use as a medium of exchange—must result in a serious fall of its exchange value.

In the course of history various commodities have been employed as media of exchange. A long evolution eliminated the greater part of these commodities from the monetary function. Only two, the precious metals gold and silver, remained. In the second part of the nineteenth century more and more governments deliberately turned toward the demonetization of silver.

The choice of the good to be employed as a medium of exchange and as money is never indifferent. It determines the course of the cash-induced changes in purchasing power. The question is only who should make the choice: the people buying and selling on the market, or the government? It was the market
which in a selective process, going on for ages, finally assigned to the precious metals gold and silver the character of money. For two hundred years the governments have interfered with the market's choice of the money medium. Even the most bigoted étatists [statists] do not venture to assert that this interference has proved beneficial.

The fateful errors of popular monetary doctrines which have led astray the monetary policies of almost all governments would hardly have come into existence if many economists had not themselves committed blunders in dealing with monetary issues and did not stubbornly cling to them.

There is first of all the spurious idea of the supposed neutrality of money. An outgrowth of this doctrine was the notion of the "level" of prices that rises or falls proportionately with the increase or decrease in the quantity of money in circulation. It was not realized that changes in the quantity of money can never affect the prices of all goods and services at the same time and to the same extent. Nor was it realized that changes in the purchasing power of the monetary unit are necessarily linked with changes in the mutual relations between those buying and selling.

The assumption that the medium of exchange is a neutral factor was a serious blunder. People tacitly assumed that changes in purchasing power occur with regard to all goods and services at the same time and to the same extent. This is, of course, the fable of money's neutrality.

The notion of a neutral money is no less contradictory than that of a money of stable purchasing power. Money without a driving force of its own would not, as people assume, be a perfect money; it would not be money at all.

The purchasing power of money is determined by demand and supply, as is the case with the prices of all vendible goods and services. The demand for a medium of exchange is the composite of two partial demands: the demand displayed by the intention to use it in consumption and production and that displayed by the intention to use it as a medium of exchange. The value in exchange (purchasing power) of a medium of exchange is the resultant of the cumulative effect of both partial demands.
Money is not a standard for the measurement of prices; it is a medium whose exchange ratio varies in the same way, although as a rule not with the same speed and to the same extent, in which the mutual exchange ratios of the vendible commodities and services vary.

With action and unceasing change, with the economic system which cannot be rigid, neither neutrality of money nor stability of its purchasing power are compatible.

All plans to render money neutral and stable are contradictory. Money is an element of action and consequently of change. Changes in the money relation, i.e., in the relation of the demand for and the supply of money, affect the exchange ratio between money on the one hand the vendible commodities on the other hand. These changes do not affect at the same time and to the same extent the prices of the various commodities and services. They consequently affect the wealth of various members of society in a different way.

Changes in the supply of money must bring about changes in other data too. The market system before and after the inflow or outflow of a quantity of money is not merely changed in that cash holdings of the individuals and prices have increased or decreased. There have been effected also changes in the reciprocal exchange ratios between the various commodities and services.

It is generally believed by those unfamiliar with economic theory that credit expansion and an increase in the quantity of money in circulation are efficacious means for lowering the rate of interest permanently below the height it would attain on a nonmanipulated capital and loan market. This theory is utterly illusory. But it guides the monetary and credit policy of almost every contemporary government.

The endeavors to expand the quantity of money in circulation either in order to increase the government's capacity to spend or in order to bring about a temporary lowering of the rate of interest disintegrate all currency matters and derange economic calculation.

It is not on account of an alleged scarcity of money that prices of agricultural products are too low to secure to submarginal farmers the amount they would like to earn. The cause of these farmers' distress is that other farmers are producing at lower costs.

An increase in the quantity of goods produced, other things being unchanged, must bring about an improvement in peoples' conditions. Its consequence is a fall in the money prices of the goods the production of which has been increased. But such a fall in money prices does not in the least impair the benefits derived from the additional wealth produced. One
must not say that a fall in prices caused by an increase in production of goods is proof of some disequilibrium which cannot be eliminated otherwise than by increasing the quantity of money.

The services which money renders can be neither improved nor repaired by changing the supply of money. There may appear an excess or a deficiency of money in an individual’s cash holding. But such a condition can be remedied by increasing or decreasing consumption or investment. (Of course, one must not fall prey to the popular confusion between the demand for money for cash holding and the appetite for more wealth.) The quantity of money available in the whole economy is always sufficient to secure for everybody all that money does and can do.

Monopoly

Each factory turns out products different from those of other plants. Each hotel has a monopoly on the sale of its services on the site of its premises. The professional services rendered by a physician or a lawyer are never perfectly equal to those rendered by any other physician or lawyer. Except for certain raw materials, foodstuffs, and other staple goods, monopoly is everywhere on the market.

However, the mere phenomenon of monopoly is without any significance and relevance for the operation of the market and the determination of prices. It does not give the monopolist any advantage in selling his products. Under copyright law every rhymester enjoys a monopoly in the sale of his poetry. But this does not influence the market. It may happen that no price whatever can be realized for his stuff and that his books can only be sold at their waste paper value.

One must not confuse the notions of monopoly and of monopoly prices. Mere monopoly as such is of no importance if it does not result in monopoly prices.

The publisher of a copyright book is a monopolist. But he may not be able to sell a single copy no matter how low the price he asks. Not every price at which a monopolist sells a monopolized commodity is a monopoly price. Monopoly prices are only prices at which it is more advantageous for the monopolist to restrict the total amount to be sold than to expand his sales to the limit which a competitive market would allow.

Monopoly prices are the outgrowth of government interference with business. They were not created by the interplay of the factors operating on a free market. They
are not products of capitalism, but precisely of the endeavors to counteract the forces determining the height of market prices. It is a distortion of fact to speak of monopoly capitalism. It would be more appropriate to speak of monopoly interventionism or monopoly statism.

The important place that cartels occupy in our time is an outcome of the interventionist policies adopted by the governments of all countries. The monopoly problem mankind has to face today is not an outgrowth of the operation of the market economy. It is a product of purposive action on the part of governments. It is not one of the evils inherent in capitalism as the demagogues trumpet. It is, on the contrary, the fruit of policies hostile to capitalism and intent upon sabotaging and destroying its operation.

It is a grotesque distortion of the true state of affairs to speak of monopoly capitalism instead of monopoly interventionism and of private cartels instead of government-made cartels.

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MORALITY

Compliance with the moral rules which the establishment, preservation, and intensification of social cooperation require is not seen [by the economist] as a sacrifice to a mythical entity, but as the recourse to the most efficient methods of action, as a price expended for the attainment of more highly valued returns.

The social division of labor and cooperation rests upon conciliatory settlements of disputes. Not war, as Heraclitus said, but peace is the source of all social relations. He who wants to preserve life and health as well and as long as possible, must realize that respect for other people's lives and health better serves his aim than the opposite mode of conduct.

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PRAXEOLOGY

It is no longer possible to define neatly the boundaries between the kind of action which is the proper field of economic science in the narrower sense, and other action.

Acting man is always concerned with both "material" and "ideal" things. He chooses between alternatives. No matter whether they are to be classified as material or ideal.

The general theory of choice is much more than merely a theory of
the "economic side" of human endeavors and of man's striving for commodities and an improvement in his material well-being. It is the science of every kind of human action. Choosing determines all human decisions.

Out of the political economy of the classical school emerges the general theory of human action, praxeology. The economic or catallactic problems are imbedded in a more general science, and can no longer be severed from this connection. No treatment of economic problems proper can avoid starting from acts of choice; economics becomes a part, although the hitherto best elaborated part, of a more universal science, praxeology.

Praxeology—and consequently economics too—is a deductive system. It draws its strength from the starting point of its deductions, from the category of action. No economic theorem can be considered sound that is not solidly fastened upon this foundation by an irrefutable chain of reasoning. A statement proclaimed without such a connection is arbitrary and floats in midair. It is impossible to deal with a special segment of economics if one does not encase it in a complete system of action.

The empirical sciences start from singular events and proceed from the unique and individual to the more universal. Their treatment is subject to specialization. They can deal with segments without paying attention to the whole field. The economist must never be a specialist. In dealing with any problem he must always fix his glance upon the whole system.

In speaking of the laws of nature we have in mind the fact that there prevails an inexorable interconnectedness of physical and biological phenomena and that acting man must submit to this regularity if he wants to succeed. In speaking of the laws of human action we refer to the fact that such an inexorable interconnectedness of phenomena is present also in the field of human action as such and that acting man must recognize this regularity too if he wants to succeed.

In physics we are faced with changes occurring in various sense phenomena. We discover a regularity in the sequence of these changes and these observations lead us to the construction of a science of physics.

In praxeology the first fact we know is that men are purposively intent upon bringing about some
changes. It is this knowledge that integrates the subject matter of praxeology and differentiates it from the subject matter of the natural sciences. We know the forces behind the changes, and this aprioristic knowledge leads us to a cognition of the praxeological process. The physicist does not know what electricity "is." He knows only phenomena attributed to something called electricity. But the economist knows what actuates the market process. It is only thanks to this knowledge that he is in a position to distinguish market phenomena from other phenomena and to describe the market process.

Praxeology is a theoretical and systematic, not a historical, science. Its statements and propositions are not derived from experience. They are, like those of logic and mathematics, a priori. They are not subject to verification or falsification on the ground of experience and facts.

The teachings of praxeology and economics are valid for every human action without regard to its underlying motives, causes, and goals. The ultimate judgments of value and the ultimate ends of human action are given for any kind of scientific inquiry; they are not open to any further analysis. Praxeology deals with the ways and means chosen for the attainment of such ultimate ends. Its object is means, not ends. The only standard which it applies is whether or not the means chosen are fit for the attainment of the ends aimed at.

Only the insane venture to disregard physical and biological laws. But it is quite common to disdain praxeological laws. Rulers do not like to admit that their power is restricted by any laws other than those of physics and biology. They never ascribe their failures and frustrations to the violation of economic law.

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**PRICES**

The ultimate source of the determination of prices is the value judgments of the consumers. Each individual, in buying or not buying and in selling or not selling, contributes his share to the formation of market prices. But the larger the market is, the smaller is the weight of each individual’s contribution. Thus the structure of market prices appears to the individual as a datum to which he must adjust his own conduct. What is called a price is always a relationship within an integrated system which is the composite effect of human relations.
Money prices are exchange ratios. The divisibility of money, unlimited for all practical purposes, makes it possible to determine the exchange ratios with nicety.

Prices are determined between extremely narrow margins; the valuations on the one hand of the marginal buyer and those of the marginal offerer who abstains from selling, and the valuations on the other hand of the marginal seller and those of the marginal potential buyer who abstains from buying.

The valuations which result in determination of definite prices are different. Each party attaches a higher value to the good he receives than to that he gives away. The exchange ratio, the price, is not the product of an equality of valuation, but, on the contrary, the product of a discrepancy in valuation.

The characteristic feature of the market price is that it tends to equalize supply and demand. Any deviation of a market price from the height at which supply and demand are equal is—in the unhampered market—self-liquidating.

At times governments have resorted to maximum prices, at other times to minimum prices for various commodities. At times they have decreed maximum wage rates, at other times minimum wage rates. It is only with regard to interest that they have never had recourse to minimum rates; when they have interfered, they have always decreed maximum interest rates. They have always looked askance upon saving, investing, and moneylending.

But if the government fixes prices at a height different from what the market would have fixed if left alone, this equilibrium of demand and supply is disturbed. Then there are—with maximum prices—potential buyers who cannot buy although they are ready to pay the price fixed by the authority, or even a higher price [i.e., demand exceeds supply]. Then there are—with minimum prices—potential sellers who cannot sell although they are ready to sell at the price fixed by the authority, or even at a lower price [i.e., supply exceeds demand]. The price can no longer segregate those potential buyers and sellers who can buy and sell from those who cannot. If the authority does not want chance or violence to determine the allocation of the supply available, and conditions to become chaotic, it must itself regulate the amount which each individual is permitted to buy. It must resort to rationing.

Before the government interfered, the goods concerned were, in the eyes of the government, too dear. As a result of the maximum price their supply dwindles or disappears altogether. The government interfered because it considered these commodities especially vital, necessary, indispensable. But its action cur-
tailed the supply available. It is therefore, from the point of view of the government, absurd and nonsensical. A government can no more determine prices than a goose can lay hen's eggs.

If the government is unwilling to acquiesce in this undesired and undesirable outcome and goes further and further, if it fixes the prices of all goods and services and obliges all people to continue producing and working at these prices and wage rates, it eliminates the market altogether. Then the planned economy, socialism of the German Zwangs­wirtschaft pattern, is substituted for the market economy.

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

Prices are a market phenomenon. They are generated by the market process and are the pith of the market economy. There is no such thing as prices outside the market. Prices cannot be constructed synthetically, as it were.

The very idea of cost prices is unrealizable. The reason why the price of Burgundy is higher than that of Chianti is not the higher price of the vineyards of Burgundy as against those of Tuscany. The causation is the other way around. Because people are ready to pay higher prices for Burgundy than for Chianti, winegrowers are ready to pay higher prices for the vineyards of Burgundy than for those of Tuscany.

Prices of the market are the ultimate fact for economic calculation. Attempts to eliminate monetary terms from economic calculation are delusive. No method of economic calculation is possible other than one based on money prices as determined by the market.

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. Competing in cooperation and cooperating in competition all people are instrumental in bringing about the result, viz., the price structure of the market, the allocation of the factors of production to the various lines of want-satisfaction, and the determination of the share of each individual.
Profits are the driving force of the market economy. The greater the profits, the better the needs of the consumers are supplied. For profits can only be reaped by removing discrepancies between the demands of the consumers and the previous state of production activities. He who serves the public best, makes the highest profits. In fighting profits governments deliberately sabotage the operation of the market economy.

The profits of those who have produced goods and services for which the buyers scramble are not the source of the losses of those who have brought to the market commodities in the purchase of which the public is not prepared to pay the full amount of production costs expanded. These losses are caused by the lack of insight displayed in anticipating the future state of the market and the demand of the consumers.

There are in the market economy no conflicts between the interests of the buyers and sellers. There are disadvantages caused by inadequate foresight. It would be a universal boon if every man and all members of the market society would always foresee future conditions correctly and in time and act accordingly. However, man is not omniscient. It is wrong to look at these problems from the point of view of resentment and envy.

If profits were to be curtailed for the benefit of those whom a change in the data has injured, the adjustment of supply to demand would not be improved but impaired. If one were to prevent doctors from occasionally earning high fees, one would not increase but rather decrease the number of those choosing the medical profession.

Profit and loss are favorable to some members of society and unfavorable to others. Hence, people concluded, the gain of one man is the damage of another; no man profits but by the loss of others. This dogma is at the bottom of all modern doctrines teaching that there prevails, within the frame of the market economy, an irreconcilable conflict among the interests of any nation and those of all other nations. It is entirely wrong with regard to any kind of entrepreneurial profit or loss.

What produces a man's profit in the course of affairs within an unhampered market society is not his fellow citizen's plight and distress, but the fact that he alleviates or entirely removes what causes his fellow citizen's uneasiness. What hurts the sick is the plague, not the physician who treats the disease. The
doctor's gain is not an outcome of the epidemics, but the aid he gives to those afflicted.

An excess of the total amount of profits over that of losses is a proof of the fact that there is economic progress and improvement in the standard of living of all strata of the population. The greater this excess is, the greater is the increment in general prosperity. Entrepreneurial profits and losses are essential phenomena of the market economy. There cannot be a market economy without them.

It is absurd to speak of a "rate of profit" or a "normal rate of profit." Profit is not related to or dependent on the amount of capital employed by the entrepreneur. Capital does not "beget" profit. Profit and loss are entirely determined by the success or failure of the entrepreneur to adjust production to the demand of the consumers. Entrepreneurial profits are not a lasting phenomenon but only temporary. There prevails an inherent tendency for profits and losses to disappear.

The entrepreneurial function, the striving of entrepreneurs after profits, is the driving power in the market economy. Profit and loss are the devices by means of which the consumers exercise their supremacy on the market. The behavior of the consumers makes profits and losses appear and thereby shifts ownership of the means of production from the hands of the less efficient into those of the more efficient.

Production for profit is necessarily production for use, as profits can only be earned by providing the consumers with those things they most urgently want to use.

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PUBLIC OPINION

The supremacy of public opinion determines not only the singular role that economics occupies in the complex of thought and knowledge. It determines the whole process of human history.

New ideas and innovations are always an achievement of uncommon men. But these great men cannot succeed in adjusting social conditions to their plans if they do not convince public opinion.

Capitalism gave the world what it needed, a higher standard of living for a steadily increasing number of people. But the liberals, the pioneers and supporters of capitalism, overlooked one essential point. A social system, however beneficial, cannot work if it is not supported by public opinion. They did not anticipate the success of the anticapitalistic propaganda.
Man has only one tool to fight error: reason. Man uses reason in order to choose between the incompatible satisfactions of conflicting desires.

Reason is an ultimate given and cannot be analyzed or questioned by itself. The very existence of human reason is a non-rational fact. The only statement that can be predicated with regard to reason is that it is the mark that distinguishes man from animals and has brought about everything that is specifically human.

To those pretending that man would be happier if he were to renounce the use of reason and try to let himself be guided by intuition and instincts only, no other answer can be given than an analysis of the achievements of human society. In describing the genesis and working of social cooperation, economics provides all the information required for an ultimate decision between reason and unreason. If man considers freeing himself from the supremacy of reason, he must know what he will have to forsake.

Reasoning and scientific inquiry can never bring full ease of mind. He who seeks this must apply to faith and try to quiet his conscience by embracing a creed or a metaphysical doctrine.

Praxeology and economics are not qualified to deal with the transcendent and metaphysical aspects of any doctrine. But, on the other hand, no appeal to any religious or metaphysical dogmas or creeds can invalidate the theorems and theories concerning social cooperation as developed by logically correct praxeological reasoning.

It would, however, be a serious mistake to conclude that the sciences of human action, and the policy derived from their teachings, are antithetic and hostile to religion. They are radically opposed to all systems of theocracy. But they are entirely neutral with regard to religious beliefs which do not pretend to interfere with the conduct of social, political and economic affairs.

Liberalism puts no obstacles in the way of a man eager to adjust his personal conduct and his private affairs according to the mode in which he individually or his church or denomination interprets the teachings of the Gospels. But it is radically opposed to all endeavors to silence the rational discussion of problems of social welfare by an appeal to religious intuition and revelation.

In the liberal opinion the aim of the moral law is to impel individuals to adjust their conduct to the
preservation of peaceful, social cooperation and to the improvement of interhuman relations. Liberals welcome the support which religious teachings may give to those moral precepts of which they themselves approve, but they are opposed to all those norms which are bound to bring about social disintegration from whatever source they may stem.

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**SCIENCE**

The end of science is to know reality. Science always is and must be rational. It is the endeavor to attain a mental grasp of the phenomena of the universe by a systematic arrangement of the whole body of available knowledge.

Natural science does not render the future predictable. It makes it possible to foretell the results to be obtained by definite actions. But it leaves unpredictable two spheres; that of insufficiently known natural phenomena and that of human acts of choice. Our ignorance with regard to these two spheres taints all human actions with uncertainty.

The sciences of human action differ radically from the natural sciences. Authors eager to construct an epistemological system of the sciences of human action according to the pattern of the natural sciences err lamentably.

The real thing which is the subject matter of praxeology, human action, stems from the same source as human reasoning. Action and reason are congenic and homogeneous; they may even be called two different aspects of the same thing. That reason has the power to make clear through pure ratiocination the essential features of action is a consequence of the fact that action is an offshoot of reason. The theorems attained by correct praxeological reasoning are perfectly certain and incontestable, like the correct mathematical theorems.

Experience concerning human action differs from that concerning natural phenomena in that it requires and presupposes praxeological knowledge. This is why the methods of the natural sciences are inappropriate for the study of praxeology, economics, and history. We do not maintain that the theoretical science of human action should be aprioristic, but that it is and always has been so.

It is quite obvious that our economic theory is not perfect. There is no such thing as perfection in human knowledge, nor for that matter in any other human achievement. Omniscience is denied to man. The most elaborate theory that seems to
satisfy completely our thirst for knowledge may one day be amended or supplanted by a new theory. Science does not give us absolute and final certainty. It only gives us assurance within limits of our mental abilities and the prevailing state of scientific thought. A scientific system is but one station in an endlessly progressing search for knowledge.

But to acknowledge these facts does not mean that present-day economics is backward. It merely means that economics is a living thing—and to live implies both imperfection and change.

Science's contribution to life and action does not consist in establishing value judgments, but in clarification of the conditions under which man must act and in elucidation of the effects of various modes of action.

SELFISHNESS

What a man does is always aimed at an improvement of his own state of satisfaction. In this sense—and in no other—we are free to use the term selfishness and to emphasize that action is necessarily always selfish. Even an action directly aiming at the improvement of other people's conditions is selfish. The actor considers it as more satisfactory to himself to make other people eat than to eat himself. His uneasiness is caused by the awareness that other people are in want.

Whereas in a capitalist society selfishness incites everyone to the utmost diligence, in a socialist society it makes for inertia and laxity. The socialists may still babble about the miraculous change in human nature that the advent of socialism will effect, and about the substitution of lofty altruism for mean egoism. But they must no longer indulge in fables about the marvelous effects the selfishness of each individual will bring. Under such a socialist mode of production all personal incentives which selfishness provides under capitalism are removed, and a premium is put upon laziness and negligence.

The notions of selfishness and unselfishness as employed in such reasoning are self-contradictory and vain.

The politician is always selfish no matter whether he supports a popular program in order to get an office or whether he firmly clings to his own unpopular convictions and thus deprives himself of the benefits he could reap by betraying them.
SEX

We interpret animal behavior on the assumption that the animal yields to the impulse which prevails at the moment.

But it is different with man. Man is a being capable of subduing his instincts. A man does not ravish every female that stirs his senses; he does not devour every piece of food that entices him; he does not knock down every fellow he would like to kill. He arranges his wishes and desires into a scale, he chooses; in short, he acts.

Acting man rationalizes the satisfaction of his sexual appetites. Their satisfaction is the outcome of a weighing of pros and cons. Man does not blindly submit to a sexual stimulation like a bull; he refrains from copulation if he deems the costs—the anticipated disadvantages—too high. In this sense we may apply the term moral restraint.

Rationalization of sexual intercourse involves the rationalization of proliferation. Methods of rationalizing the increase of progeny were adopted which were independent of abstention from copulation. People resorted to the egregious and repulsive practices of exposing or killing infants and of abortion. Finally they learned to perform the sexual act in such a way that no pregnancy results.

Social cooperation is impossible if people give rein to the natural impulse of proliferation. In restricting procreation man adjusts himself to the natural conditions of his existence. The rationalization of the sexual passions is an indispensable condition of civilization and societal bonds. Its abandonment would in the long run not increase but decrease the numbers of those surviving, and would render life for everyone as poor and miserable as it was many thousands of years ago for our ancestors.

It is not the practice of birth control that is new, but merely the fact that it is more frequently resorted to. Especially new is the fact that the practice is no longer limited to the upper strata of the population, but is common to the whole population. For it is one of the most important social effects of capitalism that it deproletarianizes all strata of society. It raises the standard of living of the masses of manual workers to such a height that they too turn into "bourgeois" and think and act like well-to-do burghers. Eager to preserve their standard of living for themselves and their children, they embark upon birth control. With the spread and progress of capitalism, birth control becomes a universal practice. The transition to capitalism is thus accompanied by two phe-
nomena: a decline both in fertility rates and in mortality rates. The average duration of life is prolonged.

SOCIALISM

Private ownership of the means of production (market economy or capitalism) and public ownership of the means of production (socialism or communism or "planning") can never be confounded with one another; they cannot be mixed or combined; no gradual transition leads from one of them to the other; they are mutually incompatible. With regard to the same factors of production there can only exist private control or public control.

In the first case there is a market, there are market prices for all factors of production, and economic calculation is possible. In the second case all these things are absent. It is vain to comfort oneself with the hope that the organs of the collective economy will be "omnipresent" and "omniscient." We do not deal in praxeology with the acts of the omnipresent and omniscient Deity, but with the actions of men endowed with a human mind only. Such a mind cannot plan without economic calculation.

A socialist system with a market and market prices is as self- contradictory as is the notion of a triangular square. The essential mark of socialism is that one will alone acts. It is immaterial whose will it is. The director may be an anointed king or a dictator, ruling by virtue of his charisma, he may be a Führer or a board of Führers appointed by the vote of the people. The main thing is that the employment of all factors of production is directed by one agency only. One will alone chooses, decides, directs, acts, gives orders. All the rest simply obey orders and instructions. Organization and a planned order are substituted for the "anarchy" of production.

When the socialists declare that "order" and "organization" are to be substituted for the "anarchy" of production, conscious action for the alleged planlessness of capitalism, true cooperation for competition, production for use for production for profit, what they have in mind is the substitution of the exclusive and monopolistic power of only one agency for the infinite multitude of the plans of individual consumers and those attending to the wishes of the consumers, the entrepreneurs and capitalists. The essence of socialism is the entire elimination of the market and of catallactic competition. The socialist system is a system without a market or market prices for the factors of production, and without
competition; it means the unrestricted centralization and unification of the conduct of all affairs in the hands of one authority.

In the market society there are money prices. Economic calculation is calculation in terms of money prices. The various quantities of goods and services enter into this calculation with the amount of money for which they are bought and sold on the market or for which they could prospectively be bought and sold. It is a fictitious assumption that an isolated self-sufficient individual or the general manager of a socialist system could calculate. There is no way which could lead one from the money computation of a market economy to any kind of computation in a nonmarket system. Eliminate economic calculation and you have no means of making a rational choice between various alternatives.

Private ownership of the means of production is the fundamental institution of the market economy. It is the institution which characterizes the market economy as such. Where it is absent, there is no question of a market economy.

In an economic system in which there is no private ownership of the means of production, no market, and no prices for goods, the concepts of capital and income are mere academic postulates devoid of any practical application. In a socialist economy there are capital goods but no capital.

The notion of capital makes sense only in the market economy. It serves the deliberations and calculations of individuals or groups of individuals operating on their own account in such an economy. It is a device of capitalists, entrepreneurs, and farmers eager to make profits and to avoid losses. Profit tells the entrepreneur that the consumers approve of his ventures; loss, that they disapprove.

The problem of socialist economic calculation is precisely this: that in the absence of market prices for the factors of production, a computation of profit or loss is not feasible. The paradox of "planning" is that it cannot plan, because of the absence of economic calculation. What is called a planned economy is no economy at all. It is just a system of groping in the dark.

Socialism cannot be realized because it is beyond human power to establish it as a social system. The choice is between capitalism and chaos. A man who chooses between drinking a glass of milk and a glass of potassium cyanide does not choose between two beverages; he chooses between life and death. A society that chooses between capitalism and socialism does not choose between two social systems; it chooses between social cooperation and the disintegration of society.
SOCIETY

Society is joint action and cooperation in which each participant sees the other partner's success as a means for the attainment of his own. Social cooperation has nothing to do with personal love or a general commandment to love one another. People do not cooperate because they love or should love one another. They cooperate because this best serves their own interest.

The advantages derived from peaceful cooperation and the division of labor are universal. They immediately benefit every generation, and not only later descendants. For what the individual must sacrifice for the sake of society he is amply compensated by greater advantages. His sacrifice is only apparent and temporary; he foregoes a smaller gain in order to reap a greater one later.

SPECULATION

There are in this world no such things as stability and security and no human endeavors are powerful enough to bring them about. Every action refers to an unknown future. It is in this sense always a risky speculation.

Man is faced with the fact that there are fellow men acting on their own behalf as he himself acts. The necessity to adjust his actions to other people's actions makes him a speculator for whom success or failure depend on his greater or lesser ability to understand the future. Every action is a speculation. There is in the course of human events no stability and consequently no safety.

Capitalists, landowners and laborers are by necessity speculators. So is the consumer in providing for anticipated future needs. There's many a slip 'twixt cup and lip.

A capitalist is always also virtually an entrepreneur and speculator. He always runs the chance of losing his funds. There is no such thing as a perfectly safe investment. If it were possible to calculate the future state of the market, the future would not be uncertain. There would be neither entrepreneurial loss nor profit.

The fact that the term "speculator" is today used only with an opprobrious connotation clearly shows that our contemporaries do not even suspect in what the fundamental problem of action consists.
STATISTICS

Statistics is a method for the presentation of historical facts. It is not economics and cannot produce economic theorems and theories.

There is no such thing as quantitative economics. All economic quantities we know about are data of economic history.

Reasonable businessmen are fully aware of the uncertainty of the future. They realize that economists do not dispense any reliable information about things to come and that all they provide is interpretation of statistical data referring to the past. For capitalists and entrepreneurs the economists’ opinions about the future count only as questionable conjectures.

The pretentious solemnity which statisticians and statistical bureaus display in computing indexes of purchasing power and cost of living is out of place. A judicious housewife knows much more about the price changes as far as they affect her own household than the statistical averages can tell. She has little use for computations disregarding changes both in quality and in the amount of goods which she is permitted to buy at the prices entering into the computation. In practical life nobody lets himself be fooled by index numbers. Nobody agrees with the fiction that they are to be considered as measurements.

TARIFFS

The interests of every firm can be favored by all kinds of privileges granted to it by government. But if privileges are granted to the same extent also to other firms, every businessman loses—not only in his capacity as a consumer, but also in his capacity as a buyer of raw materials, half-finished products, machines and other equipment—on the one hand as much as he profits on the other. Selfish group interests may impel a man to ask for protection for his own firm. They can never motivate him to ask for universal protection for all firms if he is not sure to be protected to a greater extent than the other industries or enterprises.

If everybody is protected to the same extent, everybody not only loses as consumer as much as he gains as producer. Everybody, moreover, is harmed by the general drop in the productivity of labor which the shifting of industries from more favorable to less favorable locations brings about.

The only effect of protection is to
divert production from those places in which it could produce more per unit of capital and labor expended to places in which it produces less. It makes people poorer, not more prosperous.

TAXES

The idea of social justice implied in the ability-to-pay principle is that of perfect financial equality of all citizens. The only logical stopping place of the ability-to-pay doctrine is at the complete equalization of incomes and wealth by confiscation of all incomes and fortunes above the lowest amount in the hands of anyone.

Continuous change and the inequality of wealth and income are essential and necessary features of the market economy. In the frame of such a system no tax can be neutral. The very idea of a neutral tax is as unrealizable as that of neutral money.

Discriminating taxes levied upon corporations would, if raised above a certain limit, result in the total disappearance of corporations and big business. Capital levies, inheritance and estate taxes, and income taxes are similarly self-defeating if carried to extremes.

If taxes grow beyond a moderate limit, they cease to be taxes and turn into devices for the destruction of the market economy. The more taxes increase, the more they undermine the market economy and concomitantly the system of taxation itself. Every specific tax, as well as the nation's whole tax system, becomes self-defeating above a certain height of rates.

Taxes are necessary. But the system of discriminatory taxation universally accepted under the misleading name of progressive taxation of income and inheritance is not a mode of taxation. It is rather a mode of disguised expropriation of the successful capitalists and entrepreneurs. It can best be considered a means of bringing about socialism.

Henceforth, governments will have to realize that one dollar cannot be spent twice, and that the various items of government expenditure are in conflict with one another. Every penny of additional government spending will have to be collected from precisely those people who hitherto have been intent upon shifting the main burden to other groups. Those anxious to get subsidies will themselves have to foot the bill.
The ultimate yardstick of an economic theorem's correctness or incorrectness is solely reason unaided by experience.

There is no such thing as a mere recording of unadulterated facts apart from any reference to theories. As soon as two events are recorded together or integrated into a class of events, a theory is operative. The question whether there is any connection between them can only be answered by a theory, i.e., in the case of human action by praxeology.

Economic history is possible only because there is an economic theory capable of throwing light upon economic actions. If there were no economic theory, reports concerning economic facts would be nothing more than a collection of unconnected data open to any arbitrary interpretation.

Logical thinking and real life are not two separate orbits. Logic is for man the only means to master the problems of reality. What is contradictory in theory is no less contradictory in reality.

It is a poor makeshift to dispose of a theory by referring to its historical background, to the "spirit" of its time, to the material conditions of the country of its origin, and to any personal qualities of its authors. A theory is either correct or incorrect. It may happen that the present state of our knowledge does not allow a decision with regard to its correctness or incorrectness. But a theory can never be valid for a bourgeois or an American if it is invalid for a proletarian or a Chinese.

The very fact that there are intolerant governments and political parties intent upon outlawing and exterminating dissenters, is a proof of the excellence of reason. It is not a conclusive proof of a doctrine's correctness that its adversaries use the police, the hangman, and violent mobs to fight it. But it is a proof of the fact that those taking recourse to violent oppression are in their subconsciousness convinced of the untenability of their own doctrines.

Men value fractions of time of the same length in a different way according as they are nearer or remoter from the instant of the actor's decision. Acting man does not appraise time periods merely with regard to their dimension. His choices
regarding the removal of future uneasiness are directed by the categories sooner and later.

The economization of time is independent of the economization of economic goods and services. The value of time, i.e., time preference or the higher valuation of want-satisfaction in nearer periods of the future as against that in remoter periods, is an essential element in human action. It determines every choice and every action. The time element is instrumental in the formation of all prices of all commodities and services.

The social process of production never stops. At each instant numberless processes are in progress some of which are nearer to, some remoter from, the achievement of their special tasks.

Every single performance in this ceaseless pursuit of wealth production is based upon the saving and the preparatory work of earlier generations. We are the lucky heirs of our fathers and forefathers whose saving has accumulated the capital goods with the aid of which we are working today.

Capital goods—the factors of further production produced in the past—are not an independent factor. They are the joint products of the cooperation of the two original factors—nature and labor—expended in the past. They have no productive power of their own. Nor is it correct to call capital goods labor and nature stored up. They are rather labor, nature, and time stored up. The difference between production without the aid of capital goods and that assisted by the employment of capital goods consists in time.

For success in entrepreneurial activities, mere anticipation of the direction in which the market will react to a certain event is of little significance if it is not supplemented by an adequate anticipation of the length of the various adjustment periods involved. Most of the mistakes committed by entrepreneurs in the conduct of affairs and most of the blunders vitiating the prognoses of future business trends on the part of "expert" forecasters are caused by errors concerning the length of adjustment periods. There is in the course of a man's life a right moment for everything as well as a too early and a too late.

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UNDERDEVELOPED NATIONS

The fact that the standard of living of the average American worker is incomparably more satisfactory than that of the average Hindu worker,
that in the United States hours of work are shorter and children sent to school and not to the factories, is not an achievement of the government and the laws of the country. It is the outcome of the fact that the capital invested per head of the employees is much greater than in India and that consequently the marginal productivity of labor is much higher. This is not the merit of "social policies"; it is the result of the laissez faire methods of the past which abstained from sabotaging the evolution of capitalism. It is this laissez faire that the Asiatics must adopt if they want to improve the lot of their peoples.

It is false to blame the European powers for the poverty of the masses in their former colonial empires. In investing capital the foreign rulers did all they could do for an improvement in material well-being. Economic backwardness in a foreign country, endowed by rich natural resources, hurts the interests of all those whose standard of living could be raised if a more appropriate mode of utilizing this natural wealth were adopted.

The conflict between the have-nots and the haves is a real conflict. But it is present only in a world in which any sovereign government is free to hurt the interests of all peoples—its own included—by depriving the consumers of the advantages a better exploitation of this country’s resources would give them. It is not sovereignty as such that makes for war, but sovereignty of governments not entirely committed to the principles of the market economy.

The principle of each nation’s unrestricted sovereignty is in a world of government interference with business, a challenge to all other nations.

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**UNEMPLOYMENT**

The worker looks upon unemployment as an evil. He would like to avoid it provided the sacrifice is not too grievous. He chooses between employment and unemployment in the same way in which he proceeds in all other actions and choices: he weighs the pros and cons. If he chooses unemployment this unemployment is a market phenomenon whose nature is not different from other market phenomena as they appear in a changing market economy. We may call this kind of unemployment market-generated or catallactic unemployment.

Catallactic unemployment must not be confused with institutional unemployment. Institutional unem-
ployment is not the outcome of the decisions of individual job-seekers. It is the effect of interference with the market phenomena intent upon enforcing by coercion and compulsion wage rates higher than those the unhampered market would have determined.

Real wage rates can rise only to the extent that, other things being equal, capital becomes more plentiful. If the government or the unions succeed in enforcing wage rates which are higher than those the unhampered market would have determined, the supply of labor exceeds the demand for labor. Institutional unemployment emerges.

Firmly committed to the principles of interventionism, governments try to check this undesired result of their interference by resorting to those measures which are nowadays called full-employment policy: unemployment doles, arbitration of labor disputes, public works by means of lavish public spending, inflation and credit expansion. All these remedies are worse than the evil they are designed to remove.

Assistance granted to the unemployed does not dispose of unemployment. It makes it easier for the unemployed to remain idle. The nearer the allowance comes to the height at which the unhampered market would have fixed the wage rate, the less incentive it offers to the beneficiary to look for a new job. It is a means of making unemployment last rather than of making it disappear. The disastrous financial implications of unemployment benefits are manifest.

On the unhampered market there is always for each type of labor a rate at which all those eager to work can get a job. The final wage rate is that rate at which all job-seekers get jobs and all employers [get] as many workers as they want to hire. Its height is determined by the marginal productivity of each type of work.

Unemployment in the unhampered market is always voluntary.

VALUE

Value is not intrinsic, it is not in things. It is within us; it is the way in which man reacts to the conditions of his environment. Different people and the same people at different times value the same objective facts in a different way.

Valuation can only arrange goods in scales of preference. It can never attach to a good something that could be called a quantity or magnitude of value.

An inveterate fallacy asserted that things and services exchanged are
of equal value. Value was considered as objective, as an intrinsic quality inherent in things and not merely as the expression of various people's eagerness to acquire them.

The basis of modern economics is the cognition that it is precisely the disparity in the value attached to the objects exchanged that results in their being exchanged. People buy and sell only because they appraise the things given up less than those received. Thus the notion of a measurement of value is vain.

Economic calculation always deals with prices, never with values. To prefer and to set aside and the choices and decisions in which they result are not acts of measurement. Action does not measure utility or value; it chooses between alternatives.

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**WAGES**

Wages are the price paid for the wage earner's achievement, i.e., for the contribution of his efforts to the processing of the good concerned or, as people say, for the value which his services add to the value of the materials. No matter whether there are time wages or piecework wages, the employer always buys the worker's performance and services, not his time.

Every employer must aim at buying the factors of production needed, inclusive of labor, at the cheapest price. An employer who paid more than agrees with the market price of the services his employees render him, would soon be removed from his entrepreneurial position. On the other hand an employer who tried to reduce wage rates below the height consonant with the marginal productivity of labor would not recruit the type of men that the most efficient utilization of his equipment requires.

The entrepreneurs are not merely faced with a shortage of "labor in general," but with a shortage of those specific types of labor they need for their plants. The competition among the entrepreneurs in bidding for the most suitable hands is no less keen than their competition in bidding for the required raw materials, tools, and machines and in their bidding for capital on the capital and loan market.

In the market economy the worker sells his services as other people sell their commodities. The employer is not the employee's lord. He is simply the buyer of services which he must purchase at their market price.
The only real and effective protection of the wage earner in the market economy is provided by the play of the factors determining the formation of prices. The market makes the worker independent of arbitrary discretion on the part of the employer and his aides. The workers are subject only to the supremacy of the consumers as their employers are too. In determining, by buying or abstention from buying, the prices of products and the employment of factors of production, consumers assign to each kind of labor its price in the market.

An employer cannot grant favors at the expense of his customers. He cannot pay wage rates higher than those determined by the market if the buyers are not ready to pay proportionately higher prices for commodities produced in plants in which wage rates are higher than in other plants.

On the unhampered labor market, wage rates always tend toward the height at which they equal the marginal productivity of each kind of labor, that is the height that equals the value added to or subtracted from the value of the product by the employment or discharge of a man.

Wage rates are ultimately determined by the value which the wage earner’s fellow citizens attach to his services and achievements. Labor is appraised like a commodity, not because the entrepreneurs and capitalists are hardhearted and callous, but because they are unconditionally subject to the supremacy of the consumers.

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WAR

Our age is full of conflicts which generate war. However, these conflicts do not spring from the operation of the unhampered market society. It is not capitalism that produces them, but precisely the anticapitalist policies designed to check the functioning of capitalism. They are an outgrowth of the various governments’ interference with business, of trade and migration barriers and discrimination against foreign labor, foreign products, and foreign capital.

In the long run war and the preservation of the market economy are incompatible. Capitalism is essentially a scheme for peaceful nations. But this does not mean that a nation which is forced to repel foreign aggressors must substitute government control for private enterprise. If it were to do this it would deprive itself of the most efficient means of defense.
It may be admitted that it is not "fair" that war enhances the profits of those entrepreneurs who contribute best to the equipment of the fighting forces. But it would be foolish to deny that the profit system produces the best weapons. It was not socialist Russia that aided capitalist America with lend-lease; the Russians were lamentably defeated before American-made bombs fell on Germany and before they got arms manufactured by American big business.

Aggressive nationalism is the necessary derivative of the policies of interventionism and national planning. While laissez faire eliminates the causes of international conflict, government interference with business creates conflicts for which no peaceful solution can be found.

There are within the unhampered market society no conflicts of the rightly understood interests. The interests of the citizens are not opposed to those of the nation, the interests of each nation are not opposed to those of other nations.

It is futile to place confidence in treaties, conferences, and such bureaucratic outfits as the League of Nations and the United Nations. Plenipotentiaries, office clerks and experts make a poor show in fighting ideologies. The spirit of conquest cannot be smothered by red tape. What is needed is a radical change in ideologies and economic policies.
For the past 31 years, The Freeman has featured A Reviewer’s Notebook by John Chamberlain. So, it is altogether fitting and proper that he be asked to review now what he said in review of Human Action when it was first published.

It takes a long time for chickens to come home to roost. Thirty-one years ago I was asked to review Ludwig von Mises’ gigantic Human Action, then just published by the Yale University Press. I took on the job with some misgivings—it represented a month’s work compressed into a week’s time to give the book even a cursory reading. But I remember the immense satisfaction that it gave me. For the first time I saw the nature of our epoch with what I felt was absolute clarity. True, a couple of women writers, Isabel Paterson and Rose Wilder Lane, had indicated the fallibility of the New Deal approach (I remember being impressed with Mrs. Paterson’s dictum that if you were going to give J. P. Morgan the RFC you couldn’t deny the little man his dole.) But Mises laid it all out on the table, making the first great case against so-called entitlements that I had seen.

I began my review with a description of the epoch of the Great Grouse, the complainer who seemed to dominate Harry Truman’s Washington. Virtually everybody (I wrote) wants something out of the blue: a pension without contributing to it, a subsidy without incurring a tax, ease without prior effort, Heaven without fighting sin. I spoke of the politician, ever wary of the stir of desire at the grassroots, hastening to make his constituents happy by removing the cause of the Grouse. But the grousing, I observed, went on, with people doubling their complaints.

Envy, I said, was the most catch-
ing of emotions—and if one man or group or class could have a subsidy there was no reason why everyone else wasn't entitled to his own largesse. The result was self-defeating; when everybody was getting his, nobody was better off. Indeed, everybody outside the governing bureaucracy was worse off—there had to be a skimming to support a burgeoning state apparatus that made no contribution to primary production. With less to go around for grousers, the poverty could be shared, but hope had to be deferred for the naturally energetic individual, and progress tended to stop.

A Matter of Choice

The foregoing was more or less my paraphrase of what Mises had set forth in *Human Action*. He put it in more classic economic language, telling of how state interventionism ran to crisis, provoking piecemeal socialism that led on to socialist centralization and eventually to tyranny or apathy or a combination of the two. I felt a willingness to grant Mises his terms, even the use of the word "praxeology" as the study of what happens when human beings exercise choice. Mises, with his theory that every human choice, whether strictly economic or not, had an effect on prices (if you suddenly take to the ascetic life you may leave more in the market at least momentarily for others), seemed to be placing the free market in the foreground of a much wider philosophical picture. Civil liberties seemed to flow naturally from the Misesian view—to be philosophically consistent a free enterpriser had to be willing to grant a freedom of choice to blacks who wanted to ride in Pullmans.

**Human Action** by Ludwig von Mises. Published by Contemporary Books, Inc., 180 North Michigan Avenue, Chicago, Illinois 60601. 907 pages • $35.00 cloth

I do recall looking figuratively over my shoulder at my liberal friends and caviling at Mises' uncompromising use of the term "laissez faire." The phrase, I wrote, must be scrubbed clean of past associations if it were ever to be truly useful again. To Americans who read Arthur Schlesinger, Jr., or Charles A. Beard, laissez faire meant what Jay Gould and Jim Fisk practiced when they milked the Erie Railroad; it was a verbal cloak used by Smoot-Hawley tariff snatchers when they talked to their Rotary Club. Today I would use the phrase unapologetically—we can assume that it has been rehabilitated.

I still think, however, that Mises was mistaken in his attack on the idea of natural law, with its corol-
lary of natural rights. It seemed to me in 1950 that the whole Misesian system of economics depended on the ability of human beings to discover the natural rules to which positive, or man-made, law must correspond if man is not to do violence to himself. A natural law is not something that came on tablets from Sinai; it is merely a true statement of the way things work out. A society that denies the property right will, as a result of the natural action that Mises described in his famous Socialism, ultimately find itself without an ability to calculate and to trade intelligently. The natural law of socialism is that it must create a world without signposts. Mises was the first economist to understand this—and the great value of his work is that it shows, in elaborate detail, just how and why an interventionist government, by infringing natural rights, leads to an impoverished society.

Signs of Progress

How far have we come in thirty-one years toward catching up with the truths of Human Action? There is much more general understanding of the Misesian system. Every year four or five distinguished champions of freedom vie themselves to Hillsdale College in Michigan, the repository of Mises’ extensive library, to take an invited part in a Ludwig von Mises Lecture Series. Free market economists—F. A. Hayek and Milton Friedman—have won Nobel Prizes. “Austrian” economics is no longer a pariah study, and the so-called monetarists (not quite ready to accept an official return to the gold standard) are everywhere. The supply-siders owe much to Mises’ brilliant explanation of Say’s Law of Markets which Harry Hazlitt, with an air of triumph, brought into The Freeman office for publication thirty years ago.

But if we have reached a turn in 1981 with the timid spending cuts that leave us some thirty billion dollars short of a balanced budget, we still have a long way to travel. David Stockman, the budget management man, has been condemned as a cold-hearted fellow for saying that, strictly speaking, the government owes nobody an “entitlement.” Jack Kemp, to justify his proposed tax cuts politically, had to evolve the figure of the “safety net”—meaning that government must remain responsible for a citizen’s minimum needs.

Abroad, the British Misesians have not been able to shake the labor unions out of their cradle-to-grave Fabianism. And the French, with the socialist Mitterrand plugging for more nationalized industries and a higher compulsory minimum wage, are about to embark on a seven-year period of retrogression.

Still, we make an undeniable
progress. Where the Soviets sent tanks into Czechoslovakia at the drop of a hat, they have hesitated about Poland. Where positive law goes flagrantly against the natural laws of economics, we get fascinating developments in the underground economy. The Italians will soon be teaching Mitterrand’s Frenchmen some new tricks about moonlighting. And with moonlighting, the more computers we build, the less reliable is the statistical stuff that goes into them.

Luckily for the Misesians, Austrian economics is not econometric—and the computer, though useful, is not essential to its teaching.
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Anyone wishing to communicate with authors may send first-class mail in care of THE FREEMAN for forwarding.
ALTHOUGH many factors have contributed to current U.S. economic problems, the subject of insufficient capital formation has received foremost attention in recent years. Sparked by the obvious failure of traditional Keynesian demand-management policies, supply-side economics has captured the public imagination while eliciting approval from a broad spectrum of economists and politicians.

The essence of the capital formation problem is that an insufficient portion of national income is saved for investment, while too much is spent for government and private consumption. Decades of fiscal and monetary mismanagement coupled with a perverse tax system have generated a consumption boom at the cost of chronic double-digit inflation, sluggish productivity and lackluster economic growth. Consumer indebtedness helped finance the boom, rising from $188 billion in 1976 to $305 billion in 1980.

Disincentives to replacing our aging capital stock are resulting in widespread plant obsolescence and declining rates of capital utilization. Never as avid savers as their European and Japanese counterparts, Americans have become one of the least thrifty peoples of the industrialized world. The less a nation saves, the fewer are the resources to be devoted to the formation of capital necessary to insure healthy economic growth and mitigate inflation. The net supply of funds from household savings provides almost

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all of the net funds raised by the other primary sectors of government and business. Both government and business are net dissavers.

**Developing Incentives for Savings and Investment**

In seeking to encourage future savings and investment, policymakers are now scrutinizing the incentive systems developed by America’s trading partners. Although savings rates and consumption patterns are partly a cultural phenomenon, the U.S. tax system is effectively biased against savings and investment, while foreign countries tend to rely much more on consumption-based levies such as the value-added tax. The United States also depends more heavily on capital gains taxes. Beyond such factors, a number of countries have adopted clearly positive investment and savings-oriented tax policies.

The Japanese have a tradition of saving, which is reinforced by a tax policy that exempts virtually all interest income earned by Japanese citizens. This exemption includes interest on deposits of up to $13,300 in both postal savings accounts and banks, interest on up to $13,300 worth of government bonds, and interest on as much as $22,000 held in employee payroll savings accounts. In this way, a maximum of $62,000 in savings can be sheltered from taxes on interest income. On average, the Japanese now save about 26% of their disposable income.

Since the 1960s a cornerstone of the West German policy to increase savings had been a government tax-free bonus program for special savings accounts held for six or seven years. These accounts could take the form of bank accounts, life insurance policies, building society shares, and stocks and bonds. Any adult with a taxable income of less than $13,700 could deposit up to $475 per year into such an account, which would earn an annual tax-free bonus of 14% a year plus 2% for each dependent child, in addition to accrued interest. Deposit and income ceilings were doubled for married couples.

Furthermore, an employee could set up a special account to service regular payroll deductions of up to $357 annually and qualify for a government bonus of 30 to 40%, depending upon family size. Individual annual interest income of up to $460 has been tax-free, and life insurance premiums are deductible under certain conditions. Such policies have helped to generate an impressive savings rate of 14%.

The cost of these tax rebates and savings programs amounted to $4.1 billion in 1980, about 3.5% of West German federal spending. Facing a projected 1981 public sector deficit of some $32 billion due to rapidly mounting costs for social-welfare programs, the government has elim-
inated many portions of the 14% bonus scheme.

Austria, with its relatively low inflation rate, provides similar incentives to save and invest. A portion of interest on savings is exempt from tax, and numerous other deductions and tax privileges provide the Austrian investor with a positive rate of return. Austria is also well-known for its banking secrecy laws which are more stringent than those in Switzerland.

France Offers Advantages

In France all individuals, including children, are allowed to earn tax-free interest of 7.5% on deposits of up to $10,840 in mutual savings banks. The first $723 of dividend income from stocks is tax-free under various conditions.

The most recent French savings incentive is the popular 1978 Monory Act (after former Finance Minister Rene Monory) which became effective May 1978. The law allows individuals who invest in French equities to deduct up to 5000 francs (about $1200) from their taxable income each year for four consecutive years. The deduction limit is raised 500 francs for the first and second child and 1000 francs for each additional child. The money must remain invested for a minimum of three years, though not necessarily in the same securities. Investments may be made in mutual funds, provided that at least 60% of the portfolio is devoted to stock of French companies.

Observers regard passage of the Monory Act as an important factor in the resulting boom on the Paris Bourse. French industry has also benefited from over $1.95 billion in new equity offerings, spurring investments in new plant and equipment.

"Loi Monory" has been an overwhelming success. Mr. Monory was able to report to the Cabinet on February 15, 1980 that in 1979 more than one million people took advantage of the law, investing an additional $1.8 billion in equities since its enactment. Since 1978 French production has risen by more than 17%; and in 1979 the French saved approximately 17% of disposable income. Since the Monory Act is only a temporary four-year relief measure, some government officials are already worrying about the possible withdrawal of investors from the Paris Bourse when the Act expires in 1983.

The election of Socialist President Francois Mitterrand in May of this year has placed the French economy in jeopardy and threatens to undermine many of these advances.

The problems of England's economy are well known. Although the Thatcher Administration has made major strides in curbing monetary growth and reducing inflation, gov-
ernment policies have been largely oriented toward "tax-shifting" rather than real tax reductions.

After taking over in April 1979, the Thatcher government cut personal taxes for middle and high-income groups but soon found that the red ink was excessive. The administration then nearly doubled the value-added tax, from 8% to 15%, raised gasoline taxes by 20 cents per gallon, and moved away from promises to cut corporate taxes.

These factors, plus rising interest rates, led to an explosion in the retail price level and an unfavorable economic climate. The nation's bond market had already virtually been destroyed in 1971 by the combination of inflation and high marginal personal tax rates. Equity markets, though also depressed, received some benefit from reductions in the destructive top marginal tax rate on investment income from 98% to 75%.

For many years the United Kingdom also had one of the highest capital gains taxes. All investment income exceeding £5000 per annum was subject to an additional 15 percentage point tax over and above the maximum individual rate of 60%. The maximum tax rate on capital gains thus amounted to 75%. The capital gains tax now stands at 30% on any gains above £3000.

Even with these reforms, however, it is likely that high inflation and falling productivity will continue to plague the United Kingdom unless both taxes and spending are further reduced.

**Adverse Policies in U.S.**

What does the United States do to encourage savings and investment? Virtually nothing. In fact, most existing policies work to make consumption a virtue and savings a risk.

In the United States nominal interest and dividend income has been taxed as unearned income at marginal rates up to 70%. This policy, combined with high inflation and interest-rate ceilings on bank deposits, has made savings a guaranteed-loss proposition. As a percentage of disposable income, the U.S. savings rate dropped from 7.4% in 1970 to 6.9% in 1976, reaching a low of 3.4% in the first quarter of 1980. (In 1981, the Commerce Department issued a new statistical measure of the savings rate. Although the new savings rate statistics are nominally higher, the declining trend remains.) Thanks in part to this decline, productivity growth slowed to an annual average of only 1.2% in the 1970s, down from 2.5% in the 1960s. Between 1963 and 1973 American output per person rose by 1.9%, the slowest of any major industrial country.

Under current tax law, taxable income is not adjusted for inflation. As a result, during an inflationary period, individuals advance into higher tax brackets due to increas-
ing nominal money incomes, while real incomes are rising much less or may even be declining. In addition, capital gains computed in dollar terms enter into the tax base, even though such nominal gains can represent very much smaller real gains (or possibly real losses). Thus, inflation raises personal taxes by a much larger percentage than nominal incomes, causing the average tax rate to rise and tax payments to increase in real terms.

According to Martin Feldstein, president of the National Bureau of Economic Research, even if corporate profits and stock prices could manage to keep pace with inflation (an unlikely possibility) and maintain traditional rates of real growth, a 20% tax on nominal capital gains would mean an 80% tax on real gains given a 7% inflation rate, depending on the holding period. An 8% inflation rate would push the effective rate over 100%. Thus, capital gains taxes have actually been massively confiscatory. Similar inflationary effects on income tax rates result in confiscation of savings.

**Penalizing Capital Gains**

Small investors nearly abandoned the American stock markets in the mid-1970s, partially due to exorbitant taxes on capital gains pegged at a maximum of 49% for most of the decade. In addition to depressing equity market values and reducing new capital formation as measured by venture capital funds and new public offerings, capital gains taxes tend to inhibit capital mobility. If a capital asset appreciates substantially, the accumulated capital gains tax liability upon realization can deter the asset’s sale. This is referred to as the “lock-in” effect. It is difficult to measure the opportunity cost of this capital immobility in terms of diminished exploitation of new technologies.

Over the entrenched opposition of the Carter Administration, Congress enacted the Steiger Amendment to the Revenue Act of 1978, lowering the maximum tax on long-term capital gains to 28%. According to a Treasury Department study, the net revenue loss in 1979 from this reduction was only $100 million, far less than the forecasted loss of $1.7 billion. The rate cut was offset by $2.5 billion in new revenues from higher turnover rates.

An extensive 1980 survey of stock ownership by the New York Stock Exchange has shown that the small investor returned to the stock market during the latter part of the decade, perhaps in response to the Steiger Amendment. Even with the current surge, however, the 1980 shareholder total was still one million less than the high of 30.8 million in 1970, when 15.1% of the American population held stock. In 1980 that percentage was 13.6%, up
considerably from 11.9% in 1975.

These developments should be interpreted with caution, however, for the average portfolio size has shrunk. In addition, during the 1970s there was a great increase in the rate of inflation and a serious decline in the prices of common stocks, measured in constant dollars. In fact, the total return on common stocks for the whole period, in constant dollars, was negative. Between the end of 1969 and the end of 1979, the value of common stocks on the New York Stock Exchange declined by about 42%. This drop is far greater than that of the 1930s when the value of stocks on the New York Stock Exchange fell by about 31%. Thus, investors in high tax brackets tended to experience losses greater than those of the Great Depression, since dividends were taxed at higher rates in the seventies than in the thirties.

The decline in real stock prices was probably made worse by market adjustments in response to two types of inflationary tax-raising effects which arise from standard methods for computing business costs and profits. First, depreciation expenses are computed on the basis of historical cost of acquisition rather than on replacement cost, resulting in underdepreciation. Second, cost of goods sold from inventory is sometimes valued at current rather than replacement cost. These accounting procedures understate real current costs and hence overstate real profits. Thus, taxation of inflated corporate profits effectively results in the net confiscation of capital.

**Tax Rates Outrun Inflation**

In summary, the federal government's tax collections rise substantially as a share of both corporate and personal income as individuals and corporations are exposed to the effects of inflation. In fact, taxes have risen in the United States at almost twice the rate of inflation since the late 1960s.

Inappropriate tax policies and inflation are not the only sources of our problems. Government routinely attempts to direct the flow of funds toward socially desirable goals. These attempts fall under the heading of the social allocation of capital. Such intervention has become increasingly popular in recent years through various means: 1) usury laws or interest rate ceilings; 2) government loan guarantees; 3) interest rate subsidies; 4) government borrowing and re-lending, and 5) regulations.

Special interest groups see government intervention as a means for improving the condition of a particular sector of society, enabling it to borrow funds which might not otherwise be available or might only be available at significantly higher interest rates.

Through such intervention, the
function of the financial markets is altered. Funds no longer flow on the basis of expected return and risk. When the government explicitly directs funds to certain investments, it tampers with the workings of the marketplace. This tampering can lead to less efficient financial markets with the result that savings are allocated at higher cost and/or with greater inconvenience.

Put another way, such intervention produces the case in which investments are undertaken which are not optimal in terms of market efficiency relative to market standards. As a result, there may be an adverse effect on real economic growth. Financial markets simply become less efficient in channeling savings to investment opportunities on a risk-adjusted return basis. Clearly, cost estimates due to these induced distortions should be included in any cost-benefit analysis of capital gains taxation. Unfortunately, such cost estimates are nearly impossible to formulate.

Of course, government is not the only culprit causing our myriad capital formation problems. Management and labor must share the blame. Often management continues to use nearsighted incentive programs which reward short-term results rather than long-term strategic thinking. As a result, executives have been slow to introduce reporting techniques that are in the best interests of the organization. For example, two-thirds of American industries still use the First-In First-Out inventory valuation method, resulting in an inflated bottom line. American management has also failed to provide the work force with incentives for finding and initiating new ways of reducing the amount of labor in the production process.

Politically Feasible Measures to Encourage Growth

Productivity and innovation are not solely management functions. Organized labor has complicated matters by locking management into Cost of Living Adjustments (COLAs) and by resisting automation. In contrast, Japanese workers generally embrace technological changes which result in more efficient production processes. Fujitsu Fanuc Ltd. is now operating a $38 million plant that uses robots and numerically-controlled machine tools to help build other robots and machine tools, requiring one-fifth the number of workers that a conventional plant would need.

Given this operating environment, what can realistically be done to restore adequate capital growth? Congressman Richard Schulze has introduced H.R. 63, the Individual Investors Incentive Act. This bill would provide a 10% tax credit up to $1000 for individuals ($2000 for
married couples filing jointly) for new or additional investments in stocks and mutual funds of domestic corporations. Patterned after the French Monory Act, the "Schulze Bill" would directly encourage savings and investment and would provide a needed incentive for our stagnating economy.

New York's Republican Senator Alphonse D'Amato has introduced the Family Savings Incentive Act. This Act would raise the exemption for interest income to $1000 for individuals and $2000 for those who file joint returns. This concept has been endorsed by the Savings and Loan Foundation.

The Jones-Conable Capital Cost Recovery Act, better known as "10-5-3," provides for simplified accelerated depreciation of capital investment. Because such changes only affect the timing of after-tax cash flows, the effective reduction in the tax rate is merely the result of the time value of money. The effect is, therefore, somewhat illusory, since taxes will be even higher in later years when depreciation charges are exhausted. Such taxes may only be avoided in future years if any tax savings are immediately recapitalized and depreciated.

The ultimate long-range solution to the capital formation problem hinges on concerted actions by all factors of production. Natural resources must be allocated by the market. Management must once again seek to innovate, along with the active cooperation of labor and government. Savings must be encouraged and productively employed, and obstacles to the market allocation of capital flows must be abolished. The Kemp-Roth program, though a step in the right direction, is only a band-aid remedy. More substantial action will be needed in the future.

Leave the Markets Alone

CAPITALISM is a viable economic system or it is not. An active policy of government intervention in a free market business system is a contradiction in terms. Trades of private property are either voluntary or they are not; one cannot legislate the free market or create competition. To have a free market the government must leave the markets alone; to have the state make markets "free" is again a contradiction in terms.

D.T. ARMENTANO, The Myths of Antitrust
ONE OF THE ARGUMENTS that is always offered in opposition to deregulation of transportation is that some remote, sparsely populated regions will be denied essential services. In order to neutralize this argument and get airline deregulation passed in 1978, Congress provided for subsidies to support “essential air service.” Little thought was given to just exactly what constitutes “essential air service.” Consequently, the “essential air service” subsidy program is one of the most wasteful perpetrated by the federal government.

The major accomplishment of this subsidy program is to finance underutilized scheduled commercial air service. The ordinary person quite naturally imagines that “essential” must mean necessary or indispensable. What is “necessary” or “indispensable” about flying largely empty aircraft around various parts of the country? The official definition of what is “essential air service” is determined in a completely arbitrary and silly fashion. If a point on the map had scheduled air service at some time during the 1968–78 base period, it is entitled to a subsidy for the provision of scheduled air service until 1988.

Since most of these points receiving scheduled service between 1968 and 1978 were also receiving subsidies for this service, the decisive criterion for future subsidy is a historical demonstration of previously unviable or inefficient air service operations. In other words, past waste serves as the justification for future waste.
There should be no misunderstanding of what is being subsidized, though defenders of the program do their best to disseminate misleading interpretations of the meaning of "essential air service." What is being subsidized is business and tourist travel. This program is not giving aid to the destitute. It is not feeding starving children. It is simply utilizing taxpayers’ money to allow businessmen and tourists to pay less than the full cost of their transportation. The subsidy can be substantial. On one series of routes in New England it amounts to about $40 per passenger. In Montana, it amounts to $90 per passenger, in Arizona to $200, and in one section of Nebraska over $600 per passenger.

This is unconscionable waste. What justification can there be for requiring that taxpayers finance some Arizonan’s vacation to the tune of $200 or some Nebraskan’s business trip to the tune of $600? There is no justification. There is no reason why the users of air service should not pay the full cost of that service. Advocates of the subsidy point out, quite correctly, that requiring riders to pay the full cost will reduce the number of trips made. So what?

There is nothing inherently beneficial about air travel. Trips should only be made if the benefits outweigh the costs. This weighing process is distorted when part of the cost is covered through an involuntary payment by a third party—namely the taxpayer. More trips than would be justified by the benefits are taken because the user is not paying the full cost. This wastes scarce resources and reduces the general welfare of the society.

Aware of the pitiful current operating results under the “essential air service” program, some of its proponents have sufficient gall to claim that the real problem is undersubsidization. The CAB, they assert, is too niggardly in its subsidy awards. If the CAB would only authorize sufficient funds for larger aircraft and more frequent service, we could really develop the scheduled air service system. The subsidy, these people assure us, is an “investment” that will pay off in the long run.

These claims are unfounded and the reasoning is fallacious. By way of illustration, let’s examine an example from Arizona. Recent subsidized service to Prescott has been performed with an eight-passenger Cessna 402 at a load factor of about 20%. That is, less than two passengers per flight are enplaned or deplaned at Prescott. Advocates of a larger subsidy argue that the small plane discourages many would-be passengers. To buttress their case they point out that enplanements at Prescott in 1968 were ten times greater than the most recent year.
(6000 vs. 600). In 1968, a larger aircraft and more frequent arrivals and departures produced more passenger trips. Undisclosed in this simplistic comparison is the fact that in 1968 the load factor was only 8%. This is the equivalent of three passengers boarding the 40-seat aircraft employed. Thus, in 1968 three of 40 seats were filled vs. two of eight in 1979.

This example would appear a rather convincing demonstration of the inelasticity of demand for air service. No sane person could seriously propose to add 30 seats in order to fill one, and claim that this is a wise “investment.” Investments that will pay off in the long run will be undertaken by private capital. There is no need for subsidy. Private firms are adequately familiar with start-up costs for new products and services. Firms have been known to sustain several years of losses in order to build a market. In fact, the lack of willingness of a private business firm to engage in providing a service unless subsidized is a convincing expression of the firm’s belief that there will not be a long-run payoff on their investment.

In the past year, the federal government has spent nearly $90 million in subsidies for scheduled air service. This expenditure has involved a coercive expropriation of funds from the general public in order to finance inefficient and wasteful air service. The nation is ill-served by this policy.

The marketplace is well-suited to the task of selecting and funding investments that will increase consumer choice and welfare. The “essential air service” subsidy can only interfere with the market’s ability to ascertain and meet society’s genuine needs. There is no reason for the retention, and ample justification for the elimination, of this subsidy program. Congress would do well to dispense with the “essential air service” program.

**Subsidies for Ghosts**

If the people of an overpopulated community are subsidized with grants from the outside, regardless of the purpose for which the money might have been intended, they will not be encouraged to move to greener pastures or to develop the resources of their own area; for in either case, they stand to lose the subsidy. Thus they are subsidized in partial idleness in their old economic rut, and the nation is poorer for lack of the wealth which they might otherwise produce.

OSCAR W. COOLEY
Natural Liberty

The name of Adam Smith, long neglected, has recently come back into fashion. The supply side economists all claim him as the great father of their ideas. In part they are correct, for Adam Smith pioneered the modern exposition of the division of labor, the necessity for capital and the saving which develops it, the importance of liberty, the magic of the market, the role of competition and all the factors that go into production. The new interest in the famous Scot, however, does not correct the false image which has developed the past two centuries.

The irony of history has left us with a profile of Adam Smith which is both false and unfair. He was the friend and champion of the poor, yet he is now regarded as the defender of privilege. He was a radical for liberty, but friend and foe alike now call him a conservative. He did not employ the word capital or capitalist in his several books, yet he is generally regarded as the economist of Capitalism. He is called “quaint” in some circles as if his message belonged only to Scotland in the 18th Century. His remarks are actually relevant to every time and place where the market operates. The division of labor, for example, was just as much a factor in human action in the days of Plato or in the latest decades of the 20th Century as in 1776.

What went wrong? How could the dedicated friend of the poor become the principal defender of the rich? The answer seems to be that, in part, the inversion was accidental—an accident of history. But there appears to be a deliberate bias which

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has perverted the message of Adam Smith in order to advance the message of those who are trying to escape freedom. Max Lerner, for example, knew what he was saying when he wrote of Adam Smith, "He was an unconscious mercenary in the service of the rising capitalist class." Lerner continued by charging him with giving "a new dignity to greed and a new sanctification to the predatory impulses." The combination of accident and deliberate bias has inverted the original message and intent. The public has assumed the falsehood and forgotten the truth.

 Radical Approach

Adam Smith was anything but a conservative. The conservatives of his day were all mercantilists and he wrote his great book, Wealth of Nations, in full rebuttal of their ideas. His thoughts, when applied to our current economic scene, are far from conservative. He called his doctrine "natural liberty" and the conservative of today finds the doctrine threatening to the status quo. While many conservatives ask the young to conform to past life styles, Adam Smith challenged them to live their own lives. Some conservatives are keen for protective tariffs, while Smith followed David Hume in declaring for free trade. While many conservatives were blowing their nationalist bugles, Smith was declaring for freedom to all peoples everywhere. "Natural liberty" meant the removal of government restraints so that free people could live their lives and manage their property according to individual preference as long as nobody else was injured through force or fraud.

Karl Marx, on the other hand, was an angry man, and he was particularly angry at Adam Smith. Marx used the word "capitalism" in a pejorative sense. Smith did not use the word at all. "Of the Nature, Accumulation, and Employment of Stock" was the title of Book II of The Wealth of Nations. Smith knew full well that investment is essential to any sort of economic activity. He also knew that thrift is necessary for the accumulation of capital. But he would have flinched at the word "Capitalism" by virtue of the fact that the "ism" suggests a sort of cult attitude. He saw capital as a prime ingredient for human action, but it was for him an instrument and nothing more. He did not revere capital, he only used it. The false dichotomy of property values vs. human values derives, in part, from the Marxian misuse of the term, "Capitalism." Smith called his view of society "natural liberty" and that term is most surely tilted toward human values. The capital necessary for production is in full service of such values.

The charge that Adam Smith out-
lined a philosophy relevant only to 18th-century Scotland is ridiculous. The whole world is crying out for natural liberty today. The failure of socialism is a prime factor in the new interest in Adam Smith. George Santayana wrote in his *Character and Opinion in the United States*, "When he [the American] has given his neighbor a chance he thinks he has done enough for him; but he feels it an absolute duty to do that. It will take some hammering to drive a coddling socialism into America.” The hammering has been done and the socialism has been tried in part. The failure is apparent and the voice of liberty is heard once more in the land.

George Gilder in his *Wealth and Poverty* sees Adam Smith’s *Wealth of Nations* inspired by The Golden Rule. I have long pondered the divergence of emphasis in Smith’s *Theory of Moral Sentiments* and his subsequent volume. His early book speaks of human sympathy while his *Wealth of Nations* speaks of human greed. The motives of people are quite complex and ambivalent. Egoism enters all altruism and there is a redeeming touch of altruism in most egoism. Henry Ford was interested in profit, but he was also interested in making the best possible car for the least possible money. He was not only a genius at production and marketing, but he was proud of the fact that he was able to pay his workers very well. His amazing success was, in large part, the result of his dedication to The Golden Rule.

**Human Nature**

Smith was correctly describing our human nature when he said that the butcher and baker do not sell us our supper out of benevolence. He was also correct when he said, “I have never known much good done by those who affected to trade for the public good. It is an affectation, indeed, not very common among merchants, and very few words need be employed in dissuading them from it.” This is only part of the human situation. The late philosopher, T. V. Smith, opened one of his essays in *Live Without Fear* with the remark, “No man is an S.O.B. to himself!” The merchant who has profit in mind also wishes to be a hero in his community. He wishes to be highly regarded and praised as a person of good will. These attitudes help his customers and help him as well. Natural liberty corrects and disciplines the greedy by means of competition, but it also affords opportunity for a generous person to serve his fellow man and profit in so doing. J. C. Penney lived by the golden rule and found it profitable.

“The invisible hand” of Adam Smith operates today as it did in 1776 and in 3000 B.C. Whenever imaginative and creative people are free to carry on their enterprises,
the private good redounds to public benefit even though the *pro bono publico* effect is not deliberate. History is replete with periods of prosperity and happiness brought on by the unintentional beneficence of selfish people in a free society. Many contemporaries scoff at this idea. They love the word "mandatory" and lay stress on the recalcitrance of people who will do good only if forced to do so. They are blind to the natural effect of freedom. They are even more blind to the fact that enforced morality has bad implications and disappointing results.

**On Choosing Freedom**

The natural liberty philosophy assumed that sensible people would choose freedom if they had a choice. I am convinced that the assumption was and is correct. I have seen people by the dozens swimming from mainland China toward Hong Kong and risking their lives to gain individual liberty. I have seen people plan and dare to attempt crossing the Berlin Wall to West Germany and freedom. I have never seen people swimming toward socialism and away from liberty and I have seen nobody risk his life to get into East Germany from the free West. Eric Fromm in his *Escape From Freedom* overstated his case and was in mild contradiction with his own concept of "the productive man" or "the marketing man." From babyhood on, a human being is annoyed by unnecessary restraints. Babies fight their covers and try to break free from their clothing or their pens. College students I have known in fifty years of teaching have cherished freedom to live their own lives and do their own thing. Liberty is truly natural.

The aggregate demand economics of John Maynard Keynes contributed substantially toward government intervention in economic matters. Keynes, himself a successful capitalist, advocated government action to stimulate consumption. He was in the tradition of Parson Malthus with regard to fear of thrift. In his busy life devoted to other things he appears to have overlooked the danger to liberty inherent in the burgeoning bureaucracy and the relentless growth of government. Nor did he fully appreciate the problems of violent force which is in any legitimate sense a government monopoly. Government officials seek power and enjoy exercising it. People are taxed to pay for the people and the programs that take away their natural liberty.

For the good of the poor that they may be free to rise, for the prosperity of the people that the economy may continue to grow, for the freedom of the individual to exercise his God-given right to initiate and invent, for relief from the tyranny of government intrusion into every aspect of life, for relief from excessive
taxation and for the natural liberty of everybody, we need to take a new hard look at the Sage of Kirkcaldy. The absent-minded old professor who had no axe to grind except for the good of mankind has something very important to tell us. It is called Natural Liberty and we can regain it only if we bestir ourselves.

**Over-Governed**

Our present world displays what Walter Lippmann called “The sickness of an over-governed society.” Competing ideologies are contending for the minds of leaders and thinkers. The socialists find the solution to the problem in still more government to make our present government work better. They seek wage and price controls to remedy inflation; super-bureaucrats to supervise the bureaucrats; transfer payments to relieve the poor; they call for a zero-growth economy; mandatory conservation of scarce products to avoid disaster; planning, to replace the market; and government control of our lives.

Marx did not ask anyone to promote his ideas. He saw society as devoid of choice in a headlong march which would destroy capitalism and place the proletariat in charge until all vestiges of bourgeois life had been liquidated; then the classless society would emerge. For Marx people could either join the inevitable revolution or be swept away by it. The years have proved him wrong. Russia and China are examples. The fringe socialist countries have illustrated his failures in less dramatic fashion.

*The Road to Serfdom,* by Friedrich A. Hayek, was a warning shot across the bow of every ship of state in the free world. He wrote, “We have progressively abandoned that freedom in economic affairs without which personal and political freedom has never existed in the past.” He saw the State socialism of Hitler’s Germany and Mussolini’s Italy as the direct result of our western drift toward socialism. Only now have some of the so-called free nations begun to reverse the trend. Many people, enthralled by the false promises of socialism, have unwittingly lent full support to more and more government control of our lives. Our interest-group society is forever seeking government support for its special advantage, and the costs of the new programs are so diffused that government continues to grow. The psychological fact that people enjoy running other people’s lives speeds the process. We wind up with more and more government, more and more taxes and less and less natural liberty. No wonder Adam Smith is once more coming into fashion.

Arthur Laffer and his convincing curve may tend to reduce taxes. This is a good thing in itself in that the government has less money to spend and the people have more; but if, as
he argues, the government revenues are thereby increased we may wind up with still more government. Jude Wanniski, in *The Way the World Works*, makes a strong case for free trade and for lower taxes but fails to face the problem of natural liberty which is in jeopardy. George Gilder shows the benevolent face of capitalism and effectively answers the zero-sum economic growth predictions of the Club of Rome, but he does not quite recapture the vision of natural liberty which gave a sort of everlasting relevance to Adam Smith.

**Smith Viewed with Hope**

**What Angered Marx**

While Marx was gloomy and angry, Adam Smith was happy, hopeful and objective. He was not trying to get even with anybody. There was no hate and little envy in what he said and did. His interests were those of an old professor devoted to the task of finding what is true and presenting that truth to the world as best he could. His phrase “natural liberty” is felicitous and descriptive of his entire philosophy of political economy.

He assumed the freedom of the human will. He saw humanity as a mixture of greed and generosity, love and hate, hope and despair, joy and sorrow, good and bad. He concluded that nobody could be wise enough and good enough to manage the lives of other people, that each person must manage his own life in a free society with laws to defend the realm and protect against force or fraud. He observed the long sweep of history and found prosperity, happiness and success in periods when people enjoyed “natural liberty.” He concluded that, with each person seeking his own gain, the public interest was served as if by “an invisible hand.” He saw the market operating as a natural tendency wherever the government did not pervert it.

Would this “natural liberty” work today, given our size, population and highly technical society? The answer is yes. The law of gravity keeps on working even though we fly airplanes and explore outer space, in apparent defiance of Sir Isaac Newton and his laws of motion.

**Freedom of Thought**

The people of our modern world are in search of an adequate world view. They feel the need of a general philosophy of life that explains things and provides a pattern for understanding. Fortunately, there is no one adequate view of the world. Adam Smith believed in freedom of thought and opinion even more than he believed in a free political economy. People continue, however, to search for modes of political and economic thinking. Their search leads them in the direction of either Karl Marx or Adam Smith, since these two pioneers represent the opposing
views of a controlled economy on the one hand and a free economy on the other. John Maynard Keynes was quite perceptive when he wrote in his General Theory, "The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed, the world is ruled by little else." Our ideas enable us to explore and experiment, but they do not yield certainty.

Even the natural sciences cannot say "This is the way it is." They depend on plausible formulation based on tacit assumptions. People once thought in terms of a flat earth until Copernicus, and they failed to see the nature of relativity until Einstein. Political economy is still less exact, but each thoughtful person needs a world view to enlarge his limited observations. The two major competing realms of discourse in political economy are the dialectical materialism of Karl Marx and the natural liberty of Adam Smith. The socialism of Marx has succeeded nowhere in the world at any time. The natural liberty of Adam Smith has never failed anywhere in the world at any time.

Natural liberty is hard to come by, since governments are always getting in the way with personal ambitions and mandatory support. They defend themselves well since they have a monopoly on violent force. Only those who are hurt are willing to sacrifice "Life, fortune and sacred honor" to defend liberty. Only such sacrifice, however, can keep government within its bounds of defense of the realm, protection of civil and human liberties, judicial settlement of disputes, defense of each individual against wrongs to his person or property and such other limited functions as are beyond the reach of the private sector.

**Liberty Follows No Blueprint**

Natural liberty is not a neatly packaged system of political economy. Marxism is a religious system. Socialism is a control system based on government. Capitalism is a somewhat loose formulation of economic production and distribution, but it is an "ism" and is a system. Natural liberty is a descriptive term that eschews all systems and lets liberty obtain. It is a philosophy of society and human action which requires no system. When restraints are lifted the market works in a manner similar to the laws of motion—though not as precise and exact. The laws of the market are not determined but are formulated from the tendencies of people to act in a somewhat predictable manner. The magic of a free market is more nearly analogous to actuarial prediction, rather than a physical law such as the law of gravity.

Smith assumed the freedom of the
will while Marx denied it. We can confidently say, however, that free people tend to act out their preferences in a certain way. When needed and attractive goods are produced, customers will find ways to buy them. Natural liberty does not mean chaotic behavior, even though it stoutly denies the economic determinism of Marx. Free and imaginative people are forever bringing surprises to the world. The great advances of history are the result of achievements which nobody could have predicted. This does not contradict the actuarial assumption that a free market will work. Natural liberty works so well that we are startled and amazed.

The Soviet Union cannot believe natural liberty will work, but when they gave each of their farmers liberty with one acre of land the production on 1 per cent of the land resulted in 27 per cent of all agricultural production! Politicians and bureaucrats in Western nations do not believe the market will work and they do their best to keep it from having an opportunity. I do not know of a single economist of stature who does not recognize the fact and performance of the market, yet many of them cling to the view that government control and intervention are better and more fair. It seems difficult for a person who thinks of himself as an expert on the economy to believe that the impersonal market, left to its devices, can better produce, allocate, price, inform suppliers, improve products than can any panel of experts. In brief, intellectuals find it difficult to admit that everybody knows better than anybody what is best for everybody. No person is good enough or wise enough to run the lives of other people.

**Opportunity Unrestrained**

The practice of natural liberty means freedom from envy and hate. To each his own denies equality except for the fact that each person has equal opportunity before God and under the law. Natural liberty is the poor person's opportunity to rise. It opens the way for more and better production and standards of living. The rich are not the enemy, but the example and the very useful source of capital for helping the poor to rise. The only people who lose position under natural liberty are the planners, the managers of other people's lives, the politicians and the bureaucrats. When those who have tried to tell everybody else how to live finally give up and seek productive employment, they turn out to be the happiest people around. The world is about to give natural liberty a new chance. Bravo!
INFLATION is very unpopular today. However, most who deplore it think of it simply as rising prices. But prices of goods and services may rise for many reasons: shortages due to destruction by pests, drought, flood, or increased demands when fashions change or a war breaks out. Thus, to define inflation as rising prices is far from helpful. In fact, it leads to serious error by directing attention to individuals who raise specific prices (businessmen) and wages (workers).

This definition of inflation neglects the real cause of generally rising prices—an increase in the quantity of money and/or credit. Once inflation is defined as monetary expansion, it becomes clear that only the government and government-privileged banks can be responsible. Only they may print money and/or create new dollar credit. Anyone else who tried to do so would be branded a counterfeiter.

Inflation, by which we mean monetary expansion, may proceed in several ways. The government may spend more money than it collects in taxes or borrows from individuals, filling the deficit (a) by printing paper money, or (b) by borrowing, through the Federal Reserve Banking system, new money or bank credit created by the “Fed” for this express purpose.

With the sanction, active encouragement and protection of government, private commercial banks may also increase the quantity of money by lending many times as much as the sums deposited by their customers in checking accounts. Com-
mercial and savings banks are also able to expand the quantity of money and credit by an even greater ratio on the basis of savings and time deposits. Thus, the creation of new money, permitted and encouraged by government and government-promoted Federal Reserve policy, builds on itself and the number of dollars snowballs. Only by defining inflation as monetary expansion may we understand its more complex and far-ranging consequences.

A great deal has been written about the pressures produced on prices by a monetary expansion, shoving prices inevitably upward in an irregular and ragged fashion. Some prices are affected sooner, others later, some more, others less. Prices are not all affected equally, or proportionately to the monetary expansion. Because the effect of inflation on prices is uneven, its other consequences are serious, long-lasting and irreversible. It is these other consequences of inflation which we shall be considering here, consequences which make conditions worse, even from the point of view of the backers of the programs resulting in monetary expansion.

Some Win: Others Lose

There is no way to issue new dollars or bank credit so that everyone will benefit equally and simultaneously. Some politically favored persons always receive the newly-created money and bank credit sooner than others. Having more money gives these people a decided advantage in making purchases. They may buy more than they could have before. Or they may offer higher prices for what they want. Thus they can outbid other would-be purchasers who find less in the stores to buy at previously prevailing prices. Stocks of what the other would-be buyers would have purchased have been bought up by the new dollar holders. In this way, the first recipients of the new money “win,” but always at the expense of others.

In time the new money will work its way through the market, from the first beneficiaries to those from whom they buy—merchants, suppliers, and so on—as each in turn receives some of the new dollars. But at each step in this sequence of transactions the advantage of having more dollars sooner than others is watered down a bit. Many who receive some of the new money much later will find they must pay higher prices without higher incomes. Thus inevitably those who receive some of the new money considerably later, or receive none at all, will lose.

Each transfer of dollars represents an irreversible shift of goods, services, wealth and income. The “winners” gain at the permanent expense of the “losers.” Although the losers are never easy to identify, their loss is real enough. They must
struggle to adjust to a market in which the things they want are increasingly scarce and more expensive. Circumstances will change, of course. Attempts may be made to reverse the respective roles of “winners” and “losers.” But compensation after the fact can never undo the harm done earlier. It can only set in operation a similar sequence of uneven, irregular and ragged price shifts, creating different winners and losers.

Illusory Profits

Anyone whose selling prices are boosted by the issue of new dollars receives an unanticipated surplus. He gains due to the inflation. But this gain may not be a real gain. His increased income pushes him into a higher tax bracket. Then government promptly takes a greater portion than before. He may also have to pay higher prices to replace merchandise bought by the inflation-created “winners.”

In anticipation of increased sales, merchants may order more of the particular items the new dollar holders are demanding. To fill these bigger orders, suppliers must also change their plans. To speed up or expand production of these particular commodities, they will have to offer more money to workers and to the owners of needed resources. Thus, the new dollars are passed further along throughout the economy, pushing up one wage here, another there, one price here, another there, and so on, adding to business costs along the line and reducing the gain merchants, suppliers and producers had received from the inflation and on which they had paid taxes.

As a result of the inflation, enterprisers will also discover that the funds set aside for depreciation are insufficient to replace their equipment when it is worn out. With prices rising throughout the economy, new plants and new machinery, like almost everything else, cost more than before. Funds just aren’t available for replacing them. If enterprisers are to continue operating, they must buy their new equipment out of either (a) current income or (b) borrowed funds. If they supplement insufficient depreciation allowances from current income, they will be using funds they should be accumulating to maintain their investment in the future, thus putting their enterprise in jeopardy. If they borrow additional funds from the banks, they will be helping to push interest rates up, thus increasing their business costs still more and further reducing their gain.

In time, what looks like an enterpriser’s gain in dollar terms may be no gain at all. Receipts that seem exceptionally high in depreciating dollars are thus deceptive. It is extremely difficult to keep operating and maintain a profitable business
during an inflation. If enterprisers fail to recognize that a dollar profit may be an illusory profit, if they fail to take this into consideration in planning, calculating and allowing for depreciation, they will soon suffer losses that are not illusory but real! Yet through it all their books could still show dollar “profits,” deceiving them into believing their enterprises are financially sound. “Illusory profits” may easily lure them into spending more than they can afford and consuming capital they cannot replace. Thus “profits” in terms of inflation-depreciated dollars mislead many an enterprise past the point of no return, down the road to bankruptcy.

Production Patterns Shifted

The new dollar holders spend their money for whatever they want most. If the new money goes first as benefits to unemployed workers or welfare recipients for instance, or as higher salaries to government employees, teachers, postmen, soldiers, and so on, it will probably be spent on consumer goods. If the new money goes first as loans to new car buyers and home owners, it will be transferred to car salesmen, automobile workers, carpenters, electricians, and the like. If the new money goes first as bank credit to producers—builders, farmers, ship owners, automobile manufacturers, producers of military weapons, owners of radio and TV stations, and so on—it will probably go next to those who build tools, machines, factories, electronic equipment, and the like, and then later to those who extract and transport raw materials and other resources.

In any event, those who sell to the “winners” promptly enjoy an unexpected “boom” in that phase of their business. When they place orders with their suppliers to refill exhausted inventories of those particular items, the pattern of production starts to shift—toward producing more of the things requested by the new dollar spenders and less of what was being produced before. Step by step, producers respond to the demands of the new dollar holders and those who receive the new dollars.

As resources, capital, labor and energy shift production to satisfy the demands of the inflation “winners,” the wants of the inflation “losers” are neglected. Those who receive none of the new money, or do not receive any until much later, are at a serious disadvantage in making purchases. They find in the stores fewer of the things they want to buy, because the “winners” bought more; they also find that prices are higher though their incomes are not. Moreover, the resources, capital, labor and energy which were used in producing for the politically-favored “winners” are no longer available, having been transformed into spe-
cialized tools and machines for supplying an artificial, government-subsidized market.

**Malinvestment**

If the monetary expansion is not halted, enterprisers will continue making adjustments to serve the consumer wants of new dollar holders. Some enterprisers will turn next to making tools and machines for their production and others will seek to expand the supplies of the needed raw materials. Under our monetary system, the banks are encouraged by government policy to supply a large part of the funds needed to make shifts in production possible. They issue new credit through bank loans, creating additional dollars in the process, enabling the favored borrowers to spend more than before. But no more resources are available. The borrowers of the new credit must compete with other enterprisers for the available supplies. They soon discover that to hire additional workers and to buy more raw materials and tools and machines for their new projects, they must offer higher prices. Thus as they seek to fulfill their plans, they help to pass the new dollars along in the form of rising prices. In time the patterns of prices and of production will deviate more and more from what they would have been in the absence of inflation.

In this world of ours, change is inevitable. It is the role of enterprisers to watch the market closely and to try to adjust to new conditions. If they succeed they make profits; if they fail, losses. What people are buying and refusing to buy at various prices gives producers and would-be producers important clues as to what to make and how much to make.

**Clusters of Errors**

Enterprisers sometimes misjudge the market and miscalculate consumer wants. On a free market, the mistakes of some enterprisers are usually counteracted, at least in part, by the correct judgments and successful calculations of others. But when government is introducing new dollars and/or encouraging the banks to expand credit, most enterprisers are influenced by the same misleading factor—the expectation of continuing monetary expansion. Many enterprisers, misled by the inflation, shift production in the same direction. “Clusters of errors” appear.

Throughout the monetary expansion, producers are committing themselves and their resources more and more irretrievably to their various projects. Their investments become more specialized and less easily convertible to other uses. The longer the monetary expansion continues the greater the deviation from free market production and the more malinvestment occurs.
Inflation-instigated markets are notoriously unreliable. Government policy inevitably vacillates in response to the changing political climate. Without warning, the quantity of money and credit may be increased or decreased—political favors shifted. Once the flow of new dollars and/or cheap credit declines or is halted, inflation-induced demands cannot be sustained. At one moment enterprisers are spurred to expand production in one direction. Then a shift in government policy leads unexpectedly to a drop in demand for their products. The market on which they had counted declines or disappears. They have produced too much of some things, not enough of others.

Mountains of Waste

When the inflation is slowed down or stopped, some consumer goods produced but not yet consumed may be sold to other customers. But many of the items intended for previously subsidized consumers cannot be sold for more than their inflation-boosted costs. Factories, tools and machines, which cannot be converted to other uses, will be abandoned. Thus, the sooner inflation can be stopped the better, for the longer it continues, misdirecting production, the more resources will have been wasted and lost to future generations.

The vacillations of government intervention exaggerate the uncertainties of doing business. As the money spigot is turned on at one moment and off the next, many enterprisers swing back and forth between eagerness and reluctance in making commitments. In this way, the stops/goes, ons/offs of government interference lead in time to the ups and downs of business, the boom/bust sequence of the “trade cycle.”

However, economic suffering cannot be avoided by continuing to inflate. For if monetary expansion is not halted, it must lead in time to a complete breakdown of the money and the market. If the inflation goes on until the monetary unit becomes worthless, business will come to a standstill. With no reliable medium of exchange, no trades except simple barter deals can be made. Inflation-induced investments will fall into unemployment or serious under-employment. Economic calculations, contractual agreements and production plans of any complexity will become impossible. Even those who, with the best of intentions, advocated the government programs that led to inflation must consider such conditions worse than those they were trying to improve.

Saving Discouraged

Saving is the principal source of increasing production. Only as people save can they have spare time and energy to devote to pleasure,
learning new skills or developing and improving their tools, so as to be able to produce and have more tomorrow. It is out of savings that students may eat while acquiring knowledge and new skills. It is out of savings that inventors may live while devoting time to developing and producing new tools. It is out of savings too that workers and investors may survive while producing things for others to consume.

Most of what we have and enjoy in the world today—the many modern conveniences, complex tools and machines, remarkably efficient means of transportation, specialized electronic equipment, almost miraculous medical developments, and so on—we owe to past savers who set something aside out of what they produced and invested it in production. Thus our ancestors contributed to present day living standards.

Our ancestors saved out of the desire to try to improve their productivity, to become financially independent and beholden to no one, to provide for themselves in old age, to care for their families in emergencies and to improve conditions for their children and their children’s children. The greater their confidence that savings and property would be fairly safe, the more incentive they had to forgo some immediate consumption for the sake of their own and their families’ future welfare. Their savings and investments also helped support others while learning new skills, developing new technologies, inventing new machines and producing new factories. Thus their savings and investments are still contributing to our welfare today.

But our living standards are now in jeopardy. To meet the rising costs of government’s rapidly increasing handouts, it increased taxes and resorted to inflation, both of which discourage saving. Fearful of losing their property and savings through inflation, producers have little incentive to save and invest in production. With less saved and invested, less is produced. With less produced, there is less to consume or to save and to invest. With less saved and invested today, there will be less for future generations to enjoy tomorrow.

**Conclusion: Prolonged Inflation Means Economic Disaster**

In summary, generally rising prices are one consequence of inflation, but by no means the most serious. Monetary expansion’s other consequences are more destructive, long-lasting and irreversible. It leads to injustices. Some persons “win” at the expense of others who “lose,” never to be fully compensated for their inflation losses. Production is misdirected so that scarce resources are wasted on unwanted enterprises. “Illusory profits” deceive pro-
ducers into economic miscalculations, malinvestments and capital consumption, often placing their operations in jeopardy and perhaps forcing them into bankruptcy. Inflation adds to the uncertainties of doing business. Expansionist monetary policy is to blame for fostering unhealthy economic booms based on artificially stimulated malinvestments.

When political policies shift, artificial boom turns to economic bust with widespread economic losses and unemployment. Future generations will be poorer because inflation and credit expansion are discouraging saving and investment today. Inflation and credit expansion also discourage respect for private property, individual effort and family responsibility. Why work for a living if the government is handing out benefits? Why save if every dollar loses purchasing power from day to day? Why invest in production if earnings are penalized by steeply rising taxes? Why strive for economic and family independence if there is no disgrace in benefiting from the wealth of others, taken from them by force through taxes and inflation?

Many malinvestments undoubtedly exist today due to past monetary expansion. However, the economic suffering such malinvestments bring about could be kept to the minimum if government were to renounce all further inflation and credit expansion immediately, not just try to slow them down. Left to their own devices, enterprisers would find ways in time to absorb and/or pass over and beyond most past losses and malinvestments. Confident that their economic calculations would not be upset by a depreciating currency, erratically rising prices and illusory profits, they could return to producing goods and services for a non-artificial market. They would then be willing once more to save and invest, thus improving conditions for themselves, their families and future generations.

But if government continues to offer benefits to some at the expense of others, financing them through higher taxes and monetary expansion, serious economic disaster must be expected. New evidence will then demonstrate once more the truth of Ludwig von Mises’ statement that government interference with the economy, no matter how well intentioned, "produces results contrary to its purpose, that it makes conditions worse, not better, from the point of view of the government and those backing its interference."
The blue whale is being driven toward extinction and the federal government is spending far too much of our nation's wealth. The connection between these two problems may not be immediately obvious. But if you believe that blue whales have been slaughtered excessively (and they have), then logic also compels you to see the need to limit the growth in government. Too many blue whales have been killed and the government has grown too large because both the blue whale and the government provide opportunities for some people to receive benefits by imposing costs on others.

From an initial population of approximately 200,000, it is estimated that fewer than 6,000 blue whales are still living. The costs of killing another blue whale include the benefits sacrificed by reducing their future availability still further. But even though all whalers would like to see more whales live to bear young and increase in size, each knows that the whale he does not harpoon today will probably be harpooned by someone else tomorrow. The whaler who harpoons now gets all of the benefits but suffers only a small share of the cost resulting from fewer whales in the future. Most of this cost is spread over others.

Of course each whaler also loses from the excessive harpooning of others. But this loss would only be greater to the individual whaler who reduced his own harvesting. The incentive is for each to continue kill-
ing whales as rapidly as possible even if this means the eventual extinction of a majestic species.

A very similar situation exists when special interest groups capture benefits from government spending. Many government programs convey benefits to specific groups by spreading costs over all taxpayers. Farm subsidies, Amtrak subsidies, urban development programs, and the Chrysler bailout are but a few examples. Federal spending on programs of this type has been increasing at an alarming rate. Programs which serve the primary purpose of simply transferring wealth from one group to another are taking approximately $350 billion of the Federal budget in fiscal 1981. This is more than the entire Federal budget in 1975.

All special interest groups may be aware of the tremendous burden that comes from rapidly enlarging the size of government. But each group also knows that passing up an opportunity to expand its favorite program will merely make it easier for other special interest groups to expand theirs. The motivation is for each to continue pressuring the government to spend more even if this means the eventual collapse of the economic productivity that supports all government spending. And there should be no mistake about it. Just as the blue whale can be driven to extinction by excessive harvesting so can our economy's productivity be extinguished by excessive government.

There are two ways an individual can acquire wealth. The first way involves engaging in productive effort. By producing things that others value this effort benefits everyone. The other way to acquire wealth is to capture the wealth others produce by engaging in transfer activities. Transfer activity can be illegal as with theft, or legal as with lobbying government for preferential treatment. But in either case it directs otherwise productive effort into activities that create no new wealth. One of the most important functions of government has always been to encourage productive enterprises by penalizing the illegal transfer of wealth. In writing the U. S. Constitution our founding fathers also attempted to reduce opportunities for using government to legally transfer wealth from one group to another by limiting the scope of government. The desire was to establish an environment in which individuals could advance their well-being only through the creation of new wealth.

Unfortunately the constitutional limits on direct government involvement in economic affairs began breaking down in the late 19th century. At first the involvement was minor and only a few found using government to confiscate the wealth
of others more profitable than producing wealth themselves. But once this confiscation started the return to productive effort was reduced. This increased the number who found the advantage in harvesting government favors at the expense of those who remained productive. This further reduced the return to productive enterprise thus diverting yet more people into transfer activities. As this destructive process continued even those who persisted in the creation of wealth found their productivity hampered by the need to protect their property against an increasingly grasping government.

This trend cannot long continue without threatening the well-being of all; the producers of wealth as well as those they support. When all ships are busy transporting valuable products the first one to become a pirate can do very well indeed. But as more turn to piracy fewer find advantage in continuing to ship the goods. Unless strict sanctions are imposed against piracy the end result will be impoverished shippers and pirates alike as ocean transportation comes to a halt.

Those who argue that, if the blue whale is to be saved from eventual extinction, limits will have to be placed on their slaughter are correct. And for the same reason, if the productivity of our economy is to be saved from eventual collapse, limits will have to be placed on the growth in government. As important as it is to protect the blue whale, it is far more important to maintain our economic productivity. Destroy the economy's productivity and you destroy the wealth that allows us to take our food, clothing and shelter for granted and worry about such things as the blue whale.

How Government Grows

The maximum flow of creative human energy and the utmost in voluntary cooperation among individual free men are called forth only when government is limited to the equal protection of the inherent rights of free and responsible human beings. To the extent that this basic life principle of a free society is implemented and safeguarded within a nation, the people of that nation will achieve balanced development and growth. Most of our reform laws violate this basic principle in that they penalize the producer and reward the “free rider” who consumes more than he produces. Thus the flow of creative human energy is increasingly inhibited as “liberal” laws authorize more and more unearned withdrawals from the stream of goods and services provided by the producers.

W.C. MULLENDORF
"Ideas have consequences" observed that eminent historian, Richard Weaver,¹ and so they do. But ideas do not only produce, occasion or effect consequences; they are also results of earlier ideas, principles and concepts which, in turn, proceed, true or false, from the gray matter of the human mind. When one happens upon a particularly perturbing doctrine, particularly one which has become accepted to the extent of becoming axiomatic, it becomes fruitful to unveil the causal linkage and probe the aura surrounding the verbal deity. I propose to do just that with the concept of "prior restraint," a praxeological doctrine now writ large in the juristic process. In short, let us identify the subject and discern from whence it came and whither it leads.

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I. THE SHORT MEANING OF PRIOR RESTRAINT

Prior restraint defines a governmental edict that proscribes as evil or unlawful certain actions potentially performable in the future. The force of law (rules and orders emanating from the state threatening punishment for disobedience) inhibits or restricts future conduct and channels embryonic human conduct into, or away from, given courses of action.

While the idea is probably as old as human civilization, the legal doctrine gained recognition and currency in the early twentieth century in such First Amendment arenas as free speech and a free press.² Viewing the First Amendment as pos-
sessing a "transcendent value," pseudo-civil libertarians of the court system railed against prior restraint in such fields as the public display of obscene motion pictures or the printing of seditious editorials. Mandatory restrictions before the fact, so the argument ran, unduly circumscribed the free flow of ideas and personal interchange and, for that reason, ought not be tolerated in a free society.

In essence, prior restraint constitutes a label which may be applied fairly to all state restrictions which fetter human action before the fact. It includes in its net all manner of rules, regulations, orders, and guidelines which order personal destiny—for example, the monumental avalanche of proscriptions which flow from EPA, OSHA, the Federal Reserve System, the FCC, CAB, ICC, and the like, not to mention their state and local counterparts. If the law states that any or all persons shall or shall not follow a given choice or range of conduct in the future, the state has engaged in prior restraint.

One salient distinction deserves mention. Prior restraint does not generally encompass legal directives which apply after the fact in the resolution of human disputes, for such constraints do not restrict human freedom in the same manner. A chasm of difference separates a rule which states that no property owner shall construct a dwelling more than two stories high on his real property, and an order which compels A to pay B damages occasioned when A negligently drove his automobile over B's homestead and uprooted his flower beds. As we shall note, the first example limits human conduct without a determination of whether it will or may occasion fair, wise or just results; the second hypothetical permits maximum human liberty but requires responsibility on the part of free human actors whose untrammeled conduct proves detrimental to another, equally free, human being.

II. THE DERIVATION OF PRIOR RESTRAINT

No doubt the roots of prior restraint lie deeply embedded in antiquity, far from the likely gaze of today's scholars. Such a fact should not deter us from the exercise of searching out the probable underpinnings of the theory in an attempt to glean some knowledge as to its present appeal.

Two likely candidates appear as the causative factors in the development of the doctrine of prior re-
straint. Each force represents a known and pervasive component of human nature; together, they represent the characteristic duality which besets mankind.

First, the human creature contains a strong strain of empathy for his fellow beings and a desire to do good things. Few of us are so callous that we begrudge a crust of bread to a sad-eyed waif. Man truly is a "little lower than the angels" in this aspect: he is kind, sympathetic, careful and, most of all, he wants to prevent catastrophes from assailing those around him.

Thus, fortified with his own subjective view of what is prudent and good, man seeks to prevent or forestall harm to himself or to others. If a crib can choke a child of a careless mother, let us do away with that design; if green trees and bushes beautify a town, let us command all inhabitants to decorate their plots with foliage; if televised violence affects weak minds, let us eliminate assaults and substitute symphonies. Prior restraint offers a method of preventing occurrences which are viewed as bad or undesirable with the highest of motives: protection of human life and safety, particularly fortification of those perceived as less well able to care for themselves.

Second, man betrays a deficient and less desirable side to his nature, an aspect which flaws all of his actions: a tendency to evil, a curious concatenation of greed, power, lust, envy and all manner of unlovely traits. Perhaps Bastiat’s greatest gift, among many, was his clear perception of human nature: incapable of perfection, but quite capable of improvement. It is this lesson which the prophets and priests among us have enunciated for so long. In a simple phrase, man does bad things; he is the disorderly creature who rebels against the natural order of his most orderly universe. When he acts in harmony with reality, the human being approaches perfection; when he digresses, he becomes a base and evil fellow. Recorded history, by and large, consists of a series of disjointed episodes portraying man’s inhumanity to man.

**Temptations of Power**

This sinister part of humankind further explains and refines the reason for the existence of the doctrine of prior restraint. By and large, men enjoy exercising power and control over other persons. People like to run the lives of other, subject people. Flawed man, who possesses serious difficulty in running his own wee life in this amazingly complex world, myopically sees himself capable of managing the lives and choices and destinies of untold multitudes of his neighbors. The dictator operates from a tripartite base: fear; distrust of man’s ability to do well; and, the enjoyment of coercive power. He sup-
poses himself able to manage lives better than the citizens and, in so presuming, he ignores the good in others and magnifies the evil in his own heart. Oddly enough, it seems empirically and naturally true that mandate states and slave societies bring out the venal in the whole population; in contrast, the greater the relative freedom, the more high-spirited the choices actually made.

III. THE CONSEQUENCES OF THE IDEA OF PRIOR RESTRAINT

Just as the derivation of the doctrine may be only glimpsed through the fog of time, so also the consequences of prior restraint must remain the product of informed speculation. However, the reasons for the impediments to this view are quite different. History does not record when the doctrine of prior restraint first came into being nor the reasons therefor, probably because any “history” at that time consisted of an informal oral tradition and ideas do not lend themselves to careful recording. On the other hand, we cannot know precisely the results of prior restraint by virtue of the very doctrine itself: prior restraint prevents action and thereby inhibits, proscribes or alters consequences. We cannot tell what choices would follow ideas if the seminal choice is thwarted.

Herein lies the seed of the great evil of prior restraint: free flow of human action is restricted into certain permitted channels and all deviation receives strict punishment. No one knows how mankind would divide up the airwaves in the absence of the FCC. No one knows how the city of Portland would develop in the absence of land use and zoning controls, patents, franchises and subsidies. No one knows how many serious communicable diseases would be conquered in the absence of the FDA. No one knows what the market will bring forth from 225,000,000 prodigious minds and hands if they are left unrestrained!

Prior restraint acts as a great cosmic ideological prophylactic, cutting off life from ideas, forms and actions which may be beneficial but which will never see the light of day. Once destroyed, ideas seldom can be resurrected as they are fleeting and fragile things. In place of vibrant new ideas we retain stale old forms which may have lost meaning and most certainly vitality. Thus, the result is lost and the idea emasculated. Remember that no act or idea stands alone: all are linked inexo-
rably from cause to effect to cause, by the law of consequences. Prior re-
straint breaks the chain and alters effects forever.

In a way, prior restraint leads to a partially self-fulfilling prophecy. By damning human creativity, the state foreordains the future by de-
creeing a string of "thou shall nots." Yet, for all the gloating attempts of the tyrants to foresee and constrain results, the future seems to ever surprise them: slaves make dull but still unpredictable subjects. The perceived harm may never occur if creative man is left alone to work out solutions to his life. The com-
mand state most certainly will produce an abundance of evils be-
yond the ken of small-minded men.

IV. WHEN CAN PRIOR RESTRAINT BE JUSTIFIED?

Few would condemn all forms of prior restraint. Certainly, funda-
mental justice requires notice of penalties to be exacted upon the conclusion of a given course of con-
duct. Just as certainly, a free society needs to operate upon basic premises which will insure all partici-
pants free rein to their liberty of choice, for if I can impose my will upon you by force or deception, you have lost control over your destiny just as surely as if the government passed a law fixing your course of conduct.

This essay does not present the apt place to define the fundamental and irreducible minimum nature of governmental authority. I have at-
ttempted to do so elsewhere on sev-
eral occasions. Suffice it to say, I consider the appropriate role of the state as twofold: the prevention of force and fraud from within and without the perimeters, and the or-
derly solution of otherwise insoluble disputes. Such a minimal govern-
ment comports with the basic tenets of freedom and with the duality of human nature discussed in Section II. It permits the maximum release of creative energy untrammeled by unnecessary and fixed barriers, while providing those sanctions neces-
titated by man’s irrational sinister side.

Within the framework of a thus-
limited state, regulations of human conduct should be kept to a mini-
imum. In areas where regulation to prevent force and deceit become nec-
essary, prior restraint is justified in order that notice be granted to per-
sons who might act malevolently to-
ward others. In the areas where a state system of judicial resolution of interpersonal disputes is necessary,
the doctrine of prior restraint should play a discrete role: the state should provide such a system and require compliance with its forms and orders if one party to the dispute chooses to involve the system; it should leave wide open the doors of private arbitration, conciliation and conflict resolution if the parties so choose.

We come full cycle to Mr. Weaver’s wisdom: ideas do have consequences. In the case of the doctrine of prior restraint, the cause of the concept lies partly in the undesirable grounds of the desire for power, and partly in the fallacious grounds of the belief that mere man can mandate good results by coercion. The inexorable consequences of prior restraint, where employed outside the bounds of the doctrine of limited government, are simply an unwise and needless loss of liberty.

—FOOTNOTES—


Economic Harmonies

A man’s happiness and well-being are not measured by his efforts but by his satisfactions, and this also holds true for society at large. . . . It may happen, and frequently does, that the service we esteem highly is in reality harmful to us; values depend on the judgments we form of them. . . . In an exchange society, man seeks to realize value irrespective of utility. The commodity he produces is seldom intended to satisfy his own wants, and thus he has little interest in its intrinsic usefulness. It is for the purchaser to judge that. What concerns the producer is that it should have maximum value in the market. . . . It is in vain that we attempt to separate choice and responsibility.
ON MY WALK to and from elementary school when I was a boy I used to pass a fenced enclosure. A metal sign bearing this legend was attached to the fence: "Danger—High Voltage." Inside the fence were several large transformers to which wires from a high tension power line were attached. There was a factory across the road which got its power for running large machines from the transformers. Although boys often do daring and foolish things I never heard of anyone who breached this fence to examine the transformers. The warning sign might have served only as an invitation, but it was mightily reinforced by our knowledge of the dangers of electricity.

The recollection of these things set me to thinking about another kind of danger—that posed by government. At first glance, there might appear to be no connecting links between government and electricity. After all, electricity is a physical phenomenon, while government is political and social. Even so, it turns out that upon deeper reflection there are some interesting and instructive parallels between the two. Even some of the differences are enlightening, once the parallels have been brought into focus.

The most obvious parallel between government and electricity is that both are kinds of power. This attribute is acknowledged in the language we use to describe them. Thus, we speak of the power of government. Companies that provide electricity are often referred to as power companies, and some contain the word in their formal titles.

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The power of government resides in its capacity to intimidate, coerce, or use force against its enemies, domestic or foreign. Governments are sometimes compared with one another in terms of which is the more powerful. Common measurements for making such determinations are the size of the armed forces, the amount of its armor and weapons of various sizes and kinds, the resources it can bring to bear in a military effort, the morale of its troops, and so on. Sometimes, too, we speak of political power, by which we mean such things as influence and status in bringing the power to bear on others. Such power is sometimes distributed within chains of command, but its actual exercise is often modified by the will to assert power by those in position to do so, and other informal relations.

**Electric vs. Governmental Power**

The power of electricity resides in its capacity to produce heat or to perform such varied functions as lighting, cooling, activating motors, and so on, depending upon the instrument to which it is applied. The power is measured in such terms as volts, ohms, amps, and watts. The basic unit of electricity is the electron. The basic unit of government is a person. The power of electricity stems from infinitesimal electrons; the power of government arises from exceedingly complex persons.

Both government and electricity work on similar principles in regard to distance. The principle can be stated this way: The farther the distance each must travel before it is applied the greater the amount of the force must be.

For the effective transmission of electricity through metal lines the amount of force required can be stated with fair precision. The amount required to transmit a current one mile is 1,000 volts or a kilovolt. The amount increases proportionally for each additional mile, e.g., 13,000 volts for a distance of 10–20 miles, 110,000 volts for a hundred miles, and so on. For the short distance involved between a transformer and various points in a house 110 volts is ordinarily sufficient. For the much shorter distances in an automobile 6 volts may be adequate. The simplest and most direct explanation of this requirement of proportionally greater force in relation to distance is that it is necessary to overcome the resistance in the wires.

The size of the force of government must be proportional to distances, too, to be effective. This relationship is most apparent in defending a border against an invader. The longer the border is the greater the size of the force that will be needed to defend it, other things being equal. The size of police force needed for the effective patrol increases with the area, though den-
sity of population is also a factor. The more functions that government attempts to perform the more power it requires. In this, the requirements of government are directly analogous to those for electricity.

But the most significant parallel between government and electricity is that both are dangerous. Electricity is dangerous to property, to life, to plants, lower animals, and man. A short in a wire can burn down a house. A stroke of lightning which strikes the ground can destroy all the life in the surrounding soil, making the area barren for a season. Electricity can shock, burn, destroy organs of the body, and kill.

**A Dangerous Power**

History is replete with instances which demonstrate the danger of government. The unleashed power of government has wrought devastation and destruction upon whole peoples. Government is an ever-present danger to the life, liberty, and property of those over whom it rules and to others upon whom it may make war. It can confiscate property, imprison, compel attendance upon its proceedings, and execute people. In different senses, both electricity and government are elemental forces: the one physical, the other social or political.

The dangers of electricity are well known, and great care is taken in generating, transmitting, and distributing it. High tension wires are usually conveyed high above the ground and are held in place by tall poles or metal towers. They are hung from cross bars on heavy insulators, and are well out of reach of men in their ordinary pursuits. Before the electricity is brought into homes and factories its voltage is reduced to levels that are much less dangerous by transformers. All wires are insulated, and at any place where they are exposed, they are ordinarily covered by plates or other shields. Electrical devices and appliances are usually rated for the voltages they will tolerate or require, and light fixtures specify maximum wattage bulbs to be used. Fuse or breaker boxes protect against high surges of electricity as well as sustained overloads to appliances. In short, electricity is insulated, transformed, grounded, shielded, and monitored so as to reduce its dangers to a minimum and to enable us to use it in many constructive ways.

The widespread use of electricity is a relatively recent development. At the time of the making of the United States Constitution scientists were familiar with it as a natural phenomenon, but no means had yet been devised for producing it in quantity nor potential uses conceived for it. Interest at the time was focused on controlling lightning, the most devastating manifes-
tation of electricity in nature. Benjamin Franklin had only lately proved that lightning is electricity with his famous kite experiment. Enough was known about conducting electricity for the subsequent invention of the lightning rod to protect structures.

A Profound Understanding

By contrast, the men who formed and shaped the political institutions of the United States knew a great deal about government. They were especially aware of its dangers. Of course, they believed that government was necessary and when rightly used beneficial, but they were probably more aware of the perils of power than any generation of men who ever lived. This awareness was attributable, in part at least, to the fact that government for them had been largely de-mystified. Something akin to the de-mystification of government had also occurred in the field of electricity. By de-mystification, I mean that something was no longer considered as being primarily a mystery but rather as capable of being understood by reason, and hence could be altered and controlled.

From time immemorial, lightning had been a mystery; it had been looked upon with awe, in fear, and with superstitious wonder. Most commonly, lightning had been thought of as an instrument or plaything of the gods. Bolts of lightning were directed at men as punishment or retribution for their wrongdoing or defiance of the gods. Franklin de-mystified it; he brought it into the realm of the natural and made of it something to which reason could be applied.

A parallel, though not nearly so universal, view of government has often prevailed. In the age immediately preceding that of the founding of the United States Europeans generally believed in the divine right of kings. They were instruments of God. Their selection was an accident of birth. Their duty was to do the will of God; the duty of the subject was to obey those placed over him in authority. Their powers were such as were appropriate to the fallen state of man and they were hedged about with mystery such as belonged to beings who did not belong to ordinary experience. A major de-mystification of government occurred in the seventeenth and eighteenth centuries, though similar developments had occurred at other times and places in history.

The founders of the United States were beneficiaries of this de-mystification of government. The change that had taken place in the outlook on government lent a special importance to their awareness of the dangers of government. Men had undoubtedly known that government was dangerous in times past, much
as they had known that lightning was dangerous. But if there was nothing much to be done about them there was no need to keep these dangers at the forefront of consciousness. De-mystification changed that.

The documents of the era of the founding of the United States abound with references to the dangers of government. John Dickinson, in his objections to British taxes, provided a primer in how governments gradually increase their powers and become despotic. He said:

Indeed nations, in general, are not apt to think until they feel; and therefore nations in general have lost their liberty: For as violations of the rights of the governed, are commonly not only specious, but small at the beginning, they spread over the multitude in such a manner, as to touch individuals but slightly. Thus they are disregarded. . . . They regularly increase the first injuries, till at length the inattentive people are compelled to perceive the heaviness of their burdens—They begin to complain and inquire—but too late. They find their oppressors so strengthened by success, and themselves so entangled in examples of express authority on the part of their rulers, and of tacit recognition on their own part, that they are quite confounded. . . .

From these reflections I conclude that every free state should incessantly watch, and instantly take alarm on any addition being made to the power exercised over them. Innumerable instances might be produced to show, from what slight beginnings the most extensive consequences have flowed. . . .

Benjamin Franklin pointed out in 1785 how governments may become instruments of injustice. "I see, in the last newspaper from London," he declared, "that a Woman is capitally convicted at the Old Bailey, for privately stealing out of a Shop some Gauze, value 14 Shillings and threepence; is there any Proportion between the Injury done by a Theft . . . , and the Punishment of a human Creature, by Death, on a Gibbet?" Franklin ruminated on this injustice to one of its own citizens by the British government and moved to the conclusion that it was of a piece with the behavior of the government generally. He gave the following instances of mistreatment of other peoples and nations: "View the long-persisted-in, unjust monopolizing Treatment of Ireland. . . . View the plundering Government exercis'd by your Merchants in the Indies, the confiscating War made upon the American colonies; and, to say nothing of those upon France and Spain. . . ." He concluded with these stirring words:

Justice is as strictly due between neighbour Nations as between neighbour Citizens. A Highwayman is as much a Robber when he plunders in a Gang as when single; and a Nation that makes an unjust War, is only a great Gang. . . .

The danger of government was palpable to Thomas Jefferson, and none exceeded him in their fears of
it and desire to see it restrained. He even declared that "The natural progress of things is for liberty to yield and government to gain ground." Of the governments of Europe in his time, he said that "under pretence of governing they have divided their nations into two classes, wolves and sheep." Further, "to constrain the brute force of the people, they deem it necessary to keep them down by hard labor, poverty, and ignorance; and to take from them, as from bees, so much of their earnings as that unremitting labor shall be necessary to obtain a sufficient surplus barely to sustain a scanty and miserable life. And these earnings they apply to maintain their privileged orders in splendor and idleness. . . ."

**Fear of Conscription**

John Adams expressed his fears about military conscription to Thomas Jefferson in a letter in 1777. Jefferson had written him that Virginia had been able to fill its quota of troops without resort to a draft. Adams could but "rejoice to learn that your Battalions, were so far fill'd, as to render a Draught from the Militia, unnecessary. It is a dangerous Measure, and only to be adopted in great Extremities, even by popular Governments." He noted that monarchs often utilized the draft with "no Interest of their own nor any other object in View, than the Gratification of the Avarice, Ambition, Envy, Revenge, or Vanity of a Single Tyrant."

Richard Henry Lee, in his *Letters from the Federal Farmer*, expressed agreement with John Adams' view "that unbridled passions produce the same effect, whether in a king, nobility, or a mob. The experience of all mankind has proved the prevalence of a disposition to use power wantonly. It is therefore as necessary to defend an individual against the majority in a republick as against the king in a monarchy."

The dangers of government were rehearsed in full measure in the Constitutional Convention. For example, Rufus King of Massachusetts objected to setting a date for Congress to meet each year because he "could not think there would be a necessity for a meeting every year. A great vice in our system was that of legislating too much." Roger Sherman of Connecticut wanted to make the President absolutely dependent on Congress because "An independence of the Executive . . . was in his opinion the very essence of tyranny. . . ." Benjamin Franklin opposed salaries for those in the executive branch because, he said, "there are two passions which have a powerful influence on the affairs of men. These are ambition and avarice; the love of power, and the love of money. Separately each of these has great force in prompting men to
action; but when united in view of the same object, they have in many minds the most violent effects. Place before the eyes of such men, a post of honour that shall be at the same time a place of profit, and they will move heaven and earth to obtain it.”

Majority Rule and Tyranny

James Madison pointed up the dangers of unrestricted majority rule: “In all cases where a majority are united by a common interest or passion, the rights of the minority are in danger.” Among others, he gave the following examples:

We have seen the mere distinction of colour made... a ground of the most oppressive dominion ever exercised by man over man. ... Debtors have defrauded their creditors. The landed interest has borne hard on the mercantile interest. The Holders of one species of property have thrown a disproportion of taxes on the holders of another species. The lesson we are to draw from the whole is that where a majority are united by a common sentiment, and have an opportunity, the rights of the minor party become insecure.

Some feared that the Congress might be tyrannical. For example, Gouverneur Morris of Pennsylvania thought that “It is necessary then that the Executive Magistrate should be the guardian of the people, even of the lower classes, against Legislative tyranny, against the Great & wealthy who in the course of things will necessarily compose the Legislative body.” On the other hand, Madison pointed out the need for “defending the Community against the incapacity, negligence or perfidy of the chief Magistrate [President]. The limitation of the period of his service, was not a sufficient security. He might lose his capacity after his appointment. He might pervert his administration into a scheme of peculation or oppression. He might betray his trust to foreign powers.”

Beyond all the particular dangers which this one or that one saw in one branch or another or in particular powers there was a general danger which a goodly number saw. We might well call it the danger of high voltage. They often referred to it as the danger of centralized and consolidated government, the danger of a government remote from the people with large powers, the peril of such powers for the liberties of the people. Patrick Henry described it this way in the debates over ratification in the Virginia convention:

... Had the delegates who were sent to Philadelphia a power to propose a consolidated government...? Here is a resolution as radical as that which separated us from Great Britain. It is radical in this...; our rights and privileges are endangered, and the sovereignty of the states will be relinquished... The rights of conscience, trial by jury, liberty of the press, all pretensions to human rights
and privileges, are rendered insecure . . . A number of characters, of the greatest eminence in this country object to this government for its consolidating tendency. . . . The government will operate like an ambuscade. It will destroy the state governments, and swallow the liberties of the people. 14

**For a Bill of Rights**

The overarching danger which many perceived in the proposed government, then, was that the liberties of the people were not secured against it. Thomas Jefferson asserted his view of what was wanted succinctly: "Let me add that a bill of rights is what the people are entitled to against every government, general or particular, and what no just government should refuse. . . ."15

To those who argued that no powers were granted in the Constitution to invade the rights of the people, Patrick Henry gave this ringing rebuttal: "Mr. Chairman, the necessity of a bill of rights appears to me to be greater in this government than ever it was in any government before. I have observed already that the sense of European nations, and particularly Great Britain, is against the construction of rights being retained which are not expressly relinquished. I repeat, that all nations have adopted the construction, that all rights not expressly and unequivocally reserved to the people, are impliedly and incidentally relinquished to rulers, as necessarily in-

If you intend to reserve your unalienable rights, you must have the most express stipulation; for, if implication be allowed, you are ousted of those rights."16

Our complex Constitution is the product of this awareness of the danger of government. The men who devised it, debated its features, and who demanded protection from the government, were aware that every line extending from it was hot, so to speak. It was a conduit for power. It was a potential source of oppression, because it carried the power of government. To guard against its concentration, they separated the power into three branches: legislative, executive, and judicial. The powers of government were dispersed between the state and Federal governments. Some powers were denied to the states. Other powers were denied to the general government. The branches of government were made dependent upon one another in various ways, so as to discourage unilateral action. Basic rights were reserved to the people in a Bill of Rights and by provisions in the original Constitution. The government was based upon popular consent, yet that, too, was filtered so as to guard against precipitate action spurred by popular passions.

In short, and to return to the parallel with electricity, the power of government was insulated, grounded,
transformed, and its use restricted, so to speak. Of course, the power of government is always potentially dangerous, as is that within electricity. Protections against these dangers always must be arrived at by compromises, compromises which will allow the power to flow with a minimum of danger to the beneficiaries. Something like that was attempted in the United States Constitution.

Since the time of the making of the Constitution the available knowledge about electricity has increased manyfold. Great generators have been devised to produce it in vast quantities. It has been transmitted over considerable distances in high tension wires, and is now distributed to virtually every home and place of business in the United States. We are so used to its being applied in so many ways for our convenience that we tend to take it for granted. Even so, except for occasional carelessness, we have not lost sight of the fact that it is dangerous and must be handled, if at all, with great care.

By contrast, there is much evidence that our knowledge of government, and particularly its dangers, is inferior to that of the Founding Fathers. We have, if anything, retrogressed in our understanding of its nature. A good case could be made that as the de-mystification of electricity has proceeded a re-mystification of government has occurred. Although new evidence of the dangers of government has accumulated in vast quantities in this century, as yet, it appears to have made little impact on the public consciousness.

**Shifting the Blame**

A part of the explanation for this lies in differences between government and electricity. Damages from electricity are readily attributed to properties inherent in electricity. By contrast, government always acts through human agents, and the blame for any harm done can be laid on them. Thus, policemen, jailors, judges, and other agents of government may abuse their powers. In such cases, it would be an error to blame their actions on government itself. But even the abuses heaped on peoples by dictators, who originated and caused the acts to be executed, have frequently been attributed to evil men rather than to unrestrained government. The differences can be sorted out usually, but it is a work of the imagination and intellect of a fairly high order.

There is this difference, too. Those who are made to suffer inconveniences and disabilities by law enforcement officials are usually blamed for their own difficulties. That is, they are held morally responsible socially for having come to the unfavorable attention of the government. True, a person who
touches an exposed electric wire and is injured may have been negligent or careless, but his behavior is not reckoned to be morally reprehensible. Thus, the tendency to attribute moral culpability to the person harmed by government, however appropriate it may be otherwise, places the blame for damage at an even further remove from government itself.

Such differences do tend to obscure the dangers of government, but they do not explain the re-mystification of government. Much of this has been more or less deliberately accomplished. The notion has been spread that the way to make government benign so far as danger is concerned and wholly beneficial is by making it democratic. A pseudo religion of democracy has been promulgated in the schools and spread throughout the society. The people are good, according to this belief, and when the government becomes the agent of their will it is purified of all its dross. The powers of government have been applied ever more broadly and many steps taken to loosen the restraints upon it under the animus of democracy. Democracy has been equated with equality, and the power of government has been intruded into every realm in order to redistribute goods and take those actions which will move us in the direction of equality. The only danger, according to this view, is that government should lose its democratic character.

For more than a generation now students in schools have been inculcated with the notion of benign and benevolent democratic government. Their textbooks have hymned the praises of government activity in every field. Here is an example of the sort of thing they have often been assigned to read:

To stimulate economic growth, an expanded public-housing program is advocated by those who believe that the greatest amount of employment at the smallest cost to the taxpayer can be obtained through public housing. One dollar spent for housing subsidies by the federal government will produce about forty dollars' worth of new construction. Immediate large-scale employment would be provided. Private enterprise would be stimulated to employ more people. Government agencies would direct the housing program while allowing local participation and responsibility. Standards of health and national morale would be increased by this type of public works. While helping to solve the problem of unemployment, it would wipe out slums and provide livable homes for those families.

It would appear from the above that government is not only benign and
benevolent but also capable of working miracles—"One dollar spent for housing subsidies by the federal government will produce about forty dollars' worth of new construction." Such claims are truly redolent of a mystique of government.

Of course, there have been those who never succumbed to the notion of benign and benevolent government. There have been those, too, who have called attention to the fact that government is force, and that its use is always pregnant with dangers. But for many years theirs were voices crying in the wilderness. There are some signs today of a reviving awareness of the dangers of government. If it should take hold and spread we might eventually advance to the level of understanding of the matter which many of the Founding Fathers had. If that takes place, it would then be possible to explain the dangers of electricity by comparing them to government. "Danger—High Voltage" signs might be attached to government buildings as well as to transformer stations.

**FOOTNOTES**

4Ibid., p. 65.
5Ibid., p. 74.
9Ibid., p. 48.
10Ibid., p. 53.
11Ibid., pp. 76-77.
12Ibid., pp. 322-23.
13Ibid., p. 332.
16Tyler, *op. cit.*, p. 290.
The Benefits of Trade

Free trade affords benefits often overlooked. At the heart of free trade lies the law of comparative cost: an individual stands to gain by concentrating his efforts and exchanging with others rather than trying to produce all types of goods. This is why individuals of various abilities are able to trade peacefully for mutual gain.

For example, Jones lives next door to Smith. They have similar lawns and gardens. Jones mows his lawn in two hours and hoes his garden in one. Smith mows his lawn in three hours and hoes his garden in four. Thus, each Saturday Jones spends three hours working in his yard while Smith spends seven hours.

One Saturday Jones, observing these differences, offers to hoe Smith’s garden if Smith will mow Jones' lawn. Smith agrees and both find they benefit from this exchange. Jones now works only two hours instead of three, while Smith works only six instead of seven. The same results are accomplished, but each man gains one hour of free time.

When Smith and Jones each focuses on his more productive skills, they are able to cooperate peacefully for mutual benefit. Each receives a free hour in his day he would not otherwise have had. Depending on their time preferences, the men may consume their extra time in enjoyment or use it to engage in further production and exchange. Smith may go for a walk, enjoy his family, or watch television while Jones may hoe another garden for more benefits. The goal is not necessarily to
accumulate goods and services, but to enlarge the opportunity to engage in the peaceful activities of their choice (which often requires goods and services).

This example of comparative cost also shows that the unskilled, as well as the skilled, can benefit from free trade. Jones was the more skillful at both mowing and hoeing, yet Smith could still offer his aid to Jones for mutual benefit. Smith's lack of skill as a mower and hoer didn't make him subservient to Jones; both were dependent on the other to get the work done and acquire their free time. It is true that Smith would be working several hours after Jones was done, but both were better off after the exchange than before. Any attempt to force Jones to help Smith would have destroyed the basis for future exchange. This would have made it more beneficial for Jones to return to his self-sufficient lifestyle, leaving Smith once again with his long workday. Let the exchange take place free from coercion and both parties will gain.

Free trade also promotes a greater awareness of the needs of others. When Smith and Jones were self-sufficient, there was no need for communication or understanding; each was an island unto himself. However, that first Saturday when Jones was looking for a way to help himself by trading with Smith, he had to make a conscious effort to understand Smith's needs. As Jones continues to enrich himself by trading with others in society, he will become more useful to others, enhancing his cooperative ability. Smith, likewise, will grow.

As they become more aware of the needs of others and more dependent on trade for their higher standard of living, they will also tend to behave more peacefully toward their fellow men. When Smith and Jones were self-sufficient, it was of little concern to either of them what happened to the other. Now that they are exchanging labor and thus enjoying a higher standard of living, injuring one would also hurt the other. Just as peaceful exchange brought benefits to both, violence would bring injury to both. Thus free trade encourages peaceful cooperation and discourages violence.

The final lesson to be gleaned from this example is the importance of freedom for the increase and enjoyment of wealth. Obviously, had Smith and Jones been prevented from exchanging their services there would have been no resulting benefits. Nor can anyone else make exchanges for them. Only they know if an exchange will be beneficial since value and wealth are matters of personal judgment. What if Smith had enjoyed hoeing his garden more than anything else? It would have been wrong to force him into the exchange "for his own good." Both his
freedom and his satisfaction would have been diminished, resulting in loss rather than gain. Mutual benefits can only occur when individuals are left free to exchange according to their own values.

These often overlooked benefits of free trade remind us: individuals can cooperate for their mutual gain; the unskilled, as well as the skilled, have the opportunity to advance; free trade promotes greater awareness of the needs of others; and freedom is necessary for this whole process of trading for mutual benefit . . . the ends of man not necessarily being in the pile of goods and services he accumulates, but in the opportunity to engage in the peaceful activity of his choice.

No Restrictions

Free trade, as I would define it, can only exist when there are no restrictions on either side. Therefore, it is absurd to think of its existing in the world today with practically all countries operating under some degree of socialism. But, I would argue that it is to our own advantage to remove our restrictions, then trade as best we can under the restrictions imposed by other nations. It would be far from ideal, but their restrictions are basically their responsibility and not ours. My entire argument is based on what I think would be best for our own citizens, as producers and consumers, and I am not too much concerned with policies of other nations, however foolish I may think they are. Perhaps I should say I am concerned, but it is not within my province to try to force their reform . . .

I believe that the principle most commonly lost sight of in our discussions of trade is that consumption is the sole purpose of production. We sometimes tend to think that the preservation of an industry or a particular firm or a man's job is the important thing to preserve. This leads to all sorts of uneconomic measures which adversely affect the consumer—the king.

W.M. CURTISS, "Removing Our Trade Barriers"
One of the issues currently finding favor with the media is the fear that America's farm land is disappearing at a perilous rate due to urban sprawl. Sources as varied as *U.S. News & World Report*, *Saturday Review*, and NBC News, are reporting in vivid detail that four to twelve square miles of the nation's prime agricultural land are being lost every day. A booklet entitled *Where Have the Farm Lands Gone?* by the Federally funded National Agricultural Lands Study tells in words and pictures how Florida will lose virtually all of its unique and prime farm lands by the turn of the century if present trends continue. Farmers in New Hampshire and Rhode Island should be alarmed to learn that all of their farm land will also disappear in the next 20 years.

Those who are caught up in this panic argue strongly that the country's only salvation is a comprehensive effort by local governments, aided by state and Federal agencies, to preserve resource lands through land use plans. R. Neil Sampson, Executive Vice President of the National Association of Conservation Districts, goes even further to advocate a new "land ethic" brought about by "education and social evolution to change the way Americans think about land."

The discussion of a decreasing cropland inventory in particular and comprehensive land use planning in general often begins with a misunderstanding of economic principles and agricultural statistics. Land is a productive resource and as such is
also a commodity, subject as any other to the same free market pressures of supply and demand.

Before delving further into the economics of land use, it is worthwhile to debunk some of the statistics used to make the claim that prime agricultural land is disappearing. The figure quoted most often is that three million acres of farm land each year (or 12 square miles each day) are being lost. This assertion is derived from a study published in 1977 by the U.S. Department of Agriculture’s Soil Conservation Service which found that during the eight years between 1967 and 1975, 25 million acres of rural land (not just farm land) had been converted to other uses. Only 700,000 acres of actual cropland, the agency concluded, went out of use annually. It is interesting to note the composition of this yearly three-million-acre conversion. Only 900,000 acres went into urban and transportation use; 800,000 acres were abandoned because of low soil fertility or a terrain unsuited for efficient use of modern machinery; one million acres were converted into additional wilderness recreation areas and wildlife refuges; and 300,000 acres were utilized for reservoirs and flood control.

The Soil Conservation Service’s results have not found universal acceptance by the scientific community. The Regional Science Research Institute, for example, attempted to confirm the estimates by using independent estimates of rural land conversion. Their findings showed a substantially lower conversion rate since 1970 than that projected by SCS. In addition, there is the problem of the system by which SCS defines agricultural land. The Land Capability System had its roots in the Mid-west and Great Plains area following the “Dust Bowl” days of the 1930s. Developed to point out the hazards and limitations of using soil on a long term basis for cultivated crops, its main purpose was to help prevent soil losses which affect productivity. The system basically shows degree of hazard or limitation, but does not meaningfully address the productivity of different soils which is so important.

Creating Cropland

Those who raise the alarm about the loss of farmland always seem to ignore the other side of the issue. There is a large amount of land converted to agricultural use through irrigation or reclamation of previously unsuitable areas. In various parts of the United States cropland is being created at the rate of 1.25 million acres annually, resulting in an actual net gain. The increase can be seen in the latest Census of Agriculture conducted by the U.S. Department of Commerce showing that total cropland jumped from 441.9
million acres in 1974 to 460.1 million acres in 1978. Even the essentially anti-growth Global 2000 Report to the President expected this trend to continue into the next century when 513.8 million acres of arable land is projected to be in use. The statement by the National Agricultural Lands Study that Florida, New Hampshire, and Rhode Island will lose all their farm land in the next 20 years is contrasted with the fact as reported by the Census of Agriculture that the total number of farms have increased in Florida by 3.4% and by 5.6% for the entire New England region over the last four years.

The reasons for these gains bring the discussion back to economics. While many believe land to be a “special” resource requiring regulation to be preserved, in reality it is no different from any other resource subject to the creative genius of man. A relevant point made by Julian Simon, professor of economics and business administration at the University of Illinois, is that contrary to the popular conception, much of the valuable corn and soybean acreage of Illinois was once a “malarial, water-logged, unproductive swamp.” The labor of pioneer farmers, motivated by a demand for their product, was responsible for transforming a useless bog into a fertile garden feeding not only America, but the world as well.

**Use Allocated by Price**

Very simply, in a free market system of allocation, the use of land is determined by whatever brings the highest value. It would be contrary to rational thought to put any resource to a use other than that for which it is most desired. To do so would be as foolish as relegating a prize race horse to pull a plow.

Some may grumble about seeing condominiums occupy soil from which green rows of crops previously grew, but this is an indication that the land is or will be more valuable to the developer than to the farmer. If it were not, the farmer would not wish to sell and the developer could not afford to buy. A series of such exchanges will reduce the supply of available farm land and, in turn, activate other market mechanisms resulting in an increase of its price. The higher price will enable the farmer to resist future offers from developers, give incentive to take the necessary measures to put other land into production, and spur technological and scientific advances.

There are statistics to confirm this chain of events. According to Stanley Miles, agricultural economist at Oregon State University, between 1950 and 1980 production of food and feed grain nationally more than doubled while using less land. Parallel to this increase in yield is the fact that even adjusted for inflation,
the price of farm land more than tripled in many parts of the country from 1955 to 1977.

As a land use study group in Oregon recently concluded, "far from being random in the establishment of land use patterns, the market has performed with unsurpassed excellence by any standard of production or efficiency." This smoothly flowing efficiency can be quickly interrupted by the imposition of centralized planning and controls by government. According to Ernest Eber in Urban Planning in Transition, central planning is "based on the concept that the utilization and allocation of all resources would benefit from the establishment of deliberate goals by public authority to be achieved through systematic control of development by governmental agencies."

**Paying for Mistakes**

Whereas the market is constantly changing to achieve the highest value for land, the basic feature of the centralized planning system is to rely on a group of "planners" to determine the greatest need now and into the future for an area and to fit that need so as to conform with other surrounding property. The underlying assumption is that accurate information is available to produce a reliable land use plan which will be workable for many years to come. Public sector planners, however, do not have the same incentives of the private investor to attain a high degree of accuracy. If an entrepreneur makes a faulty judgment he will have to bear the full weight of his error, but the miscalculations of the planner are dispersed among all members of society. These miscalculations are usually translated into costs, and a unique set of costs is generated by government intervention in the free market allocation of land.

The State of Oregon is generally recognized to have the most comprehensive land use planning laws in the nation. The costs of these regulations, created by the state legislature in 1973, are now becoming evident. The Brookings Institution has projected a massive housing shortage in the state due to planning requirements that all future development must be confined within urban growth boundaries. Anthony Downs, a senior fellow at the Institution, has stated that Oregon's style of planning creates a "quasi-monopoly" for those who hold vacant land inside such a boundary. The result is a reduction of competition in the housing market, producing an increase in prices. "The only way to reduce cost is to increase the total body of housing units," observed Downs who predicted that the great demand for single-family suburban type dwellings would continue well into the 1980s as couples born dur-
ing the baby boom of 1954–64 come of age. To corroborate this theory further, a recent comprehensive survey of literature on the impacts of government land use regulations by the Council of Planning Librarians concluded that "increased land use and environmental regulations have contributed to the rapid escalation of housing costs."

**Considering the Costs of Options Curtailed**

By definition, any discussion of ways to stop the conversion of farm land must reduce the power of a farmer to determine the fate of his own property and this must also be considered a cost. Although many farmers want to remain on the land, they also want to be free to sell their property at a handsome profit. One authority close to the subject has been quoted as saying, "All too often a farmer's land is his hospitalization plan, insurance policy, child's college tuition, or personal retirement fund. Consequently, farmers are concerned about compensation when land use controls are established that they perceive as limiting their options, including sale or development."

Limitations imposed by the California Coastal Commission, which also seeks to preserve agricultural land, have actually forced some farmers out of business. In the past when a bad crop made it difficult to repay debts, solvency could be maintained by selling a few acres of land. Now, however, regulations forbid the parcelization of cropland and force the farmer to sell all his property or go bankrupt.

A Supreme Court decision earlier this year serves notice to government bodies that extreme care should be exercised when enacting land use regulations which limit a property owner's rights. The case of San Diego Gas and Electric Company vs. City of San Diego, in which the utility brought suit against the city for changing 39 acres from an industrial zone to agricultural, saw the landowner claim that he had been deprived of the entire beneficial use of his property. A decision was withheld because of the technical error of a lower court, but Justice Brennan's dissenting opinion (joined in by Justices Stewart, Marshall, and Powell) concluded that downzoning or other forms of prohibitory regulation which deprive an owner of all or most of the beneficial use of his property could constitute an illegal taking even if the deprivation was only temporary. In such cases, the four justices ruled, compensation must be made. The majority opinion itself indicates that there may be other members of the court who agree that excessive controls can constitute taking when it ended by saying, "We are frank to say that the Federal Constitutional aspects of that
issue (taking by regulation) are not to be cast aside lightly."

Several northeastern states have tried to solve the problem of compensating landowners by purchasing development rights (PDR). The purchase of development rights to a property is equivalent to acquiring an easement with the value being defined as the difference between the market value of the land and its value solely for agricultural purposes. There are two basic approaches to PDR programs: to acquire them directly through purchase or donation or to purchase the property in full fee, impose restrictions on its development, then sell or lease the land to a new user, subject to those restrictions. The one drawback to PDR programs is their high cost, a serious obstacle in an era of budget constraints. New Jersey abandoned its efforts after it became clear that significant amounts of farm land could not be purchased within a $5 million budget. New York’s Suffolk County has to date spent $10 million on development rights for 52 farms totaling 3,300 acres.

Those who advocate government intervention to stop the imagined loss of farm land threaten to throw into confusion the very system that has enabled American agriculture to attain its present degree of excellence. Instead of placing the future of the nation’s farm land in the hands of publicly employed planners, responsibility should be left with the individuals who know the land and its potential best. We have only to look to the Soviet Union for an example of what happens when central planning replaces farmers as stewards of the land. By law, no Soviet citizen can farm a private plot larger than one acre, but because of the gross inefficiency of the large collectives, private farmers working only 1.4% of the country’s arable land produce 61% of its potatoes, 34% of the eggs, and 29% of the meat, milk, and vegetable output.

The theory expounded by Adam Smith over 200 years ago that the individual seeking his own economic benefit will also benefit society as a whole is just as applicable today to the farmer and the use of his land.

IDEAS ON LIBERTY

Sir William Blackstone

Every wanton and causeless restraint of the will of the subject, whether practised by a monarch, a nobility, or a popular assembly, is a degree of tyranny.
I first knew Anne Wortham as the King Features Syndicate librarian. She was competent and hard-working at her job, but occasionally she would take a minute to talk about our mutual concern for Leonard Read's freedom philosophy. She is a black, but race, as such, seemed to be the least of her preoccupations. She was confident in her own abilities, and certain that she was going to make it in the graduate school world which she proposed to enter.

Now, several years after her return to the academic scene, she has come forward with a book, The Other Side of Racism: A Philosophical Study of Black Race Consciousness (Ohio State University Press, 353 pp., $12.50) that has important libertarian implications. She approaches her study by asking herself certain basic questions such as "Am I free of government coercion?" and "Am I free of interference from my neighbor?" But most importantly she wants to be free of "irrational ideas and unjust actions" against her own human nature.

The result of her questioning will please such blacks as Thomas Sowell and Walter Williams, who are among the best of our free market—and free society—economists. But she will hardly find favor with those blacks who are willing to substitute group-esteem for self-esteem in their quest to make waves in a numerically white society.

It is not that Anne Wortham doesn't accept the anti-segregation aim of the Civil Rights Act of 1964 as a positive good. The right of a black to demand equality of service
from State and municipally owned schools, conveyances and tax-supported public facilities seems to her to be incontestable. But, like Senator Barry Goldwater, she boggles at the idea that government should force private merchants to open their premises to any and all comers. The natural right of an individual to dispose of his property as he sees fit must, she insists, be protected even if it involves letting morally delinquent characters behave irrationally in their dealings with their fellow men.

As a libertarian Anne Wortham finds herself in the uncomfortable position of defending Lester Maddox, the owner of the Pickrick Restaurant in Atlanta, Georgia, who armed himself with a pistol and pick handle and ordered blacks to get off his property. She dislikes Maddox, but, as she puts it, “a businessman who cannot serve whom he pleases is not a businessman but a slave.” Her preferred way of dealing with the Maddoxes in our society would be to persuade people to boycott private discriminators and to set up businesses to compete with them.

**A Wrong Turn**

The freedom movement in Anne Wortham’s opinion took a wrong turn when it deserted the individual to focus on the demand for special treatment for ethnic groups. People who feel compelled to merge their identities in collectivities can never in her estimation achieve self-esteem. Martin Luther King did not go wrong in asking people to love one another, but it is in the nature of love that it cannot be imposed at group behest. The post-King history of the freedom movement has been filled in all too many instances with attempts to correct the wrongs of racism with still more racism. “Affirmative action,” which leads to quotas, is simply discrimination in reverse. Preferential hiring is still preferential hiring when it is based on color instead of on one’s kinship to the boss or on one’s age category, sex or religious affiliation.

In her analysis of the post-King movement Anne Wortham identifies five different types who have led blacks away from the idea of achieving a self-esteem that is “beyond racism.” There is the conventional integrationist who simply wants to conform. There is the power-seeking nationalist who believes in a group-imposed separatism. There is the spiritual separatist with the “black is beautiful” mentality that denies the possibility that whites will ever understand true spiritual superiority. There is the independent militant who says “if you can’t lick them, destroy their world.” And there is the ambivalent appeaser who says to himself, “if you can’t join either group, don’t let them know it.”

In describing her five types Anne
Wortham cuts loose with some beautifully direct writing that lifts her book and propels the whole argument forward. Sociological lingo is forgotten. We see clearly the wrongs that are being done in the name of Affirmative Action. Anne Wortham quotes an illustration offered by Thomas Sowell of a young black woman with an IQ of 142 and grades to match who was told that she would have been eligible for financial aid in law school if only her test scores had been lower.

The record of Affirmative Action has been horrible. Thousands of black students who score in the top half of standard tests are condemned to attend the lowest level of southern Negro colleges where other blacks without academic qualifications make the top-level universities and are maneuvered through at a terrific cost to educational integrity.

**The Wortham Declaration of Independence**

In her own “statement of challenge” Anne Wortham objects to all “Negro and white egalitarians who would enslave us with ethnic mysticism and welfare statism.” She does not want the result of any black action to be “equal” to everyone else’s. She does not want private doors opened for her by the force of government intervention. She does not want a guaranteed livelihood paid for by the expropriated resources of others. She is against “assistance” given as blackmail paid to silence a militant’s gun to prevent a looter’s rampage. She has no desire to attend a university she is not qualified to enter, nor does she want “preferential treatment” in order to be spared the risks of competition. All she wants is to be free.

The Wortham Declaration of Independence will provoke many an argument. Anne Wortham is quite aware of the power of “anticoncepts” such as “black mind,” “blackness,” “black awareness,” “black pride” and “black identity.” They have become part of the conventional language, and are kept alive by politicians. But “anticoncepts” that rise from the “philosophical swamp of subjectivism” have no real validity. Anne Wortham asks some simple questions, such as: “What should determine pride in a person—any person—his biocultural ancestry or his achievements? What should determine his identity—his genetic endowment or the character and personality he creates?” Questions of this type answer themselves.

Quoting Brewton Berry, Anne Wortham says “we do not ‘solve’ race problems—we move in directions.” Her book makes its own magnificent move—and in transcending “race” it strikes a real blow for individual human freedom.
THE FAIRMONT PAPERS (Black Alternatives Conference)
by Thomas Sowell and others
(Institute for Contemporary Studies, 260 California St., San Francisco, Calif. 94111)
174 pages $5.95 paperback

Reviewed by Allan C. Brownfeld

One of the most interesting developments on the nation's intellectual scene is the turning away of many black Americans from the welfare state philosophy which so many embraced in the 1960s and early 1970s.

Black academicians and others have come to see that government intervention in the economy, rather than pointing in the direction of a solution to the nation's racial problems has, instead, locked many black Americans into a cycle of poverty. The best way to help minorities to advance, they argue, is through an expanding economy and an end to government regulations which make it difficult for those at the bottom to enter the market.

In December, 1980, the Institute for Contemporary Studies, a California-based public policy institution, sponsored a "Black Alternatives Conference" which brought together leading black conservatives, a number of white academicians, and representatives of a broad spectrum of black opinion. The papers presented at that conference, plus the ensuing discussions, make up the present volume.

In many respects, this is an historic document. It marks, at last, a break on the part of a significant number of prominent black Americans with the liberal orthodoxy.

Thomas Sowell of the Hoover Institute writes that, "One of the things we need to focus on are facts about results—not rhetoric about intentions. We need to look not at the noble preambles of legislation but at the incentives created in that legislation. Very often, legislation intended to help the disadvantaged in fact pays people to stay disadvantaged and penalizes them to the extent that they make an effort to rise from disadvantage . . . The issue is not that the government gives too much help to the poor. The problem is that the government creates too much harm for the poor."

Sowell notes that, "... the greatest single loss is that the minimum wage laws promoted by labor unions protect their members by pricing black young people out of the market."

Professor Walter Williams, a Temple University economist, cites another example of a government policy which impedes black economic progress—the licensing provisions of the Interstate Commerce Commission. Jim Ward of Omaha, Nebraska, a black trucker bid the lowest price on a contract to ship
household goods of air force personnel. He was not awarded that contract, however, because he did not have an ICC license to move goods across state lines. The contract was awarded to another man who bid $80,000 more. Dr. Williams observes: "Jim Ward did not need any 'equal opportunity' program; he did not need Small Business Administration loans. What he needed was to have government get off his back."

Black attorney Maria Johnson, discussing the negative effect of rent control, described the case of Washington, D.C. In 1974, in the first four months of the year rent control was enacted, there were 5,247 building permits issued for multi-family dwellings. In 1975 in the same four-month period one year after the enactment of rent-control, 375 building permits were issued—almost 5,000 fewer. Miss Johnson declares: "Rent control is the classic example of treating symptoms. The cities are dying inside. The disease is a shortage... of housing that is affordable to both low-income and moderate-income tenants... Rent control... does not help poor people; it does not help black people... under rent control you have a decrease in the housing supply."

Professor Martin Kilson of Harvard, who is black, expressed what seemed to be the consensus of black participants in the meeting when he said: "... the left/liberal axis no longer has—if it ever did have—a monopoly on effective policy for black needs... It is now clear that there is too high a cost associated with black policy isolation from conservative initiatives in American political life... New coalitions are required by blacks."

The best way to bring minorities into the mainstream of American life is to remove politically sanctioned barriers that restrict market entry, thus permitting a genuinely free economy to flourish.

THE AMERICAN DEMOCRAT
by James Fenimore Cooper
with an introduction by H. L. Mencken
(LibertyClassics, 7440 North Shadeland, Indianapolis, Indiana 46250)
252 pages • $9.00 cloth; $4.00 paperback

Reviewed by Holmes Alexander

Cooper's treatise, happily made available with an introduction by H. L. Mencken, amounts to being the 86th Federalist Paper. Thus we now have expert analyses of the American Constitution with 85 essays in the 18th century by Hamilton, Madison and Jay; Cooper's 46 brisk chapters in the early 19th century (1838) and Mencken's 11-page commentary in the 20th century (1931). Our cup runneth over.

Cooper (1789–1851) looks at the American experiment with the ad-
vantage of hindsight and consular service in Europe (neither Hamilton nor Madison was ever abroad) and he sees that a number of the Founders were justified in their apprehension that the democratic republic would soon become a republican-type democracy.

Mencken finds this metamorphosis a near-disaster, with demagoguery riding higher than monarchy ever did, and boobosity as the national culture; but Cooper is more measured in his polemics against the mythology of equality. This bogus doctrine, of course, was nothing but a war-whoop of the Revolution. Cooper notes that the constitutional convention treated it as an absurd unmentionable. Nonetheless, politicians climb by flattering the people, just as courtiers butter up the kingly establishment; the common man, the epitome of mediocrity, soon dominated national affairs and has done so ever since.

While Cooper, a Yale graduate, naval historian and top man of American letters deplored the leveling effect of democracy's downgrading of intellectual excellence, he thought that democracy is the best of the worst, since all forms of government yet devised are tyrannical to some extent and hostile to individual liberty.

But Cooper goes far past any repetition of this established truism in exploring the short-of-perfection governance of man. He says that the United States is best styled as the Union. It comprises constituencies rather than people or population, and forms a confederation of communities which ideally merge into the American commonwealth or commonweal, the "general welfare" clause in its present application an example of how democracy debauches the constitutional intent.

Liberty is no more of an absolute than equality, but Cooper finds that the country is well-protected against majority rule and mob law, since minority opinion can always get a hearing through the right of petition, jury trial and habeas corpus. He dwells, as does no other commentator known to me, on religion as a factor of self-rule, seeing the American family ("honor thy father and mother") as our basic unit and the Tenth Commandment ("thou shalt not covet") as a wholesome inhibition against mankind's greedy nature which government has a duty to control.

Altogether, Cooper comes forth as the voice of common sense. There is, he writes, "no good without alloy. It is idle therefore to expect a system that shall exhibit faultlessness or perfection." All that government can achieve "is to remove useless obstacles and permit merit to be the artisan of its own fortune . . ."

None of the Founders said it better than that.
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Wage and price controls in a market economy are, according to Schultz and Dam, like an organism: they pass inevitably, and quickly, through a "life cycle." Perhaps a more instructive analogy is the military diversionary tactic that sends a platoon to mount a surprise attack on the flank of an advancing enemy division. This preposterous little counteroffensive may throw the enemy into momentary confusion, force him to divert men and equipment to other sectors, even compel him to withdraw temporarily from certain occupied territories. But none of this can last. Unless a genuinely powerful force is brought forward, the enemy will regroup and overrun the audacious platoon's position.

On October 24, 1978, President Carter ordered his platoon, the Council on Wage and Price Stability (COWPS), to attack the advancing wage and price structure of the American economy. Sure enough, a certain amount of market confusion, price distortion, and resource reallocation ensued. Of course, the President's diversionary tactic, the "voluntary" wage-price guidelines, did not halt what everyone was calling Public Enemy No. 1. In fact, inflation accelerated. After rising 9 percent in 1978 and 13 percent in 1979, the consumer price index (CPI) zoomed upward at an annual rate of 18 percent during the first quarter of 1980 before subsiding to somewhat lower double-digit rates. But while they had no effect on accelerating inflation, the guidelines did have other effects during their first year. They imposed substantial reporting costs on hundreds of large firms; disrupted several important collective bargaining negotiations, twice helping to bring about costly and disruptive strikes; induced distortions in the economy's structure of relative prices, with consequent artificial shortages of various goods.
and services and reductions in overall economic efficiency and consumer welfare; and exacerbated a variety of social conflicts.  

New Rules, National Accord, and Pay Committee

In the summer of 1979, the Council began to float its own proposals and to solicit suggestions for changes in the pay and price standards during the second program year, which began on October 1. The consensus was that the standards had to be loosened, as no one seemed willing to retain the original guidelines—holding pay increases to 7 percent and price increases to half a percentage point less than the annual rate during 1976–77—when inflation was running at 13 percent. Proposals varied widely. Unhappy with the uniform price deceleration rule, Barry Bosworth, the director of COWPS, wanted to set separate price targets for every industry in the economy. Negative reactions to this sweeping proposal soon led to its abandonment. The Council also proposed to require firms operating under the less restrictive profit-margin standard to absorb more of their uncontrollable cost increases.

By August it had become apparent that the new price standard would be little changed. Ultimately the administration settled on the requirement that firms hold the rate of increase in their average price during the first two program years to no more than during the base period 1976–77. This implied that firms which had complied with the price deceleration standard during the first program year could raise their prices about one percentage point more during the second program year. The Council also implemented a number of minor changes in the price-restraint rules, including its own proposal to reduce the amount of uncontrollable cost increases that firms could pass through to their customers.

The greatest difficulties surrounded proposals for new pay standards. Organized labor had opposed the first-year rules and even challenged them, unsuccessfully, in the courts. With the presidential election on the horizon, the administration longed to placate the union bosses, who openly opposed certain COWPS proposals, such as a two-year cumulative pay standard similar to the two-year price standard. Aware of their powerful bargaining position, the union leaders made strong counter-proposals. They wanted to set the wage standard equal to the rate of increase in the CPI plus the long-term rate of increase in manufacturing labor productivity, which would have blown the lid completely off the pay standard. They also proposed the establishment of a tripartite board to set, modify, and hear appeals from the
wage standards on an *ad hoc* basis. As the start of the second program year approached, the union leaders continued to negotiate with Alfred Kahn, the chairman of COWPS, and G. William Miller, the newly appointed Secretary of the Treasury.

**Good Politics**

Leaders in the administration recognized that the proposed pay board had much to recommend it as a political ploy. Not only would it please the AFL-CIO, but it would also shift the blame for unpopular decisions—indeed for inflation itself—onto the board. Because the board would represent business, labor, and the "public," its decisions might appear more equitable and hence receive more compliance. The government would be left to play its political games outside the adversary context inherent where COWPS alone formulated and enforced the rules. While effectively abandoning its attempt to enforce stringent standards, the administration would not have to make an embarrassing disavowal of its previous commitment to a pay guideline program. In short, the pay board was Good Politics.

On September 28, 1979, President Carter and the AFL-CIO announced that they had entered into a National Accord. This "historic document" turned out to be a hodgepodge of highfalutin declarations and vague, mutually incompatible policy proposals. While asserting that "the war against inflation must be the top priority of government and of private individuals and institutions," it maintained that this war "should not mean acceptance of higher than otherwise levels of unemployment." The Accord said nothing specific about the guidelines program except to endorse its continuation with "greater public participation." All it really accomplished was expressed in its final paragraph, which declared that "the essence of this National Accord is involvement and cooperation.... It is our purpose to establish procedures for continuing consultations between American labor leadership and the Administration." Besides the AFL-CIO, the Teamsters and the United Auto Workers endorsed the Accord. Thus did the Carter administration formally mend its relations with organized labor.

As part of the deal, the President announced the formation of a Price Advisory Committee and a Pay Advisory Committee. Everyone understood that the former, a group of six "public" representatives, was a pure formality. The latter, however, was a key concession to the union demands. It was chaired by John Dunlop, a Harvard economist who had headed President Nixon's Cost of Living Council and served as Secretary of Labor under President Ford.
Besides Dunlop, the Pay Committee included five other "public" members and six each from business and the unions.

The Pay Committee moved slowly. Although a second-year pay standard was due by October 1, the board took months to resolve its internal conflicts. Labor members wanted the board to invest itself with broad discretionary power to validate individual pay agreements on an ad hoc basis. Business members preferred to retain a single numerical pay standard applicable across the board. "Public" members feared that a compromise, which called for pay agreements to fall within a prescribed range, would effectively establish the upper limit of the range as the de facto standard and make a mockery of the compromise. In January the contentious members finally agreed to the compromise, but not until March 14, 1980, did President Carter publicly endorse the Committee's major proposal. This called for pay increases to be held within a range of 7.5 to 9.5 percent during the second program year. It also established that the value of cost-of-living adjustments (COLAs) would be computed, for purposes of determining compliance, on the assumption of a 7.5 percent rate of inflation. In practice, these standards were tantamount to no standards at all for labor unions with COLAs in their contracts.

**The Guidelines Program as an All-around Nuisance**

Not content with the hundreds of reports received by its small staff during the first program year, COWPS requested even more reports in 1980. Previously, only companies with annual sales over $250 million, about 1,200 firms, had to report. Early in 1980 the Council required that all firms with annual sales over $100 million, some 2,900 companies, file quarterly reports. Reporting costs had reached, in the words of a Fortune writer, "untold millions of dollars" during the first year; they must have reached much higher in 1980. A single firm, TRW, Inc., was said to be spending about $1 million per year, mainly for extra employees to handle the extra paperwork. This compulsory reporting, required only of large firms, constituted an unlegislated new approach to antitrust policy, for it imposed a penalty on bigness per se.

The Council's capacity to back up its threats diminished in the second program year. During the first year it had forwarded the names of definite noncompliers to the Office of Federal Procurement, which was authorized by the President to withhold government contracts of $5 million or more. But no one had ever actually been denied a contract, not even the notoriously unrepentant noncomplier, Amerada Hess. The labor unions had strongly objected
to the government's threat to withhold federal contracts—a threat that employers were using as a club in labor negotiations—and precisely this grievance had led them to challenge the guidelines in the courts. As part of the deal that produced the National Accord, the administration made a "gentleman's agreement" not to invoke this sanction against noncompliers. Still, the government publicly retained the option to violate its private gentleman's agreement. Therefore, the managers of many large firms with substantial government contracts, like Charles R. Allen at TRW, insisted that "the voluntary wage and price guidelines are mandatory for us."

Distortions and Inequities

So COWPS continued to threaten, negotiate, make deals, and build up its public enemies list of noncompliers. General Motors, held to have violated the pay standard, agreed to compensate by holding down the prices of its products. Ford, also in violation of the pay standard for its agreement with the United Auto Workers, came into compliance by agreeing to restrain further its pay increases for managerial employees. Chrysler, already foundering in a sea of troubles, was forced to negotiate its contract with the UAW. Yet not everyone would make a deal. By mid-October, 1980, the Council had compiled an enemies list of 36 companies which had not complied with the guidelines and would not make amends acceptable to the President's men.

Wherever COWPS trod in the labor markets it left a mark of inequity. The major source of these distortions was the preferential treatment of workers with COLAs—the preference arising from the implausible assumption of 7.5 percent inflation used in evaluating the COLAs. A contract that compensated workers for two-thirds of the increase in the CPI, for example, could award them a 4.5 percent wage increase outright plus the COLA and still be considered in compliance ($4.5 + \left[\frac{2}{3}\right][7.5] = 9.5 = \text{the upper limit of the permissible range of pay increase}$). If inflation actually turned out to be a mere 12 percent, such a contract increased the workers' compensation by 12.5 percent ($4.5 + \left[\frac{2}{3}\right][12] = 12.5$). Thus, unionized workers with COLAs in their contracts fared much better than other workers. Not only was this directly discriminatory, but it also represented a clear encouragement of unionization. Several surveys confirmed that the guidelines distorted wage patterns in many labor markets. Personnel managers blamed the pay standards for increased turnover and diminished morale among their employees.

COWPS also produced a variety of distortions in the product markets.
For example, the aluminum industry, troubled by guidelines-induced shortages during the first program year, fared no better in the second. An international price disequilibrium stimulated a surge of exports, exacerbating the domestic shortage, as the guidelines kept the U.S. price down while foreign prices soared. In February, 1980, American producers posted an ingot price of 66 cents per pound, while foreign buyers were paying over 90 cents. When COWPS abruptly changed its rules with respect to the timing of permissible price changes in March, 1980, producers had to roll back some previously announced price increases for fabricated products to offset their increased ingot prices. The artificial price juggling dictated for major producers by the erratic guidelines created a cost-price squeeze for smaller companies specializing in extruded aluminum products. Under the distorted price structure, many of these smaller firms feared that they would soon have to go out of business. Such are the unintended consequences of twisting the market price structure out of its normal configuration.

Early in 1980, with inflation roaring along at an unprecedented 18 percent rate, panic set in. A number of vocal economists, including Gar Alperovitz, head of the National Center for Economic Alternatives, Barry Bosworth, erstwhile director of COWPS, and Bruce K. MacLaury, president of the Brookings Institution, appealed for the implementation of comprehensive, mandatory wage-price controls. As always, the general public supported this proposal. Early in February, the Gallup poll found that 58 percent of those interviewed favored mandatory controls, only 34 percent opposed them. Most importantly, Senator Edward Kennedy, then vigorously campaigning against the President for the Democratic nomination, also called for mandatory controls.

**Diversionary Tactics**

The President, of course, had to "do something." To his credit, he resisted the pleas for mandatory controls. Instead, he pressured a reluctant Federal Reserve Board into a new diversionary foray, a jerry-built program of controls over credit and investment institutions. And he resorted to jawboning, launching a series of meetings with industry delegations to urge greater price restraint.

COWPS and the President made good use of public hostility toward the oil industry. On February 25, 1980, the Council released a report accusing eleven oil companies of guideline violations. The Mobil Oil Corporation led the list of sinners. Late in March, Carter publicly accused Mobil, which he had earlier called "the most irresponsible com-
pany in America," of refusing to refund more than $45 million in alleged overcharges to customers. "It's difficult for me to understand Mobil's position," said the President, "at a time when compliance is so important." Mobil responded that the charges were "patently and obviously political." The whole dispute turned on a technicality related to whether compliance should be determined on an annual or a quarterly basis. It sprang originally from Mobil's being caught between conflicting requirements of COWPS and the Department of Energy and was exacerbated by a retroactive change in the rules by COWPS.

In the midst of this furor, the Defense Logistics Agency announced on April 1 that it had awarded Mobil a $154 million contract for jet fuel. A Pentagon spokesman tried to account for this astonishing event by saying that the contract had actually been awarded on Friday, before Mobil was officially listed as a guidelines noncomplier on the following Wednesday. But George Marienthal, a deputy assistant secretary of defense, gave a more plausible explanation. "The Department of Defense is in the business of national security," he said. "We needed the fuel, so we proceeded." (It subsequently came to light that Mobil and other companies supplying the Department of Defense had been routinely obtaining waivers from COWPS's standards for a long time.)

Still, this little tempest persisted. At a news conference on April 17, Carter again railed against the big oil firm and pledged to "continue to let the American people know about the irresponsibility of Mobil." The company, now taking a more conciliatory tack, maintained that "an honest difference of opinion exists" and expressed the hope that "this difference can be resolved through good-faith negotiations." Late in April a compromise was finally reached when Mobil agreed to forgo $30 million in permissible price increases to make amends for the $45 million of alleged overcharges. The government then removed Mobil from its enemies list. In retrospect, the whole affair appears as no more than another sorry episode of Presidential demagoguery.

Assessing the Program's Effectiveness

From its beginning, the guidelines program rested on a fallacious economic theory. When one employs this theory in assessing the effectiveness of the program, one reaches false conclusions. The root of the problem is a persistent confusion of absolute and relative prices. Equivalently, one can say that the government's theory embraces the layman's untutored notion that any individual price increase, whether for bread, gasoline, or labor, signi-
fies inflation. Defining inflation in this way, which is now commonplace in the news media—witness “energy inflation,” “wage inflation,” and similar terms—can only confuse and mislead. Proponents of this view quickly arrive at the conclusion that prices (in general) rise because prices (in particular) rise. This attempt to substitute arithmetical identity for economic theory is completely empty as an explanation of inflation.  

In modern economic analysis, inflation is defined as an ongoing decline in the purchasing power of money. Inflation, properly defined, cannot occur unless total money expenditure increases relative to total real output. In recent years, inflation has occurred mainly because large increases in the money stock have fueled a rapid increase in money expenditure while total real output was expanding much more slowly—or sometimes not at all. The Federal Reserve System, under heavy pressure to monetize the enormous federal deficits—not OPEC and not acts of God—caused this excessive growth of money expenditure.

Yet the government continued to deny all responsibility and to attempt to shift the blame onto others—Big Business, Big Labor, Arabs, and Nature. In his economic report to the Congress in January, 1980, President Carter’s third sentence was: “Higher oil prices were the major reason for the worldwide speedup in inflation during 1979.” Inflation was “concentrated in a few areas,” he said, citing energy, homeownership and finance, and food. This is nonsense. Inflation cannot be “concentrated” in certain product lines; it is not something that happens to the prices of particular products but rather applies only to the average price of all products (or, equivalently, to the single “price” of money).

**Self-Satisfaction**

The guidelines, according to the President, “served the Nation well. Although the price standards had only limited applicability to food, energy, and housing prices, in the remaining sectors of the economy, for which the standards were designed, prices accelerated little.” This assessment rested on the findings of studies by the Council of Economic Advisers as well as COWPS. The latter Council concluded from its statistical analyses that “had the standards not been in place during the year and a half ending in March 1980, the annual rate of increase of labor compensation would have been almost 2 percentage points higher . . . and the overall inflation rate almost 1/2 to 3/4 percentage points higher.”

This conclusion only reflected the idea that inflation occurs whenever an individual product price rises.
During the year and a half studied, the GNP deflator, an index of the overall average price level, increased at an annual rate of about 9 percent. (The CPI, an unrepresentative index of the overall price level, increased during the same period at an annual rate of about 16 percent.) The Council claims that because some prices, those effectively restrained by the guidelines, rose less than they otherwise would have, the overall rate of inflation was restrained. This assertion implies, first, that the rate of increase of money expenditure diminished for one class of goods (those subject to the guidelines, which represent about 60 percent of the economy), which is by no means certain, inasmuch as enough additional units could have been bought to more than compensate for the restrained prices; and, second, that the rate of increase of money expenditure for all other goods remained the same as it would have been in the absence of the guidelines, which is implausible. Neither COWPS nor the CEA attempted to show that the guidelines reduced the rate of growth of overall money expenditure. Of course, they could not show this, because it did not happen.

To the extent that the guidelines succeeded in restraining some individual prices—and they certainly appear to have done so—they succeeded only in distorting the structure of relative prices, not in reducing inflation. Inflation, no matter which index is used as a measure, unquestionably accelerated after the guidelines program went into effect. The GNP deflator increased at an annual rate of 6.9 percent between the third quarter of 1976 and the third quarter of 1978. Between the latter quarter and the second quarter of 1980, under the guidelines, the annual rate of increase was 9.2 percent—exactly one-third higher. The guidelines clearly failed to prevent an acceleration of inflation. To show that they simultaneously distorted the relative price structure, as COWPS and the CEA proudly did without fully appreciating what they were doing, is only to add another item to the already lengthy indictment against this make-believe anti-inflation program. In reality, because distortion of the relative price structure leads to misallocation of resources, thereby increasing economic inefficiency, one can conclude that the guidelines must have raised the rate of inflation by lowering the economy's total real output below what it otherwise would have been.

The End

As the summer of 1980 merged into autumn, the coming elections preoccupied the Carter administration, and the guidelines program received little attention. The two advisory committees recommended that the existing standards be extended
through December 31, and COWPS accepted this recommendation. The guidelines, said Kahn, were a "profoundly political" subject, and it would be best to defer consideration of further changes in the program until after the election. Most of the suggestions received from business and the general public called for either retaining the existing standards or scrapping the program altogether. In August the Business Roundtable, a group of some 200 executives of major corporations, which had earlier supported the program, called for its termination. Guidelines, said the Roundtable, "distort public understanding of the causes of inflation." True enough, but unfortunately the program had done much greater damage. Most significantly, it had helped to delay the ultimate day of reckoning when the inflationary enemy must be faced squarely and fought with real weapons. It had therefore insured that the inevitable battle would be an even costlier and more socially wrenching affair.

With Jimmy Carter's crushing defeat on November 4, 1980, the guidelines were doomed to pass away completely. But we would do well to remember that this kind of policy, like the phoenix, has a way of rising from the ashes. (Not so long ago, a Republican administration, on frightfully flimsy grounds, gave us mandatory wage-price controls.) Inflation is not about to disappear simply because Ronald Reagan has been elected. To bring it under control, heavy economic and social costs will have to be borne and difficult political decisions made. Not inconceivably, the Reagan administration may someday find itself tempted to impose controls. One can only hope that a full appreciation of the workings of the Carter program—and of the Nixon program before it—will discourage any future resort to such misguided and counterproductive policies.

—FOOTNOTES—

HERE'S an intriguing opportunity: A book club now offers two free books to any member submitting the name of a friend who wants to join. But if you submit a second name, you will get five books!

Why does the club offer more than twice as much “pay” for just twice as much product? Is the offer obligatory or just odd? Surprisingly enough, it goes a long way toward explaining the movement to reduce income taxes.

Finding a second friend to join the club could be considerably more difficult than finding the first. You may have to travel further, or talk longer to convince him. That makes the larger reward crucial.

But what if extra effort were unnecessary? What if you could convince two friends of the benefits of membership simply by making a 15-minute phone call to each one? As it turns out, even then an additional incentive may be needed.

Examples of this fact pervade our economic lives. The need to increase incentives regularly appears whenever companies want employees for overtime work; usually they must pay workers time-and-a-half, even though the duties involved do not differ from the ordinary routine. Similarly, when you buy a box of cereal in the supermarket, you may receive along with it a coupon worth ten cents on a second box.

Diverse though these examples may seem, they all have one thing in common. They all illustrate the
fundamental economic principle of "diminishing marginal returns." Sometimes, the same principle is called the law of "increasing costs."

Understanding of this principle dates back at least two centuries. In 1789 Thomas Malthus published his thoughts on population. Using data provided by Benjamin Franklin and others, Malthus predicted that population growth eventually would outstrip the food supply.

That prediction is one of the reasons economics even today is called the "dismal" science. In current discussions of famine in Third World countries, references to the "Malthusian specter" are not unusual. In Aldous Huxley's famous novel Brave New World, women wear "Malthusian belts" designed to prevent conception and control population growth. But what has Malthus to do with book clubs and income taxes?

If you take time to find a friend to join a book club, you will be confronted by a cost. The cost isn't necessarily money—unless you actually take time off from your job. But you will have to give up working in your yard, playing a game of bridge, or watching TV.

Such a sacrifice might be fairly easy to make while finding the first friend. But what about the second? Giving up one TV program or half an hour of your yard work may not mean much. But the second half hour will surely mean more; that is, the cost increases. So you will need a larger reward to compensate. The people who run the book club obviously know this, and they have acted accordingly.

By the same token the company that sells cereal knows that a second box of their product will be less attractive to most people than the first. The cost—or opportunity forgone—will be larger. Thus, by making them a better offer on the second box, the company may entice people to buy more.

**Progressive Rates of Tax**

All of this may seem strangely remote from the matter of income taxes, but in fact it is not. Both our federal and our state income taxes are "progressive." That means that, as people earn larger incomes, they move into higher income tax brackets. So more pay means they end up sending a larger share of their income to the government.

Several arguments support the progressive system, not all of them objectionable. Some people, of course, urged on by envy, merely like the idea of trying to "soak the rich." Others, however, talk in terms of peoples’ ability to pay; they maintain that wealthier individuals can surely afford to shoulder a larger share of the tax burden. But what effect do rising tax rates have on the incentive to work?

Clearly, the progressive rates may
generate a perverse response. Consider, for example, a married person whose employer offers him the opportunity to do more work and earn more income. Say this employee, in exchange for ten per cent more work, could get 15 per cent more pay. Based on what we have just discussed about human inclinations, we would reasonably expect the employer to make that kind of offer.

But the increase in pay may shift the employee into a higher income tax bracket. If his taxable income were about $20,000, he could, as a result of the pay increase (and based on 1980 federal income tax rates), vault from paying 28 per cent on marginal income to paying 32 per cent. Thus the incentive to work may be so diminished that it will no longer be attractive.

For someone in an even higher income tax bracket, the adverse effect is augmented. Thus, to secure the employee’s services, the employer would be forced to make an even better offer. Of course, the job might be offered to someone else but he might lack the competence. Thus the job will go unfilled and the work undone, and society will be the poorer for it.

In recent years, Congress has graciously refrained from raising our income tax rates. However, Social Security taxes have risen dramatically. Simultaneously, inflation, prompted largely by the rapid growth of government spending, has shoved more and more Americans into higher and higher income tax brackets.

Thus there is less and less incentive to earn incomes that are taxable. So unless we like more leisure, we are increasingly inclined to enter the so-called “underground economy.”

Of course, that doesn’t mean people are actually burrowing beneath the soil—or looking for oil. Instead, they engage in barter or else make payments in cash, seeking thereby to escape the ever watchful eyes of the Internal Revenue Service.

In one case, for example, a worker presented a bill for some repair work to a home owner for $30. When the owner started to write out a check, the worker demurred and insisted instead on receiving cash. But when the owner discovered he had only $25 in his wallet, the worker accepted it, gladly sacrificing the $5 rather than pay taxes on $30!

The Underground Economy

The phenomenal growth of such activities has become so substantial that, by some estimates, our “underground” activity may now be the equivalent of 20 or even 30 per cent of Gross National Product. Certainly, this production is, in some sense, less desirable than it would be if everything were out in the open. Besides that, our government is los-
ing tax revenue which might otherwise be used to build schools or shore up our national defense.

If tax rates fall, American workers will have greater incentives to produce goods and services for American consumers. Some people who are already working will leave the underground for the more efficient open economy. Thus, income subject to taxation will grow.

In fact, it's even possible that, though income tax rates fall, the increase in taxable economic activity will be so great that tax revenues will rise. That is the thesis underlying the now-famous Laffer curve, originated by the economist Art Laffer. The implication is that, while tax rate cuts will directly benefit individuals, in the end society as a whole will prosper.

At first glance, you might have thought the book club's offer was either totally absurd or grossly irrelevant. But it's not. It bespeaks a universal truth which underlies much of the current "supply side" economics. When you understand that additional effort often requires increasing rewards, then, along with many others, you may be eager to ride the tide of enthusiasm rising relentlessly behind the tax reduction program.

—FOOTNOTES—


The High Cost of High Tax Rates

IDEAS ON
LIBERTY

IN COMBINATION, the high rates of corporate, personal, and estate taxes have the effect of creating an all but irresistible "death wish" in the successful, small, closely held company. The owner of such a company is likely to have as his principal concern, not how he can expand and insure the continuity of the venture, but rather how he can most advantageously sell it out, liquidate it, or cut down his share of ownership—all in defense against potentially confiscatory taxes.
ONE of the more amiable traits which many people have is the inclination or desire to share something good with others. If good fortune befalls them, they rush to share it with their friends. If they discover a good recipe, an interesting author, a new plant, or whatever, they can hardly wait to share the information with someone. I once knew a good woman who was so given to sharing what she cooked with others that her husband accused her of waylaying passersby on the road to feed them.

There are pitfalls to be avoided, however, even in such good-natured sharing. Not everyone is at every moment at the right spiritual pitch to appreciate the good tidings of others. Not all palates are prepared for experiencing some exotic flavor that may be thrust upon them by sharers. Having to look at and appreciate someone else’s vacation pictures is notoriously unpopular with many people. Wise sharers select their sharees with care.

There are those, however, who are not content with merely sharing what they conceive to be good with willing recipients. Indeed, there are those who go beyond sharing with reluctant recipients. If they decide that something is good, or would be good for us, they are determined we must have it or do it whether we want it or not. In short, they force it upon us. But they go beyond that even; they do not stop with forcing others to share what is theirs. They use the powers of taxation to take from all of us what they are determined to force upon at least some of us. In brief, they would compel all of us to be good, do good—what is “good”

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by their lights, of course—or to provide goods for those whom they judge to have an inadequate supply.

**Ancient Practices**

Ours is not the only age in which those with a bent to such compulsions have gained the upper hand. Peoples in other times have differed with us about what goods should be imposed or dispensed but have been equally moved to provide them for everyone. In some lands, clergymen have been paid at public expense to insure that the populace would have the benefits of their message. The American Puritans thought that listening to sermons was such a great good that attendance should be required. In the late Middle Ages, there were countries in which orthodox religious belief was reckoned to be so important that failure to profess the approved beliefs could lead to torture and death. Quite often, in the course of history, people have been compelled by those in power to do what was thought would be good for their bodies, their minds, their souls, their rulers, their countries, or what have you.

But it has remained for our age to systematize, regularize, and generalize the compulsions to do “good.” The Internal Revenue Service has made the inquest an annual affair for everyone, with computers to ferret out the most likely candidates for fullfledged inquisition. Nor did the Puritans increase their sermonic benefits based on a cost of sinning index.

As I say, we have systematized both taxation and the modes for the bestowal of goods. Compulsory “doing good” is the largest and most expensive enterprise in the United States. People are compelled to pay taxes, much of which are set aside for doing “good works.” These “good works” run the gamut from providing free lunches for some school children to giving foreign aid to whole countries. Compulsion is also used more directly to make people do “good,” as when parents are compelled to send their children to school or employers are compelled to adopt safety measures imposed by OSHA. But it is as taxpayers that we are most universally made to join in “doing good.”

**The Propriety of Force**

Much can be and has been said for and against many of the programs themselves. That good has been and can be done in these ways can be questioned. But I wish to examine some more basic questions here. I want to focus on the matter of the use of force itself, and of its propriety for Christians. Granted, this subject may be of primary interest only for Christians, but, as I hope to show, it concerns others as well.

Apparently, many people assume that because Christian teaching enjoins giving help to those who are in
need it is, therefore, in keeping with Christianity to use the force of government to do good works. Social gospellers, for example, advanced this notion with considerable fervor.¹ There have been Christian socialists who favored the redistribution of wealth by government as being in accord with Christian principles. Indeed, the argument has even been made, though not very actively of late, that Marxism or Communism is nothing more nor less than putting the teachings of Jesus into practice. At any rate, many professing Christians are not averse to using government in myriad ways that are supposed to do good, and a goodly number of non-Christians incline to accept the notion that their attitude is in keeping with Christianity.

There should be no doubt that Christians are enjoined to do acts of helpfulness, kindness, and works of charity for the helpless and those in need. Nowhere is this made more emphatic than in the description by Jesus of the Last Judgment. There, the distinction between the righteous and the damned is precisely between those who have fed the hungry, given water to the thirsty, shown hospitality to strangers, clothed the naked, and visited those who were sick or in prison and those who have not. For, he said, “Inasmuch as ye did it not to the least of these, ye did it not to me. And these shall go away into everlasting punishment: but the righteous into life eternal.” (Matthew 25:45-46.)

But it does not follow that Christians are to use force in doing these good works or give their approval to government use of force in doing so. The Bible is not, of course, a textbook in political science or political economy. It is not surprising, then, that the subject does not come up directly in the New Testament. But even if there were much more political commentary than is the case, the subject of government compelling people to do good might not have arisen. Governments in those days were not greatly addicted to doing good deeds.

Voluntary Giving

Even so, it is possible to infer a Christian position from Scripture. The impetus of New Testament teaching is in the direction of the voluntary, loving, and concerned doing of good, not in that of forced acts. There is a large body of evidence pointing to the conclusion that voluntary giving is what is commended, but there is also some evidence that government and force are not directly a part of the Christian endeavor. For example, in an effort to trap Jesus, the chief priests and scribes sent agents who asked him if it were lawful to pay taxes. Jesus requested a coin and asked them whose likeness was on it. They answered that it was Caesar’s. “And
he said unto them, Render therefore unto Caesar the things which be Caesar's, and unto God the things which be God's." (Luke 20:25) One of the inferences to be drawn from this is that God and Caesar (government) operate in different realms and, undoubtedly, in different ways.

On the use of force, Jesus had something quite pointed to say. When he was being arrested to be put on trial, one of the disciples, Peter, according to one version, drew his sword and cut off the ear of a man who had laid hands upon Jesus. "Then said Jesus unto him, Put up again thy sword into his place; for all they that take the sword shall perish with the sword." (Matthew 26:52) Again and again, Jesus said that he came to bring life. The sword (force) is an instrument of death, hence, proscribed in Christian undertakings.

The Gospel on Government, According to St. Paul

The Apostle Paul dealt with government in some detail in the 13th chapter of Romans. In essence, what he had to say is this: the powers that be are ordained of God to punish wrongdoers. It is for your good that wrongdoers should be punished; therefore, you should obey the powers over you and pay that tribute to them which is their due for the office they perform. In the conclusion of the chapter which just precedes that one, however, he had urged the avoiding of the use of force:

Recompense to no man evil for evil. . . .
If it be possible, as much as lieth in you, live peaceably with all men.
Dearly beloved, avenge not yourselves. . . .
Therefore, if thine enemy hunger, feed him; if he thirst, give him drink; for in so doing thou shalt heap coals of fire on his head.
Be not overcome of evil, but overcome evil with good.

Romans 12:17-21.

It is clear to me, at least, that there is no warrant in the teachings of Jesus and his disciples for compelling people to do good works or to be good. Voluntary aid is commended; force is eschewed. But the late C. S. Lewis had some illuminating thoughts on these matters, and I should like now to call attention to some of them. I do so the more gladly because it provides me with the opportunity to talk about one of my favorite writers. Also, it adds the weight of one of the leading Christian apologists of the twentieth century to the case against compulsion.

As I noted, however, even the innocent offer to share is not always welcome, and I have had occasion to learn that Clive Staples Lewis (1898–1963) does not appeal to all readers. A lady to whom I loaned one of his books assured me that he was too difficult. A minister gave it as his
opinion that his work was tedious, or, at least, that he went on and on about things that might be better handled briefly. Another thought him rather too bold in choosing his subjects. Thus, although my enthusiasm for his work is undiminished by any adverse criticism I have encountered, my determination to share him with others is tempered by the realization that not everyone will be as taken by his wit, his wisdom, his tenacious reasoning, and his candor as I have been. He has not lacked readers, of course. For example, his little book, *Mere Christianity*, was published in the United States as a paperback in 1960. By 1970, it was in its twelfth printing. I recommend him, rather, because each new reader may, perchance, be *Surprised by Joy*, as he titled his autobiography.

**A Scholarly Mission**

C. S. Lewis was nothing less than a Christian missionary to the twentieth-century intellect. He perceived that the modern temper makes it unusually difficult to accept the claims to truth of Christian teaching. Yet, he set himself the task of demonstrating the intellectual possibility of their truth and, that done, to assert those claims boldly and without compromise with the spirit of our times, or any other. He was superbly equipped for the undertaking. He was a scholar, an Oxford don, a professor of English literature, a man at home in the classics, a poet, a novelist, a satirist, a writer of children’s stories, yet a man who did not shrink from debates with atheists, nor count himself too high to bring his thoughts to unlearned soldiers.

Appropriately enough, Lewis was a convert to Christianity, for he had that zeal about it often associated with converts. A convert from what? From modern intellectualism, no doubt, from its relativism, from its tendency to reductionism, from its sophistries, and, ultimately, from its world-weariness.

For C. S. Lewis, becoming a Christian was a jarring awake, a coming alive, so to speak, a coming alive to possibilities, to choices, to the perils of the soul, to the potentialities of the mind, and, above all, to the more-than-ness of everything about him. As Paul Holmer has said, “He wanted to be tasteful, to live with relish, to be a master of daily life not its victim, to be upright and just, to be holy and pure. . . . He put his academic training and skills under the sovereignty of those more fundamental aspirations.” If he had been a more sensual man, it might have been more appropriate to say that he lived life with gusto; as it was, he lived the life of the mind and spirit with more than a little gusto.

Christianity provided C. S. Lewis with a perspective on life, not a theory. It was a perspective from which
everything mattered, but some things matter much more than others. What matters most in this world is the individual, he thought. That is, if Christianity is true, it is individuals that matter most. Lewis said, “If individuals live only seventy years, then a state, or a nation, or a civilisation, which may last for a thousand years, is more important than an individual. But if Christianity is true, then the individual is not only more important but incomparably more important, for he is everlasting and the life of a state or a civilisation, compared with his, is only a moment.”

**The Human Potential**

The ultimate importance of the individual, Lewis believed, lies in the potentiality he has for growing, maturing, and developing as far as may be into man as he could be. In other words, it is to become as fully human as possible. Only as he has prepared as fully as he can by realizing the human in him will he be ready for the Divine in the hereafter. It is this perspective on man that informed Lewis’s outlook on the use of compulsion. That spiritual growth and development which he held to be the end of man can only occur significantly as it is chosen and willed. Even God only stands at the door and knocks; it is hardly appropriate for man to do more.

Lewis was an Englishman, and many of his remarks about government were penned amidst the growth of government control during World War II and under the Labour Party. However, they were not partisan either in tone or words. He declared that the “modern State exists not to protect our rights but to do us good or make us good—anyway, to do something to us or to make us something. Hence the new name ‘leaders’ for those who were once ‘rulers.’ We are less their subjects than their wards, pupils, or domestic animals. There is nothing left of which we can say to them, ‘Mind your own business.’ Our whole lives *are* their business.”

Lewis denied either that government could make men good or that it was its office to attempt it. “You cannot make men good by law,” he said, “and without good men you cannot have a good society.” Good people, he thought, were an individual matter, not something achieved in the mass. The basic business of government is to punish wrongdoers, Lewis believed, not to make men good.

He explored the notion of compelling people to do or be good in an essay titled, “Lilies that Fester.” There he identified two different types of rule in which it may be attempted. One is a theocracy, of course, which means, simply, rule in the name of God. The other he called “charientocracy.” As best I can make
out, a “charientocracy” is rule by intellectuals, the “cultured,” technocrats, scientists, or, in short, a humanistic elite under the sway of the notion that they know what is best for us.

**Theocracy Deplored**

Lewis left no doubt about his low estimate of the merits of a theocracy. He said, “Theocracy is the worst of all possible governments. All political power is at best a necessary evil; but it is least evil when its sanctions are most modest and commonplace, when it claims no more than to be useful or convenient and sets itself strictly limited objectives. Anything transcendental or spiritual, or even anything very strongly ethical encourages it to meddle with our private lives. Let the shoemaker stick to his last.”

Along the same lines, he declared elsewhere, “I do not like the pretensions of Government—the grounds on which it demands my obedience—to be pitched too high.... I believe in God, but I detest theocracy. For every government consists of mere men and is, strictly viewed, a make-shift; if it adds to its commands ‘Thus saith the Lord,’ it lies, and lies dangerously.”

On the matter of Christians imposing their view on society at large, he had these things to say. Even if Christians were in the majority in a society, he said, “our rulers would still be fallen men, and therefore, neither very wise nor very good. As it is, they will usually be unbelievers. And since wisdom and virtue are not the only or the commonest qualifications for a place in the government, they will not often be even the best unbelievers.” He doubted that even the Christian concept of the durability of marriage should be forced upon the society generally. “A great many people seem to think,” he pointed out, “that if you are a Christian yourself you should try to make divorce difficult for everyone. I do not think that. At least I should be very angry if the Mohammedans tried to prevent the rest of us from drinking wine. My own view is that the Churches should frankly recognize that the majority of the British people are not Christians, and, therefore, cannot be expected to live Christian lives.”

But Lewis doubted that England, or any other country, was in much danger of a fullfledged theocracy. There have been some changes of mood since the days when he was writing. Israel has elements of both theocracy and socialism in its practices. So do several of the Moslem countries. There are even distant rumblings of theocratic impositions in the United States, though I suspect there is more sound than fury behind them. In any case, Lewis understood rightly that what we are up against is both the prospect and
reality of government compelling people to do good on humanitarian, scientific, elitist, and welfare-statist grounds rather than theocratic. While he must have been aware that there is often an admixture of the social gospel underlying the thrust of these, he was not inclined to ascribe it to Christianity.

He went into the humanitarian and scientific arguments most thoroughly in connection with capital punishment. Lewis did not profess to know whether there should be capital punishment or not. But he objected strenuously to the line of arguments used by opponents of it. Opponents of capital punishment—and, by extension, any kind of punishment, per se—usually attempt to maintain that it could only be justified on either one or both these grounds: that it would deter others from committing crimes or that it would reform or improve the criminal. But if these were the only grounds for punishment, Lewis pointed out, they remove "from Punishment the concept of Desert. But the concept of Desert is the only connecting link between punishment and justice. It is only as deserved or undeserved that a sentence can be just or unjust."11 Lewis noted, too, that the tendency to interpret crime as being the result of a pathological condition tends to shift the emphasis from reforming the criminal to healing him. Thus, his contention "that this doctrine, merciful though it appears, really means that each one of us, from the moment he breaks the law [is arrested, would be better], is deprived of the rights of a human being."12

Morality and Choice

Although it may not appear to be the case on first glance, it seems to me that Lewis came to the heart of the matter of compelling people to do good in his case against what he called "The Humanitarian Theory of Punishment." Between the lines, Lewis tells us that to do or be good is a human possibility, that it is moral, and that it becomes so by choice. Remove the element of choice, attempt to impose it as therapy, and man is reduced to the level of an animal, the mentally incompetent, or a small child. Goodness is bereft of its moral character.

Although there is much more to the essay that it would be worthwhile for any to read, the crux of the matter is reached in these words: "Of all tyrannies a tyranny sincerely exercised for the good of its victims may be the most oppressive. . . . Their very kindness stings with intolerable insult. To be 'cured' against one's will and cured of states which we may not regard as disease is to be put on a level with those who have not yet reached the age of reason or those who never will. . . . But to be punished, however severely,
because we deserved it, because we 'ought to have known better,' is to be treated as a human person made in God's image.'\

In short, and as I interpret what Lewis has said, compelling people to do good not only takes away their freedom but their responsibility as well. Its tendency is to childenize the race or produce a sub-human species.

"Lastly," Lewis said, "I reach the point where my objections to Theocracy and to Charientocracy are almost identical. 'Lilies that fester smell far worse than weeds.' The higher the pretensions of our rulers are, the more meddlesome and impertinent their rule is likely to be and the more the thing in whose name they rule will be defiled. . . . Let our masters . . . leave us some region where the spontaneous, the unmarketable, the utterly private, can still exist."

**Welfare Weakens Recipients**

C. S. Lewis was in his prime at the time when the welfare state, or socialism, seemed to be most firmly fixed upon the United Kingdom. He never professed to know much about economics, indeed, denied even sufficient knowledge to make any significant comments on the subject. This was almost certainly the case. He suspected that the modern obtrusive state had become a permanent fixture, at least for this age. His objections to the compelling of people to do good might well have made him an out and out opponent of the welfare state. It did not do so mainly for two reasons, I suspect. First, his main effort was increasingly devoted to the defense and exposition of Christianity, and any partisan effort would have drawn him away from this work. Second, lacking the economic understanding, he was less than certain that he would be right in opposing the ameliorative efforts of the state. Even so, he had this to say about its tendencies and dangers:

> The question about progress has become the question whether we can discover any way of submitting to the worldwide paternalism of a technocracy without losing all personal privacy and independence. Is there any possibility of getting the super Welfare State's honey and avoiding the sting?

> Let us make no mistake about the sting. The Swedish sadness is only a foretaste. To live his life in his own way, to call his house his castle, to enjoy the fruits of his own labour, to educate his children as his conscience directs, to save for their prosperity after his death—these are wishes deeply ingrained in white and civilized man. Their realization is almost as necessary to our virtues as to our happiness. From their total frustration disastrous results both moral and psychological might follow.

All this threatens us even if the form of society which our needs point to should prove an unparalleled success. But is
that certain? What assurance have we that our masters will or can keep the promise which induced us to sell ourselves? Let us not be deceived by phrases about “Man taking charge of his own destiny.” All that can really mean is that some men will take charge of the destiny of others. They will be simply men; none perfect; some greedy, cruel and dishonest. The more completely we are planned the more powerful they will be. Have we discovered some new reason why, this time, power should not corrupt as it has done before?15

In sum, the willingness to share what is ours with others is an amiable and attractive trait. Christians are enjoined to offer help to those whom they encounter in need. But even in willing sharing it is well to keep in mind the wishes of others before thrusting one’s goods upon them. To force one’s own goods upon others would be an unwarranted imposition. But tyranny is waiting in the wings, if it is not already upon the stage, when the power of government is used to force people to do or be good. And, if Lewis is correct, the higher the motive for attempting it the more vicious the tyranny. Or, as he put it, in the words of John Bunyan: “It came burning hot into my mind, whatever he said, and however he flattered, when he got me home to his House, he would sell me for a Slave.”16

—FOOTNOTES—

5Lewis, Mere Christianity, p. 72.
6See Lewis, God in the Dock, p. 292.
8Lewis, God in the Dock, p. 315.
9Ibid., p. 292.
10Lewis, Mere Christianity, pp. 101–02.
11Lewis, God in the Dock, p. 288.
12Ibid.
13Ibid., p. 292.
14Lewis, The World’s Last Night.
15Lewis, God in the Dock, p. 316.
16Quoted in ibid., p. 294.

An Awesome Power

TODAY we have empowered people in our own government to do things for us without realizing the fearful extent of that power. We don’t yet realize it because the people who now hold it have generally not chosen to exercise it in all the awfulness implicit in it. When they do, we will wonder how we could ever have been foolish enough to have given that power to anyone.

JAMES M. ROGERS, “Two Ways to Slavery”
The nation continuously redistributes itself, as the voluntary choices of millions of individuals, families, and concerns make themselves felt. The North goes South, the center of population crosses the Mississippi, and those urban denizens with the will and means flee the inner cities. Many view this process of adjustment with some anxiety, for the realignment of the national belts, as we have come to call them, may weaken a region’s self-image and transform the character of the nation as a whole. The anxiety deepens into worry as one beholds the dissolution of neighborhoods in urban areas, for this is an ugly thing, an ugliness many are left behind to confront as it steadily worsens.

Yet, I hold a radically different view. To me the process is natural and beautiful; it is the American ideal at work; it is America at her best. Yes, it has its ugliness, but when one considers the cause, the effect, and the alternative, the beauty of such natural adjustment is plain.

The beauty of which we speak so passionately inheres in the conceit of a federation of sovereign states, for federalism is a noble system. Based on the humanizing conception of pluralism and the natural tendency of men to seek kindred kith and like minds, the federalist system enables the smaller statewide majorities to overrule the national majority locally in matters of local concern, thus allowing the people a greater measure of control over their own lives. It is not truly the states
which have rights, but the citizenry by and with whose authority they are endowed. Among these rights is the right to self-determination, realized in full measure only by a highly federated system. Such a system serves the interest of peace, as well. A large part of the reason our nation has weathered two centuries of history is that, with the painful exception that nearly destroyed it, the American systems, political and economic, have not insisted on an artificial and imposed uniformity, the rigidity that is ripping apart our neighbor to the North and perturbing finally even our archenemy to the East.

States Subjugated

Today’s centralism, in contrast, has relegated the states to the status of administrative serfs constantly faced with the choice “prostitute or destitute”; these once-sovereign entities are finally learning that the inevitable result of dependence is subservience, a lesson the people, too, should learn. Untold waste of sinful proportions is another unavoidable result of large groups managing small persons and the little details of their lives; this, too, we have seen.

But worst of all, the quiet and automatic protection that federalism affords freedom has been weakened. For when the power to tax—that wellspring of tyranny which sparked the Revolutionary War—and the government encroachments thus enabled are concentrated at the state level, any substantial decrease in liberty results in the natural removal of the productive base to other states. The states are thus in competition for their means, with relative freedom one of their main dimensions of competition. This is true of nations, too, as witness the brain drain, the mass exodus of intellectuals, professionals, and producers from the Continent since the Second World War. Was America not formed by a like group of men, seeking refuge from the harsh doctrines of an authoritarian world and a new life amidst plenty? Has this country not been settled from coast to coast by men of distant lands seeking their fortunes in a free world?

This, then, is the cause of the population shifts we have witnessed, this the answer to the query “Why have they gone?” The deterioration and decay of our once-majestic metropolises are, to use Rilke’s words, merely “outward and visible signs of an inward and spiritual disgrace.” It is the disgrace of governments which increasingly do more and more of what they should not do and less and less of what they should do. Urban flight is the natural reaction to the drive toward a more coercive society marked by the paradoxically simultaneous loss of both liberty and security. It is a philosophical, if intuitive, judgment by the good people
of this land on governments which presume to dictate to them above their level of tolerance and which no longer protect life, liberty, and property.

The More Central Control, the Less Personal Freedom

What the social planners in the institutes for public policy see as the problem, the founding fathers saw as the solution. Erosion of the tax base is not the problem, high taxes are. Loss of children to bus is not the problem, busing is. Loss of subjects over whom to rule is not the problem, subjection is. The effect of free movement between semi-autonomous entities is to naturally correct localities which do not preserve liberty and maintain security; even so authoritarian a state as New York has been forced to take notice. The frightening alternative to this quiet and automatic protection, realized only partially under today's centralism, is an artificial and imposed uniformity which leaves no escape.

Freedom of association includes both the freedom to associate and the freedom not to associate. The flight of productive citizens from the tired cities, in particular, and the Northeast, in general, is a powerful use of both freedoms, a primal expression of the American ideal. 'Tis a cause for reflection that in 120 years the defenders and detractors of the dignity of man have switched positions but the centers of power have not.

Massachusetts, the birthplace of our Revolution (or is it counterrevolution?) and center of abolitionist ferment, is today the home of authoritarian scholarship and the establishment politicos who write such notions into law. Mississippi, once a slave state who gave her native son to the Presidency of the Confederate States of America, today alone does not profess to own the child's mind by compelling his attendance at a government school unless his parents pay a private academy. She joins the Carolinas, a study shows, in hampering productive enterprises and citizens least. Once it was in New York that our federal constitution was so ably defended to the citizenry; today one must look to the state courthouses of Louisiana for a meet explication. Yet the ideas of the Northeast still hold sway, for liberalism is there defined and there practiced.

Now the winds of welcome change have swept across America, for in Ronald Reagan the statewide majorities throughout this land have chosen one of those Americans, few and far between, who deeply appreciate federalism for what it is and not for some one issue or other. If this noble conception could be endeared once more to the American heart, what a boon it would be for the liberty-loving and what a blow to the apolo-
gists of a central, omnipotent authority. I can think of no better defense of such sentiment than the words of Jefferson:

These principles form the bright constellation which has gone before us and guided our steps through an age of revolution and reformation. The wisdom of our sages and blood of our heroes have been devoted to their attainment. They should be the creed of our political faith, the text of civic instruction, the touchstone by which to try the services of those we trust; and should we wander from them in moments of error or of alarm, let us hasten to retrace our steps and to regain the road which alone leads to peace, liberty, and safety.

The residential elections of the last decade like the more recent governmental elections are a repudiation of those who would replace the Constitution’s Old Deal of liberty and prosperity with government, more government, and yet more government—while marauders roam our streets in search of criminal mischief and the ruthless abductors of whole continents move to engulf the world like a hungry, pathogenic amoeboid. The time has not come for the nation conceived in liberty to die. If we have faltered, it is for want of attention to the caveat of the Virginia Bill of Rights: “No free government, or the blessings of liberty, can be preserved to any people, but ... by frequent recurrence to fundamental principles.” Now that the blessed misery that accompanies the beginnings of tyranny has finally gripped the American people “let us hasten to retrace our steps and to regain the road which alone leads to peace, liberty, and safety.”

Centralized or Multiple Economies

The centralized economy still has a very great attraction for many people. It relieves them of responsibility for the conduct of their own lives so long as they adhere to the prevailing collective ideas and emotions.

On the other hand, the multiple economy depends for its efficiency, not on the concentration of economic direction, but on the breaking up of that direction into as many hands as is reasonably possible. It makes every capitalist direct his own small share of the economy. His right to do so arises from his ownership of property. A multiple economy is planned or directed by the owners of farms, factories, ships, banks, trucks, shops, and in fact the owners of any property which is capable of assisting in the great work of the production of goods.

GEORGE WINDER
If you are troubled by the social and economic conditions in the United States, you may find comfort in the thought that things might be worse. They are worse by far in most parts of the world, which are torn by conflict and strife and lingering in poverty and despair. Even our Canadian neighbors to the North are suffering from irritations and aggravations that not only are creating serious social and economic problems but also are casting doubt on the political future of Canada.

The people are chafing from rampant inflation, confiscatory taxation, soaring interest rates, and the worst recession since 1962. Ontario, the home for 90 per cent of Canada's automotive industry and wealthy heartland of Canada, is suffering the harshest impact of the recession. A host of corporations have collapsed, leaving investors impoverished and workers facing a grim future. Western Canada is coping with its own brand of economic disaster. A serious drought is hurting the grain farmers, causing feed prices to soar and the cattle industry to suffer painful losses. But above all, the West is locked in a bitter political struggle with Ottawa about energy production which both levels of government, the federal as well as the provincial, are anxious to tax at ever-higher rates. It's an ugly political fight about redistribution of income and property by political force.

Canada is a federal parliamentary state and member of the British Commonwealth of Nations. It came
into existence as a federal union of British North America at a conference of political leaders in Quebec in October 1864. The British Parliament legalized the federation by the British North American Act of 1867, making it a subordinate and allied kingdom of the British crown as of July 1, 1867. In 1931, the Statute of Westminster declared Canada to be a partner nation with Great Britain, equal in status, and bound together only by a common crown.

**For Peaceful Cooperation**

The founding fathers of the Canadian federation acted in the belief that the establishment of a federal union would assure peaceful cooperation and association. A few powers were given to the union government, the rest remained with the provincial governments or with the people. The plan of government was modeled not so much on that of the United States, which was believed to be flawed as evidenced by the outbreak of the Civil War, as on that of the British empire as it was organized during the middle of the 19th century. The imperial government retained a supreme and overriding authority, but the colonies had wide powers of self-government.

The federal system was a political product of the philosophy of individual freedom and economic laissez-faire. It functioned rather well wherever government did not interfere with the daily lives of its citizens. The federal powers were limited to the preservation of order and peace, establishment of a small military force, a unifying judicial system, and the imposition of fiscal customs duties. In every other respect the Canadian people were free to run their own affairs.

This peaceful equilibrium of political powers was upset in Canada, as it was in all other federal unions, by the advent of economic interventionism and socialism. Central planning and redistribution by political force brought a simultaneous expansion of the jurisdiction of the federal government, generating a bitter political conflict about provincial rights and central power.

The absence of interprovincial trade barriers limits the power of provincial governments to conduct interventionistic policies. It makes it very difficult, if not impossible, on a provincial level to raise goods prices and production costs or otherwise hamper economic activity. Economic regulation and control are enacted uniformly on a national basis, which prevents the flight of capital from one province to another and permits government to protect the regulated industries from foreign competition through protective tariffs and many other import restrictions.

In constitutional law, Canada may still be classified as a federation, but
in reality it is becoming a unitary state with Ottawa as a capital in the true sense of the word. The provinces, like the states in the U.S. or the cantons in Switzerland, are becoming mere administrative agencies of the central government.

This transformation of the Canadian federal system began in earnest after World War II. To avoid a post-war depression the federal government, without much opposition, instituted a number of social security measures, such as unemployment insurance and family allowance. It introduced a system of federal payments to all provinces to enable even the poorest to maintain a minimum level of social services. It embarked upon economic redistribution and established what is commonly called the “welfare state.” But regulation and redistribution by their very nature create economic, social, and political conflict not only between the victims and beneficiaries, but also between the various groups of beneficiaries themselves. They give rise to endless power struggles that divide society into pressure groups and social classes, jeopardizing peaceful cooperation.

**Autonomy for Quebec**

Until the 1970s it would have been unthinkable to most Canadians that separatist movements would threaten the cohesion of the Canadian federation. But on November 15, 1976, the people of Quebec democratically elected a separatist government with a strong majority of 71 seats in the Quebec National Assembly of 110. It elected a Parti Québécois administration with its political platform favoring independence for Quebec and economic association with the rest of Canada. The election shattered the traditional image of peace and brought into the open the great tensions and conflicts that are rocking the political structure of the country.

Canada is not merely a union of ten provinces, but also the home of two major linguistic and cultural groups, an English-speaking community and a French-speaking community. According to the 1976 census, 61.1 per cent of the Canadian population declared English to be their mother tongue, and 26 per cent French, of whom some 80 per cent live in the province of Quebec comprising some 88 per cent of the Quebeccan population.

From the very beginning in 1867, the Quebec government has spoken and acted consistently on behalf of the French-speaking minority in Canada. There were a few inner tensions in the province, no causes of conflict that strained the relationship with other provinces. But since the end of World War II and the beginning of the socio-economic transformation from a free economic order to a system of central command
and control, a vibrant form of French nationalism began to dominate political life in Quebec.

With dependable regularity the Quebec administrations, regardless of political party, have taken strong nationalistic stands against Federal encroachments. They have fought tenaciously against every federal effort to pre-empt functions and policies that were assigned to the provinces by the British North America Act. They are insisting now on a division of responsibilities, a sharing of powers between governments, in order to permit the French population to preserve its cultural identity.

Numerous political slogans reflect the thrust of their demands: "Maitre chez-nous" (Master in our own house), "Québec d'abord" (Quebec first), "l'Autonomie Provinciale" (Provincial autonomy), or "Souveraineté culturelle" (Cultural sovereignty), and so on. In short, French Canadians do not care to entrust their economic, social and cultural lives to a government in which their representatives are in the minority and which is subject to the aspirations and ambitions of English-speaking majorities.

Is Quebec separation likely or possible? The answer depends entirely on the economic order that will evolve in the coming years. If the majority of the Canadian people continue to opt for ever more government intervention, which in the end leads to all-round Ottawa control over the economic lives of the people, that is, to socialism, the polarization of opinion will intensify until, in the end, an eventual Quebec separation becomes a distinct possibility. Linguistic and cultural nationalism will prevail over the confederation that no longer confederates, but commands, divides, and redistributes by majority vote.

**A Power Struggle**

It is unfortunate that the Parti Québécois as well as the other parties in Quebec fail to consider individual freedom as an alternative to federal regimentation. They are not opposing the command system per se; on the contrary, they are in full agreement with the basic principles of the welfare-transfer order and frequently favor yet more government intervention as, for instance, the expropriation and nationalization of important industries. The altercation between Quebec and Ottawa does not deal with the basic principles of the social and political order, but merely with the allocation of political power. Who is to be in charge of the transfer system, Ottawa or Quebec? The government representing the English-speaking majority in Ottawa or the government representing the political majority in French Quebec? In final analysis, the dispute reveals a feud over the administration of social and
economic power wielded by the transfer state.

This awareness, together with the fear of losing billions of dollars of federal equalization grants and oil price subsidies, may have caused the issue of separation to wane since 1976. As time went on the Quebeccan government made no overt moves toward separation, but submitted the question to a referendum on May 20, 1980. On the proposal presented by the Parti Québécois of enacting their own laws, imposing their own taxes, and establishing relations with foreign countries, while forming an economic union with the rest of Canada, 59.6 per cent of the Quebec electorate voted “No.” Even among the French-speaking people, a small majority voted “No” to separation. For the moment, the union has survived the divisive forces that are gnawing at its foundation in the East.

Hostility in the West

In the West the conflict about central power and provincial rights is going from bad to worse. Western Canadians always have been suspicious of federal regulation that tends to benefit the more populous provinces, Ontario and Quebec. When Eastern Canada is calling the tunes of the transfer order the West is expected to pay the piper. At least, that’s how the people in the West are looking upon Ottawa. In Alberta, the westernmost of the three Prairie provinces, the confrontation has led Premier Peter Lougheed to speak of “a declaration of war” by Ottawa.

Since 1947, when oil was first discovered in the Leduc Field, Alberta’s production of crude oil and natural gas has transformed this frontier pastoral province to a burgeoning industrial center. The rise in energy prices by OPEC since 1973 then magnified the value of Alberta’s energy production, causing the center of economic gravity and prosperity to shift westward. Canadian population and investment capital are leaving the old industrial centers in the East and seeking employment and return in Alberta. With just 2 million people, or 8 per cent of Canada’s population, Alberta is generating 12 per cent of the country’s GNP, growing larger every year. The neighboring province of Saskatchewan is enjoying a similar petrodollar boom although it has smaller deposits of primarily heavy oil. So does British Columbia, which has considerable reserves of natural gas.

Before 1973 those provinces benefited from a federal two-price system that protected and promoted domestic exploration by forcing all of Canada west of Kingston, Ontario, to use domestic oil at a price as much as $1 higher per barrel than imported crude. As the price of crude
oil soared after 1973 and Canadian crude became cheaper than foreign oil, the government of Alberta was anxious to have domestic oil priced at world market levels. But the federal government proceeded to hold it down for all of Canada in order to give Canadian industry an international advantage at the expense of oil producers.

Oil exported to the U.S. was subjected to a federal tax that brought U.S. costs up to OPEC levels, and provided the federal revenue to subsidize the importation of foreign oil in the Canadian East so that there would be one low price for all of Canada. In fact, the federal government is extracting and then distributing its “fair share” of what it calls the “windfall” in Alberta’s oil profits. Toward that end it is even refusing to allow oil companies to treat royalty payments made to provincial government as business costs when they are calculating federal tax obligations.

Conflicting Interests

When the U.S. was considering a pipeline through Canada to bring Alaskan natural gas to industrial markets, Alberta producers offered to sell some gas on short-term contracts. But the National Energy Board in Ottawa refused to issue the export permits. In an effort to preserve resources for Canadian use and to create new markets in Ontario and Quebec it restricted the exportation and thereby depressed the price of natural gas for Canadians, again at the expense of producers.

Such policies obviously are generating serious economic and political conflicts that are shaking the foundation of the Canadian federation. The provincial governments that represent the population victimized by these crude schemes of federal intervention are fighting back in the political arena, in federal courts, the halls of Parliament, and wherever they can thwart the federal machine. But unfortunately they rarely, if ever, argue for individual freedom and the private property order. They themselves would like to be in the driver’s seat of the provincial economy. Like the oil sheiks of Arabia they like to plan and develop, invest and build, promote and encourage, tax and spend as they see fit for the economic well-being and greater future of their subjects.

With billion dollar royalties rolling into the provincial coffers they are financing “social improvements” of long-term benefit, such as low-cost medical insurance and service, investments that “establish a solid economic base,” favors and subsidies for research and development, the construction and direct ownership of petrochemical plants and facilities, the purchase of Pacific Western Airlines, and so forth and so on. In short, they are pursuing the very system
of radical government intervention they are fighting so vigorously when conducted in Ottawa. The friends of individual freedom are waiting in vain in the Provincial capitals for the dawn of another day.

Will Canada survive this bitter battle about the petrodollars on the prairie? It probably will. The politicians in Ottawa, Victoria, Edmonton, Regina, Winnipeg, and so on sooner or later will arrive at a compromise that permits them all to take a little more from the producers. After all, contemporary politics is the most practical of the arts by which property rights are sacrificed to the demands of the majority.

**The Constitutional Dilemma**

It may well be that Canada has entered the stormiest period in its history. Many ascribe the blaze of discord to the lack of a Canadian constitution. The British North America Act of 1867, which established the Canadian confederation and gave the country its basic governmental structure, is decried as alien and outmoded. Therefore, the federal and provincial governments are struggling to reach agreement on a formula that would revoke the BNA Act and permit Canadians to write their own constitution. Without such an agreement the Trudeau administration is prepared to act unilaterally, that is, on the strength of its parliamentary majority without the approval of the provinces. The provinces, on the other hand, are provoked and exasperated about what they consider a blatant federal power grab.

The federal drive for repeal of the British North America Act and its replacement by a “Canada Act” is, of course, merely another aspect of the continuous power struggle. The forces of centralization are anxious to remove the few remaining obstacles to their power over the national economy. With Pierre Trudeau it is also a personal matter: unilateral adoption of his proposals of a constitution would be a bold stroke that would assure him a place in Canada's history. At least, that's what his followers in Ontario and Quebec want us to believe. To his numerous detractors he is just like so many other rulers around the globe who, in their moment of power and glory, busy themselves with rewriting their countries’ constitutions.

**A Formula for Socialism**

The Trudeau constitutional changes, as submitted to Parliament on October 6, 1980, offer a basic charter of human rights carefully formulated to perpetuate the transfer state. It would guarantee the freedom to move about in the country for individuals, but not for their property. It would confirm the key central government role in the equalization of provincial wealth, and
adopt an amending formula for the constitution that would safeguard the eminent positions of Quebec and Ontario. It would give new controls over natural resources to the central government and redirect energy tax revenues to Ottawa. It would grant language rights to English- and French-speaking people, but not to other linguistic groups, and force Quebec and Manitoba to practice official bilingualism. And finally, all fundamental freedoms would be made subject to "generally accepted" community standards and conditions.

To the Canadian people the Trudeau proposals are presented as a sincere attempt at creating a "renewed federalism." To the student of government they merely reflect the ongoing transformation of an old political structure that was built on individual freedom and the private property order to a modern structure more consistent with the economic command system as it evolved during the past 30 to 40 years. All modern states are endeavoring to replace their federal constitutions with unitary structures. Consistently socialistic states are brushing aside all vestiges of federalism.

The basic charter of human rights as submitted to Parliament must be viewed in the same light. A government that seeks control over the production process needs working control over all factors of production: land, capital and labor. It cannot tolerate for long individual freedoms that would jeopardize or obstruct control over economic production. Therefore, it must subject all individual rights to "generally accepted" standards of which government itself is the final interpreter and arbiter. The constitutional freedoms, in final analysis, become duties and obligations the violations of which are severely punished by government.

Can Canada survive its constitutional dilemma? The answer depends entirely on the power and strength of the political forces that are locked in the constitutional struggle. Ideological conviction together with political passion are the great movers of social change. When men's passions are strongest they may accomplish a great deal, but they also may commit their greatest blunders.

Facing the Eighties

To no one's surprise, the political upheaval is leaving its mark on the Canadian economy. The Canadian dollar is losing ground against its U.S. counterpart, now selling at 81¢ in Canadian money markets. Although the Canadian central bank is intervening frequently to support its ailing currency, it continues to fall amidst rumors of a large southward flow of funds and sizeable commercial liquidations. Analysts are
pointing to the huge Canadian government deficit which may exceed $12 billion in 1981. By comparison, a similar deficit in the U.S., with a population ten times larger than that of Canada, would amount to $120 billion.

Canada's inflation rate now surpasses 12 per cent, according to Ottawa statistics, and its international payment account deficit is estimated to exceed $6 billion. The official bank rate of the Bank of Canada now stands at 19.89 per cent and is expected to go even higher. The economic trend is very bearish, and it is difficult to foresee a change of trend.

Canada is enmeshed in a deep recession with declining economic output, falling purchasing power of wages and levels of living, and rising unemployment. The capital markets, which attracted many billions of dollars of U.S. venture and exploration capital during the 1950s and 1960s, are depleted and exhausted by huge federal deficits. The political hostility toward capital returns and business profits is chasing liquid American as well as Canadian capital across the border.

Moreover, in an effort to achieve "Canadian control," i.e., government control, over the petroleum industry, the federal government is restricting foreign ventures and purchasing foreign-owned oil companies through its own $5 billion oil company, Petro-Canada. The purchases obviously aggravate the drain of capital from Canada and compound the problems of deficit financing. The government of Alberta, which is strenuously opposing the Ottawa policies, has in retaliation curtailed Alberta's production of oil and prohibited further work on new oil sand development.

The Power of Example

Canadians are looking to the future; the present does not satisfy them. There is always the possibility that another political party, in particular, Joe Clark's Conservative Party, may return to power, which could lead to some decentralization of Canadian federal power along with a withdrawal of federal influence over business. Social transfer programs constructed by liberal government may someday be curtailed, which would reduce the horrendous deficits and alleviate the ravaging inflation. After all, hope springs eternal in the human breast.

Canadians are probably reluctant to admit that there is transcendent power in the example set by their only neighbor, the U.S. An American example may, in the end, be more forcible than political precept. This is why the trends and policies of the U.S. during the 1980s may have a significant bearing on the future of Canada. If the U.S. succeeds in solving its economic and social
problems, which in many respects are similar to the Canadian issues, the light that will shine in the U.S. will radiate immediately across the border. If it is demonstrably true that, in November 1980, the American people embarked upon a new road to economic expansion and prosperity, our Canadian neighbors will not be far behind. But if, in the coming years, the American example proves to be merely another road in the same old direction, the destination, which is all-round government control, will be the same in Canada as in the U.S.

The world is a scene of changes. In the coming years there will be countless changes in human affairs because our thoughts and works will change. By suffering much we may yet come to see our faults and follies.

Rights for Robots

Millions of our people now look to the government much in the same fashion that their fathers of Victorian times looked to God. Political authority has taken the place of heavenly guidance.

Herbert Spencer in that wonderful prophecy, The Man Versus the State, explained in detail what would happen. He foretold with exactitude the present rush of the weaklings for jobs as planners and permit ters, telling other people what not to do.

You will have noticed that while we are all under the thumb of authority, authority becomes composed of those who, lacking the courage to stand on their own feet and accept their share of personal responsibility, seek the safety of official positions where they escape the consequences of error and failure. Active, energetic, and progressive persons, instead of leading the rest, are allowed to move only by the grace and favor of that section of the population which from its very nature lacks all the qualities needed to produce the desired results. Authority is the power to say no, which requires little or no ability.

On a broad view, the all-important issue in the world today is individualism versus collectivism.

The Individualist thinks of millions of single human souls, each with a spark of divine genius, and visualizes that genius applied to the solution of his own problems. His conception is infinitely higher than that of the politician or planner who at best regards these millions as material for social or political experiment or, at worst, cannon fodder.

SIR ERNEST BENN
Life, it seems, is one problem after another. Where do we turn for help? Most of us, at one time or another, look to the government.

Do our children need an education? We ask the government to provide schools. Do we need medical care? We ask the government to pay the bills. Is our neighborhood rundown? We ask the government to rebuild it. There seems to be no end to the solutions we seek from government.

There are, however, a few people who believe that government doesn't have all the answers. Those of us who favor free enterprise would prefer that people look to the market economy to solve more of their problems.

There are, however, a few people who believe that government doesn't have all the answers. Those of us who favor free enterprise would prefer that people look to the market economy to solve more of their problems.

But we proponents of freedom work at a seeming disadvantage. Unlike the government bureaucrat, we don't offer what seems to be the solution. We don't draw up the master plan to revitalize our city. We don't propose the rationing plan to allocate fuel. We don't figure out how to run the social security system or the postal service.

We proponents of freedom can, of course, offer numerous examples of how the market has solved people's problems.

But we've no reason to say: "Look, this private institution is better than that government institution. Therefore, private solutions are better."

Rather, we say: "Let's compare systems. Yours is based on coercive taxation, monopoly privilege, and forced participation. Ours is based on the freedom to use our own resources to try to solve people's problems. In our system we don't claim to have the solution for this or that problem, because we know that in a competitive market, trial and error will soon bring forth better solutions. We let each consumer decide for himself which solution is best for his needs. We don't impose our values on anyone."

Trial and error. Competition. Freedom of choice. This is the essence of the free market system. It won't solve all our problems, but it wins hands down over "solutions" imposed by those with political power.

Mr. Summers is a member of the staff of The Foundation for Economic Education.
Price Ceilings Harm the Poor

Casual observation of events can lead to faulty conclusions. Outward appearances can be quite misleading for things are not always as they seem. Failure to look beyond the obvious has led to many blunders on the part of both scientists and casual observers.

For instance, over the centuries it was obvious that we lived in a geocentric universe. Even the casual observer could watch the sun rise in the east, travel across the sky, and set in the west. However, Copernicus, among others, discovered that what appeared obvious was misleading. The solar system was in reality heliocentric, but the rotation of the earth on its axis made it appear that the sun revolved around the earth, rather than vice versa.

Likewise in the science of economics, one must be cautious when observing the effects of economic interventions. What seems obvious can be misleading. Take for example price controls. The politically determined ceiling price transmits faulty signals not only to consumers, producers and entrepreneurs, and resource owners, but also to pseudo-economists and most casual observers. As a result, the latter group reaches inaccurate conclusions concerning the effect of the price control. It appears that a control which dictates a ceiling price for a product keeps the price down (below what it would be in an unhampered market). However, this is an incomplete observation.

A recent illustration of the actual effect of price ceilings is the control of oil. To most observers, it was obvious that if the ceiling were removed on the price of oil, the price...
would rise. It was indisputable, they claimed, that if the price were no longer kept artificially low, it would increase. A so-called windfall profits tax was passed to remedy the injustices that would occur when the price rose. To question the assumption that removal of the ceiling on the price of oil would cause it to rise was to invite ridicule. It was so obvious that prices would rise and oil companies would reap windfall profits. To suggest otherwise would put one in the position of Copernicus or Galileo, who likewise questioned the unquestionable and faced banishment for doing so.

However, as experience has shown, the primary effect of the controls was to diminish the amount supplied. They caused shortages and discouraged competition. Exploration and production were curtailed, so that eventually the effect of the price ceiling was actually to hold the price of oil above its unhampered market level. Soon after President Reagan decontrolled the price of oil (removed the ceiling), the price began to come down. When the control was removed, production increased, additional supplies were brought to the market, and competitive forces led to lower prices. Things did not happen as it seemed obvious they would. The so-called experts were wrong. This was because the controlled price was not, in effect, just a ceiling on the price, but a ceiling on the quantity supplied. It was a disincentive to producers. The control held down the supply, not just the price. Remarkably, the ceiling was removed and the price fell.

**The Unseen Consequences**

Despite overwhelming economic knowledge that price controls (in this discussion, ceilings on prices) discourage suppliers, thus causing shortages and therefore eventually pushing prices above their free market levels, the clamor for controls never subsides. A plea on behalf of the poor is perhaps the loudest excuse for ignoring economic wisdom and imposing controls. This emotional appeal to the plight of the poor often blinds individuals from seeing things as they really are, rather than as they seem. Controls lead to a less efficient employment of scarce resources, and this hurts the poor the most. It is those on the bottom of the economic ladder who have the greatest stake in efforts to create the most opportunities, goods, and services from limited resources. The effect of price controls will be shortages and eventually prices higher than they would be in an unhampered market; effects precisely contrary to the stated objectives of their supporters.

An area where well-intentioned but misguided individuals have done great harm to the very groups they claim to represent is the housing
sector. In this instance, a type of price control particularly harmful to the poor has reared its destructive head. It is euphemistically called rent control, but in plain language it is control of people. Local governments intrude into the voluntary negotiations between two consenting adults, a tenant and a landlord, and dictate the terms of their contractual agreement. It is a denial of freedom of choice to both tenants and landlords. It is an attempt to transfer wealth from landlords to tenants, but it is doomed to failure as landlords eventually allow their buildings to deteriorate or abandon them completely.

The actual effects of rent control are generally unseen. The pseudo-economists and many casual observers fail to comprehend the long term effects of rent control. Similar to the case of price controls on oil, a ceiling on rents discourages present and potential suppliers of rental units; consequently fewer units are made available. In an unhampered market, when the quantity supplied is diminished (possibly due to a natural disaster, for instance), other things being equal, price will tend to rise. This rise in price tends to discourage the least urgent demands, thus moving the market toward market-clearing levels.

However, controls cause the quantity supplied to decrease, but prevent price from alleviating the situation. The market is grossly distorted. The artificial drop in supply is not offset by a corresponding fall in the quantity demanded—a shortage exists. Furthermore, other things are not equal, increasing birth rates, rising divorce rates, and a vast number of governmentally-induced factors cause demand to increase. This exacerbates the disequilibrium in the marketplace, causing the housing shortage to be considerably worse.

**Controls Cause Shortages**

The neglected, or unseen, aspect of the situation is the realization that the removal of ceilings on rent leads, in short order, to lower, not higher rents. Rent controls have the same effect as controls on oil—they stimulate demand and discourage supply, thus causing shortages (remember the gas lines) and eventually prices higher than would prevail in an unhampered market. If rent controls were repealed the supply of rental units would increase almost immediately. Soon, the forces of competition would cause rents to move toward market-clearing levels where supply and demand are in close approximation.

At first glance, it is difficult to accept the fact that in an otherwise unhampered market, the removal of price ceilings tends to cause prices to fall. Where there are no barriers to entry, entrepreneurs seek to sat-
isfy consumer demand. Unfortunately, many barriers to entry exist in the energy sector, the housing sector, and throughout the U.S. economy. These barriers decrease supplies. The oil and gas industry is replete with regulations and taxes which hamper the exploration, production, and distribution of energy products. Zoning regulations and restrictive building codes artificially limit the supply of housing and therefore cause higher rents and housing prices. Throughout the economy governments at all levels have erected barriers that inhibit productive activity, add to costs, and therefore reduce the supply of economic goods.

Furthermore, government policies artificially increase demand for some items. Of course, controlling the price at less than a free market level causes an increase in demand. Transfer payments enhance the purchasing power of some at the expense of others. When welfare programs are financed by inflation of the currency, an increase in demand is created virtually out of thin air. Those who get the new money first are able to purchase the limited supply of the controlled product. Since the price is controlled and therefore cannot be bid up, those first in line are able to buy out the product before others.

Government artificially increases the demand for goods and services both intentionally and indirectly through its tax structure and regulatory policies. For example, the demand for oil and gas is increased with emission controls on automobiles and by the regulation of trucking which causes less efficient transportation of goods. Government programs which offer guaranteed or low interest housing loans increase the demand for housing.

Because of the tremendous governmentally-induced influences on supply and demand, as well as the constantly changing values of consumers, it is essential that prices remain free to accomplish smoothly their functions of transmitting knowledge of changes and coordinating economic activity.

This is not a geocentric universe, even though it appears to be. Likewise, ceilings on prices do not help the poor. It is simplistic and wishful thinking to believe they are a solution to the problems of poverty. That is, it confuses what appears to be true or what one wishes to be true, with what actually is true. Price controls cause shortages and when there is less to go around it isn’t the powerful or the well-to-do who will suffer most. With unfettered prices and an open market, economic efficiency will be maximized and consumers, the poor included, will be well served.
Although being gradually undermined throughout much of the twentieth century, the traditional international economic order—free trade and migration, private property, the international division of labor—has recently been subjected to its most serious attack since Lenin’s *Imperialism* appeared in 1917. This time the attack has come not from Marxists trying to rationalize the failure of Marx’s predictions about the economic self-destruction of capitalism, but from the “third world,” or “less-developed countries” (LDCs), trying to explain their continuing poverty in the face of economic advancement by the capitalist nations of the west. According to this view the LDCs are poor because the capitalist nations are wealthy. As President Julius Nyerere of Tanzania put it:

In a so-called free-market economy economic power depends on wealth. The wealthy can determine what will be produced because they have the power to invest. They can determine the price levels of the goods produced in their own countries and elsewhere because they have the power to buy, or withhold sale. The poor buy or sell at whatever price suits the wealthy.¹

In brief, the market process, according to this view, works to the detriment of the poor. Thus, despite having achieved political indepen-

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dence from the west, the “economic power” of these economically advanced capitalist countries still enables them to dominate, to “exploit,” the LDCs. Colonialism may be gone, but it has been replaced by “neocolonialism.”

The policy implications of this “neocolonial” argument are profound. Since the wealth of the capitalist nations is the cause of the continuing poverty of the LDCs, justice dictates that the inequality between the developed and less-developed countries be reduced if not eliminated. As President Nyerere stated:

I am saying that it is not right that the vast majority of the world’s people should be forced into the position of beggars, without dignity. . . . (W)hen I am rich because you are poor, and when I am poor because you are rich, the transfer of wealth from the rich to the poor is a matter of right; it is not an appropriate matter for charity. . . . If the rich nations go on getting richer at the expense of the poor, the poor of the world must demand a change, in the same way as the proletariat in the rich countries demanded change in the past.  

This demand has been articulated in a series of measures, commonly referred to as the New International Economic Order, advanced by the LDCs, which now constitute a majority in the United Nations, and passed in that body in the mid-1970s. These measures include the following:

(1) The transfer to the LDCs, with no strings attached, of the financial assets of the developed or capitalist countries equal to seven percent of the latter’s GNP;

(2) The transfer to the LDCs of a larger share of the technology and productive facilities of the developed countries;

(3) The indirect but no less real transfer of wealth to the LDCs in the form of the cancellation of their economic debts to the developed countries; and

(4) The “permanent sovereignty of every State over its natural resources and all economic activities.” This includes such things as “the right to nationalization,” to impose tariffs, etc.

The implementation of this program would be nothing short of the creation of an international welfare state which would have serious ramifications for the traditional international order. But before we can assess the impact of the NIEO we first need to examine the validity of the “neocolonial” position on which it is based.

The “Neocolonial” Charge Examined

Simply put, the “neocolonial thesis,” that the LDCs are poor because they have been exploited by the capitalist nations of the west, cannot withstand scrutiny. There are a host of countries—Singapore, Hong Kong, Taiwan, Brazil and the like—which have advanced so rapidly over the past decade or so that they have been dubbed the “newly industrializing countries.” Singapore’s growth
rate between 1960 and 1976 averaged 7.5 percent, Hong Kong’s 6.5 percent, Taiwan’s 6.3 percent and Brazil’s 6.5 percent, all of which were higher than those of such developed nations as the U.S. with 2.3 percent or Britain with 2.2 percent. The very existence of the newly industrializing countries explodes the idea of “capitalist imperialism.” For if the capitalist countries actually exploited the third world those LDCs with the closest ties with the west should be the poorest. Conversely, those with the fewest contacts should be the most prosperous. But without exception those countries which are the most market oriented and have the most numerous ties with the west are the most prosperous while the poorest of the LDCs are those like Nepal, Mali and Afghanistan which have the fewest contacts. Thus, not only does the thesis fail to account for the empirical evidence, it is the exact reverse of the evidence!

The Liberal International Order

Although the “neocolonial thesis,” which was used to justify the passage of the NIEO in the United Nations is unfounded, the NIEO has nevertheless come to pass. What must be considered, therefore, is what would be the probable impact of its implementation. Since the NIEO constitutes severe restrictions on the existing order its impact can best be assessed by first examining this order. Although there are important and growing exceptions, the existing international order may be termed a liberal or capitalist order, i.e., one based on the classical liberal ideals of respect for private property and its corollaries, freedom of trade and migration.

Since, in an international order based purely on classical liberal principles, private property would be respected and there would be neither tariff nor migration barriers, national boundaries would be devoid of economic significance. In such a world capitalists, anxious to maximize profits, would increase their investment in those areas where the cost of factors—raw materials and labor—were cheap relative to those areas where they were expensive. Conversely, workers anxious to maximize their earnings would migrate from those areas where wages were low to those where they were higher.

This is precisely what served to transform the western world in the nineteenth century. Since Great Britain began to save and invest sooner than other nations it had a higher standard of living than all other European countries. But, as Ludwig von Mises points out, “something happened which caused the headstart of Great Britain to disappear.” That something was the internationalization of capital, which Mises terms “the greatest event in
the history of the nineteenth cen­
tury.” In 1817, he continues,

The great British economist Ricardo still
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. . . . Foreign investment
meant that British capitalists invested
British capital in other parts of the world.
They first invested 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 . . . were built
with the aid of British capital. The gas
companies in all the cities of Europe were
also British. . . . In the same way British
capital developed the railroads and many
branches of industry in the United States.6

The Great Migration of
Capital and Labor

Occurring at the same time was
the “great migration” of individuals
from Europe, which was relatively
overpopulated and in which wages
were therefore low, to the U.S., which
was underpopulated and, accord­
ingly, wage rates were higher. This
dual process of capital and labor mi­
gration would continue until equi­
librium were reached, i.e., the mar­
ginal utilities of both capital and
labor were equalized. This is essen­
tially what occurred in the western
world, although to the extent that
there were tariff and migration bar­
riers complete equalization was pre­
vented. And, other things being
equal, this is also what would occur
throughout the world.

But other things are not equal.
Compared to the west, wage rates in
the LDCs are quite low while inter­
est rates are notoriously high. This
means that there is a “surplus” of
labor and a “shortage” of capital and
one would expect capitalists to ex­
ploit this opportunity for profit by
investing in the LDCs. One would
also expect this process to continue
until wage rates in the LDCs
equalled those in the developed
countries for the same type and
quality of work. In the process, as
capital became less scarce interest
rates, and thus returns to capital,
would decline to the point at which
they equalled those in the west. But
this has occurred only to a limited
extent. The bulk of western foreign
investment has gone to other west­
ern nations, and even that from non­
western countries, such as the Arab
nations of the mid-east, has been in­
vested largely in the already capital
intensive nations of the west. Why?

(a) Lifestyle. It is sometimes for­
gotten that the developed countries
were not always developed. Until
only recently all peoples of all na­
tions were “undeveloped.” It was only
in the eighteenth century, in what
is now termed the Industrial Revo­
lution, and only in a particular part
of the world, in what is now desig-
nated as the “west,” that the standard of living began to rise above the subsistence level. What made possible the dramatic transformation of one small section of the world while conditions in the rest of the world remained practically unchanged was, of course, the fact that by the mid-eighteenth century capital had been accumulated in Europe—or more accurately in England—in amounts sufficient to spawn the economic “takeoff.”

An important question is, why was capital accumulated in Europe but not elsewhere? Several scholars have noted the existence of two fundamentally distinct lifestyles. The one has been variously dubbed a traditional or country lifestyle; the other a modern or urban lifestyle. In the former the family is the unit of production, the bulk of production is for immediate consumption, specialization and the division of labor are practically nonexistent, and innovation is eschewed, while the latter is characterized by an inquisitive, innovative turn of mind and a fairly close correlation between individual effort and reward. The factory is the unit of production, functions are specialized, relations are individualized and impersonal and the bulk of production is for sale on the market.

Historically, the relationship between economic progress and urbanization has been a close one. “It is well known,” says Bert Hoselitz, “that beginning with the early eleventh century western Europe underwent a process of economic development which was accompanied by the growth of towns and urban institutions.” He attributes to these cities, a predominant economic function. They were places in which new forms of economic activity and new types of economic organization were evolved. They were places not merely in which new commodities were traded and whence new markets and sources of supply were explored and conquered but in which appeared the first signs of new class relations based on alterations in the division of labor.

In brief, industrialization and economic development require not simply hard work, which is certainly part of the traditional or country lifestyle, but also frugality, efficiency and risk taking and, related to these, the incentive for saving and investment. Since these are characteristics of the urban lifestyle, economic development required the transition from a traditional or country environment to a modern or city one.

Today the western world may be seen as the “city” and the third world the “country.” This is not to suggest that the west is entirely “urbanized.” The U.S. remains one of the world’s chief producers of agricultural products. Yet what is most sig-
significant about this is the degree to which in the west even those in the country have adopted the lifestyle of the city. In America farming is a highly specialized occupation, and the farmer is, in fact, an entrepreneur: he generally consumes little of what he produces and since his production is for the market he must anticipate consumer demand. He must therefore decide not only what and how much to plant but when, where and how much to sell. Thus even in the developed nations the so-called country conducts itself according to the spirit of the city.

In the west even farming is a business. But an entirely different spirit pervades most of the third world: the spirit of the country. It is not just that the agricultural sector is large. What is significant is the prevalence of subsistence farming. Farming is not a business, it is an existence. Since the production unit is the single family, farms or plots are small. This precludes specialization and the division of labor. The emphasis on familial duties greatly inhibits individual mobility, and reverence for one’s ancestors or for the ancient order, which is usually a component of the country, discourages innovations. Finally, the absence of the “cash nexus,” of production for sale on the market, is incompatible with the development of the spirit of enterprise and entrepreneurial acumen.

**An Incompatible Lifestyle**

One cannot say that such a lifestyle is wrong; but it can be said that it is incompatible with economic development. An assembly line, to take a simple example, requires the coordinated activity of numerous individuals. It cannot function when individuals, unaccustomed to “punching a time clock,” cannot be depended upon to arrive at work on time. The successful functioning of an industrial economy requires discipline. One may reject such a lifestyle for one of, say, religious contemplation or greater leisure. But those who adopt such a lifestyle have no right to complain because their economic position stagnates while that of others, who subject themselves to the rigors of the marketplace, advances. It is this antagonism between the prevailing lifestyle of the LDCs and the successful conduct of economic activity that in large part explains the failure of western capitalists to invest in the third world.

However, to refer to the third world as the “country” does not imply the complete absence of urban centers. They do exist and this is fortunate. For it is through such centers that contacts with the west are made. And these contacts spawned LDC development. Writes Peter Bauer:

> Over the last hundred years or so, contact with the west has transformed large
parts of the third world for the better. For instance, in the 1890s Malaya was a sparsely populated area of hamlets and fishing villages. By the 1930s it had become a country with populous cities, thriving commerce, and an excellent system of roads, thanks primarily to the rubber industry brought there and developed by the British. Again, before the 1890s there was no cocoa production in what is now Ghana and Nigeria, no exports of peanuts or cotton, and relatively small exports of palm oil and palm kernels. These are by now staples of world commerce all produced by Africans, but originally made possible by European activities. . . . Western activities . . . have thus led to major improvements in the material conditions of life in many parts of the third world. This is not to suggest that there has been significant material progress everywhere in the third world. Over large areas there have been few contacts with the west. And even where such contacts have been established, personal, social, and political determinants of economic performance have often proved unfavorable to material advance. But wherever local conditions permitted, contacts with the west most often resulted in the elimination of the worst epidemic and endemic diseases, the mitigation or disappearance of famines and a general improvement in the material standard of living for all.  

In short, the prevailing values throughout much of the third world discourage foreign investment. But values can change, as the existence of the NICs dramatically illustrate. It is through contacts with the west that most of the LDCs have been exposed to values compatible with development. But the degree to which these values are embraced depends on them.

(b) Government Intervention. Another reason for the dearth of foreign investment can be summarized under the heading of government intervention. While this is hardly unique to the third world, the governments of the LDCs are, as a rule, more active in the economy than are those in the developed countries. Licensing restrictions are common, as are tariffs, high taxes and state-supported monopolies. Even the forcible resettlement of entire peoples is not unknown, as the transfer of urban dwellers to the country in Kampuchea and Tanzania's resettlement of rural people into "cooperative villages" attests. But what is of concern here are those policies which reduce the inflow of foreign capital. Two such policies, minimum wages and nationalizations, will be discussed.

Minimum Wage Laws Aggravate the Problem

It has become fairly common for the governments in the LDCs to adopt minimum wage laws in order to raise wages. But wages are low because the bulk of the workforce is unskilled and/or unaccustomed to the discipline of the industrial sector,
and such laws do not change that condition. By preventing workers from offering a "compensating difference" for these drawbacks, minimum wages reduce the attractiveness of investing in the LDCs, thereby restricting the inflow of capital and increasing unemployment. In the long run such policies prevent workers from acquiring those skills which would increase their productivity, thus making investment more attractive. Hence, they retard economic development. It should not be forgotten that low labor costs, which moralists often condemn as "exploitation," has been a major factor in the rapid development of Hong Kong, Malaysia and other NICs and, subsequently, their higher living standards.

More serious, however, is the nationalization of foreign-owned enterprises. The reluctance of western capitalists to invest in the third world has been observed by many and some have even charged that the west is deliberately boycotting the third world. The reason for this reluctance is not hard to find. Investment always entails risk. But in the third world this is often aggravated by the uncertainty of the economic environment. If the investment fails, the speculator loses all or part of his investment. But if it succeeds he is usually subject not only to high taxes but the ever-present possibility of nationalization. The Mexican expropriation of foreign-owned oil holdings in 1938 was neither the first nor the most extensive nationalization. But it does exemplify the attitude of many LDCs. In response to the American demand for "prompt, adequate and effective compensation," the Mexican government stated:

There is in international law no rule universally accepted in theory nor carried out in practice which makes obligatory the payment of immediate compensation nor even of deferred compensation for expropriations of a general and impersonal character. 9

Although American holdings were valued at $200 million they eventually received slightly less than $25 million.

Other nationalizations include Russia (where all foreign-owned industrial property was confiscated after the revolution in 1917), Iran, Guatemala, Bolivia, Argentina, Cuba, Peru and Chile. 10 Such nationalizations have cost western capitalists billions of dollars. While the result is windfall gains for the nationalizing country, in the long run it slows development by making access to capital more difficult. The LDCs often complain of high interest rates. What they apparently fail to realize is that their interest rates are high because of a shortage of capital which, in turn, is in large part a result of their policy of nationalization.
To summarize, while there is a tendency for both wage rates and returns to capital to equalize throughout the world, this has been offset in the third world by such factors as the prevailing lifestyle and extensive government intervention.

A Note on Mercantilism

Since the role of government has just been discussed, some mention should be made of mercantilism. Too often being pro-free enterprise is confused with being pro-business. But the two are not identical. Being pro-business usually means advocating policies such as tariffs and licensing restrictions designed to insure profits by insulating businesses from competition. But being pro-free enterprise means opposing institutional restraints on competition. Thus, as Friedman has noted, "Tariffs are anti-free enterprise, yet pro-business." The pro-business system, or mercantilism, is a profit system; the pro-free enterprise system, or capitalism, is a profit and loss system. The distinction is fundamental. When individuals are free to go elsewhere, a business can avoid losses only by providing what consumers desire to buy. But when businesses are freed from the threat of competition, this incentive for service is absent. When the possibility of loss is present, profits are earned by serving others; when they are not, profits can be earned at the expense of others.

There are no doubt examples of multinational corporations seeking, and receiving, special privileges from foreign governments. The role of ITT in Chile in the 1970s is one example; that of United Fruit in Guatemala in the 1950s is another. But since poverty is greatest in those LDCs with the fewest western contacts, such cases do not explain the plight of the third world. Nor is it necessary for one who is pro-free enterprise to defend such mercantilist practices. The Wealth of Nations, Adam Smith's great treatise on free enterprise, was written, after all, precisely to rebut the mercantilist practices of his day.

The NIEO Evaluated

We are now ready to assess the impact of the NIEO. The measures in the NIEO can be categorized as follows: (a) the transfer of wealth, (b) nationalizations, and (c) the imposition of tariffs. Each will be discussed in turn.

(a) The Transfer of Wealth. It is dubious that the transfer of wealth can improve the position of the LDCs. In fact, it is likely to make them even worse off. Such aid, as is foreign aid now, would no doubt be administered by and through government. This would promote even greater government control over the economic life of the nation. Apart from the serious restrictions on in-
dividual freedom that are likely to occur, such a policy would have several other ramifications.

Private investors, risking their own capital, must serve consumers. But a government, especially one receiving aid, is relieved from this economic constraint. This permits public officials to substitute their own individual priorities for those of the marketplace, thereby allowing them to pursue policies that are economically unsound. These include everything from imposing restrictions on the economic activities of productive but unpopular minorities to lining the pockets of themselves and their friends. It also permits officials to divert resources from the satisfaction of consumer demand to use in such capital intensive projects as the construction of steel mills or hydro-electric dams even when either there is no demand for their products or they can be bought much cheaper elsewhere. Although such projects are undertaken in the name of industrialization, they do not contribute to economic growth but are a wasteful drain of the resources of the country. "The availability of resources at little or no cost to the country in question inevitably stimulates monument-building," Friedman notes. "Thus . . . foreign aid grants . . . lead to a notable increase in the amount of capital devoted to economically wasteful projects."12

In addition, wealth transfers have other drawbacks. It is a mistake to regard such aid as a net addition to the capital stock of a country. The expansion of government control over the economy reduces "the pressure on the government to maintain an environment favorable to private enterprise." Since this discourages private investment, domestic and foreign, the result could well be a net reduction in the amount of capital available.13

Finally, it should be noted that by increasing dependency on government, the politicization of economic life created by wealth transfers works to retard the acquisition of those attitudes—thrift, industry, self-reliance—which are necessary for development. None of the western capitalist countries required transfers of wealth for their development and, for the reasons given above, the transfers proposed by the NIEO would probably harm rather than benefit the LDCs. As Bauer has written:

If all conditions for development other than capital are present, capital will soon be generated locally or will be available . . . from abroad. . . . If, however, the conditions for development are not present, then aid . . . will be necessarily unproductive and therefore ineffective. Thus, if the mainsprings of development are present, material progress will occur even without foreign aid. If they are absent, it will not occur even with aid.14

(b) Nationalization. This issue
can be dealt with quickly. We have seen that past nationalizations have retarded development. There is no reason to suppose that their effect in the future will be different simply because they have been termed an "inalienable right" by the NIEO.

(c) Tariffs. The one final issue raised by the NIEO is that of tariffs. The major LDC argument for tariffs is that they would stimulate development by encouraging industrialization.

While tariffs may stimulate industrialization, industrialization should not be confused with development. Industrialization is usually correlated with development because on the free market new technologies are utilized only when they reduce costs by increasing output per unit of input. But such is not the case with tariffs. Manufactured goods that were previously imported because their total cost of production, including transportation, was below that incurred by domestic producers now become, with the tariff, more expensive. The result is the substitution of local for foreign production.

However, as Harry Johnson points out, "the use of protection to promote substitution of local for foreign production does nothing to reduce the comparative disadvantage of local as contrasted with foreign entrepreneurship."15 For example, since it is often the case, especially in the LDCs, that the domestic market for a particular good is too small to permit exploitation of economies of scale and specialization, the costs of production are inordinately high. Thus, although tariffs may artificially stimulate industrialization, this can hardly be viewed as economic advancement. In fact, what has occurred was the shifting of resources from more to less productive uses with the result that everyone except perhaps the domestic producers of the good, is less well off.

The Free Market Serves to Overcome Poverty

A common criticism of capitalism is that the businessman is concerned solely with profit. He does not care whether the goods he produces are useful. Nor is he concerned with the well-being of his workers. Production, runs the popular argument, should be for use, not just for profit, and everyone should be guaranteed a living wage. Thus, Indian President Indira Gandhi has recently called for a "new approach to foreign investment" in which in place of the quest for profit, investment would be undertaken on the basis of "service to community." This view, which permeates much of the literature on the LDCs, fails to distinguish between intention and consequence.

It may be true that a businessman
Government in Business

It is not the business of governments to go into business, and when they do, they do not do it well. Their proneness to display, and their comparative indifference to costs, markets, or innovation, lead them to dissipate the energies of their peoples in spectacular and comparatively unproductive ventures.

Many economically fastidious governments, for ideological or political reasons, mind the business of their citizens to a degree that cuts down energy in both national and international circuits.

The efforts of “welfare” governments, in particular, to protect certain interests and discourage others, often work against the prosperity of both their own and other nations.

HAROLD FLEMING, *States, Contracts and Progress*

cares only about his profit; that he is unconcerned about the use to which his product is put or about the well-being and happiness of the workers he employs. But it does not follow from this that the goods he produces are not useful, or that his workers are underpaid or unhappy. On the contrary. Since people only buy what they intend to use, the distinction between production for profit and for use is fallacious.

In fact, it is the genius of the market process that, Prime Minister Gandhi notwithstanding, profit and “service to community” are correlated: the more efficiently one produces the goods others desire, the more profit one will earn. And since what an entrepreneur can bid for factors—land, labor and capital—is limited by his expected yield from the sale of his product, those who are able to produce the most intensely desired goods at the cheapest price receive the highest return on the sale of their goods. They are therefore able to make the highest bids for the resources they need. Conversely, those who either produce goods that are not highly demanded or who produce intensely demanded goods but at higher costs than their competitors earn smaller returns or even suffer losses and cannot therefore bid as much for factors. In this way factors are channeled from the production of goods which are less intensely demanded by consumers to the production of goods which are more intensely demanded. Thus, while the intention of the capitalist is to make profit, the consequences of his actions are the most efficient production of those goods most intensely demanded.

Since the free market works to allocate all factors of production to
their most value-productive point, any restriction on this process can only reduce the value of what is produced, thereby hurting the great bulk of participants. Wealth transfers, nationalizations and tariffs are clearly just such restrictions. Thus, far from promoting development, the NIEO is likely to perpetuate the stagnation of the LDCs, or even worsen their plight.

The twentieth century has witnessed the continual encroachment on the liberal international order. If spokesmen for the LDCs seriously desire to overcome their poverty, they should not propose further restrictions; they should advocate the repeal of existing ones.

—FOOTNOTES—

1 In P. T. Bauer and B. S. Yamey, "Against the New Economic Order," Commentary (April, 1977), p. 27.
2 Ibid. Also see Kwame Nkrumah, Neo-Colonialism: The Last Stage of Imperialism (New York: International Pub., 1965).
8 Bauer, "Western Guilt," pp. 32–33.
13 Friedman, "Foreign Economic Aid," p. 207.
14 Bauer, Dissent, pp. 97–98.
Jacques Barzun’s *Teacher in America*, now reprinted by the Liberty Press, was first published in 1945. Though I was enormously interested in the subject (I had just finished a three-year stint teaching a class in Graduate School journalism at Dr. Barzun’s own Columbia University), I had no time to read it. I was trying to learn the ropes of a new job in Washington.

The book had come just three years too late to help me, which was a misfortune for some of the excellent students (Flora Lewis of the *Times*, Allen Otten of the *Wall Street Journal*, Milton Stewart of the new *Inc.* Magazine, Marguerite Higgins, the only truly great Vietnamese war correspondent, and Nona Balakian of the *Sunday Times Book Review*, to name just a few). I practiced on them, trying to reconcile the fact that I was teaching at a “methods” school, a “trade school,” with my rebellious feeling that what journalism students really needed were courses in history, government, literature and economics. The “who, what, where, when” necessities for constructing a lead could be mastered in days, as I had discovered long ago.

If I had read Barzun I would have felt less guilty about trying to get “substance” into the students. His book does not decry “method.” The modes of teaching—lecturing, keeping orderly movement going in discussion groups, one-on-one tutorial sessions, written and oral examinations—get a thorough going-over, reaching the eclectic conclusion that emphases in method should depend on the talents of the instructor. It is
the perversions of common sense that annoyed Barzun in 1944–45. The Progressives with their “look-say” methods of teaching reading and writing were then riding high. And famous performers such as Phelps and Tinker at Yale and “Copey” at Harvard were being scoffed at as “showmen.”

**Teacher in America** by Jacques Barzun. (LibertyPress 7440 N. Shadeland, Indianapolis, Indiana 46250), 502 pages, $9.00 cloth; $4.00 paperback.

It was a time when Bob Hutchins of Chicago University was complaining that nobody read any great books in college. This was not true of Barzun’s Columbia. John Erskine, the rediscoverer of Herman Melville and *Moby Dick*, had already started his course in General Honors Readings in the early twenties, using a prepared list of fifty-three great books from Homer to William James. The course had grown (Mark Van Doren and Mortimer Adler also taught it.) The idea spread to St. John’s College in Annapolis and to Hutchins’ Chicago, where it became rigidified, with all history and science related to sources in “the one hundred best books.”

Dr. Barzun thinks this was an “overreach”—“modern culture,” he says, “has become specialized and each specialty, even when broadly conceived, requires the direct study of its current output.” As a professional historian Barzun doesn’t think any six “great books,” even when they include Plutarch and Gibbon, can serve as the basis for a coherent idea of modern history. St. John’s did, in 1944, supplement the historic classics with readings in later political writers. But Barzun tried to give his students more than that.

The vogue for “testing” and the use of multiple choice examinations filled Barzun with distaste in 1944. The more subtle the student, the more likely he is to cavil at the arbitrariness behind yes-or-no question choices. You can’t spot Henry Ford as an ignoramus and historical bumbler because he couldn’t assess the difficulties of his “peace ship” expedition. He was an experimenter who, after all, made new industrial history by understanding the shortcomings of the old. He may not have known about the Jews or Wall Street banking. But history has many strands. I remember being made angry when the question, “Was Ford an historical ignoramus?” came up on my son’s test during his junior year in high school. I would have flunked the answer. Cynically, Johnny gave the one that was expected of him. His aim was to make college.
The Ph.D. Octopus

Dr. Barzun assailed the "Ph.D. Octopus" back in 1945. The ability to teach, he had observed, did not always coincide with the ability to do Ph.D. research. I had observed this at Yale where Bob French, in love with teaching his own Chaucer course, refused to waste time on what he regarded as Ph.D. nonsense. He didn't want to turn over his exam readings to young instructors while he labored with a supererogatory thesis that would take him away from personal contact with his students. For a period he quit Yale to run a prep school. He eventually returned when Yale needed housemasters who did not necessarily have to have Ph.Ds.

In a new foreword Barzun finds a "great chasm" between the Forties, when teachers wanted to teach, and the present, when commissions and panels and special foundation work leading to big fees are distracting elements. The test of a good academic job is that it leaves one with fewer contacts with campus life. The colleges now recruit from the "waste land" of a "once proud and efficient public school system." They must do their best with the "socially promoted" and the "functional illiterate." The inflationary costs make everything contentious. But Barzun has not given up. "There is no help for it," he says, "we must teach and we must learn."

AMERICA'S CHOICE:
TWILIGHT'S LAST GLEAMING
OR DAWN'S EARLY LIGHT?
by James R. Evans
(The Fisher Institute, 6350 LBJ Freeway, Suite 183E, Dallas, Texas 75240)
142 pages • $11.95 cloth

Reviewed by Edmund A. Opitz

JIM EVANS is a businessman. That's his occupation. His preoccupation is human liberty, and for many years he has worked tirelessly on behalf of the free society-free economy philosophy. He has lectured widely and frequently, he has appeared on radio and television, and now we have his second book. Give us a thousand businessman like Evans, and we'd soon have ten thousand more—and the nation would regain its health.

It may have been The Foundation (FEE) that, years ago, turned Jim Evans on—as he generously says in the book's dedication—but it's his own steam that keeps him going now, working toward a new birth of liberty.

His book is crammed with pertinent factual information, which he buttresses with solid chains of reasoning and striking examples. A most convincing combination. In eighteen concise chapters Evans (a) presents an eloquent statement of our American heritage, (b) explodes the myths back of the anti-free economy stance,
(c) reveals the extent to which we have implemented the ten points of The Communist Manifesto, (d) writes an expert critique of majoritarianism—and much more.

This is a citizen's manual of freedom, not merely an exposition of the freedom philosophy. The conscientious reader, hooked on liberty, is bound to ask, “But what can I do?” And the book answers with a list of eight things any person can and should do, and ten organizations who can help him do them. The exceptional reader may even become a writer—like Jim Evans—and the American dream will take on new substance.

AFTER REASON
by Arianna Stassinopoulos
(Stein & Day, Scarborough House, Briarcliff Manor, N.Y. 10510)
240 pages ★ $10.00 cloth

Reviewed by Joseph C. Towle

The erudite and articulate author of this book writes a most persuasive brief for the thesis that our capacity for rational thought is only one of the several faculties of the mind, perhaps not even the most crucial one. That part of the mind which can draw an inference or frame a syllogism is only the upper, conscious, layer of the mind, sustained by layer upon layer below. Reason dissects and analyzes external realities; it orders sense experience; it arrives at conclusions and tempers judgment. Reason is our only route to some truths, and it is a tool of survival. But reason has allies in the deeper layers of the mind, the seat of intuition, imagination, and poetic creativity. At these levels occurs the subconscious recording of individual experience and that of the race, and the perception of metaphor in spiritual reality—mental functions which play an important role in aligning the individual with his life's meaning and purpose. It is not reasonable to depend on reason alone, for this limits or denies entry to other essential mental functions.

In the book's opening paragraph Miss Stassinopoulos declares that "the individual . . . has been searching more and more urgently for a spiritual path out of the closing trap." She might have said, in somewhat different terms, that modern life has become ugly in many ways because the human spirit no longer has space to exist, much less a climate for growth. The great Greek dramatists convey the same truth. The lesson of Euripides, Philip Vellacott his translator tells us, "is that civilized men ignore at their peril the world of instinct, emotion and irrational experience."

Against Utopianism, a product of sterile, formulated reason, just how does the unscholarly, perhaps inar-
The glib, smooth rationalists, gnostics, planners, social "scientists," educators, politicians—the intellectual elite, mostly spiritual dropouts—all would make rhetorical hash of what he knows he needs to make his life go tolerably. They would cheapen and ridicule his spirit, the lore and wisdom of his fathers, and the symbols he depends upon to bear him up in often hostile surroundings and dark days.

Miss Stassinopoulos brings sure understanding to the problem in clear, well documented prose, free of the jargon and sophistries so beloved of our intellectual masters. In her thorough, though occasionally repetitive inquiry she strongly attacks the hubris and mendacity of the New Class—especially the "progressive" academy, clergy and politicians—and their specious and fraudulent schemes to rescue every man and all men from their own actions. This is to be done first by discrediting their inherited wisdom and spiritual values and then by re-engineering the abstraction called society—faceless men and women. The New Class never bothers to define "society," which in fact does not exist as an entity. In reality, there are endless numbers of vastly different individuals each with his unique, disparate qualities, which make him go, do and live like no other.

*After Reason* is a sort of primer for the men and women who haven't the luxury of much time for reading and reflecting, but who know that things are not going well and are not sure just why. To the farmer, businessman, shopkeeper, laborer and their fellows, Miss Stassinopoulos lends a strong guiding hand through the cleverly constructed maze of perplexities and obstacles to reality so grandly and condescendingly presented by the sycophants, sophists and other engineers of our spiritual, intellectual and moral decline.

Here is a searching, honest and heartening work by a woman of exceptional gifts. She will be heard again—and not too soon for this reviewer.

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**THE TAX-EXEMPT FOUNDATIONS**
by William McIlhany, II
(Arlington House, 333 Post Road West, Westport, Connecticut 06880)
302 pages $20.00 cloth

Reviewed by Tommy W. Rogers

This study explores the degree to which the major tax-exempt foundations have advocated, propagated for, and mobilized opinion on behalf of statism and collectivism in the areas of education, health pol-
icy, and public welfare. It reviews the various congressional investigations of foundations from 1912 to 1969, and it specifically examines the major foundations (Carnegie, Rockefeller, and Ford), as well as the smaller activist foundations, such as The Twentieth Century Fund, the Field Foundation, and the Stern Fund. McIlhany has sifted through the publications of those foundations, he has weighed the activities promoted by them, and he has had extensive interviews with those in charge.

McIlhany's research corroborates the suspicion that tax-exempt foundations are "promoting, almost exclusively, socialism at home and world government abroad, and doing so at taxpayers' expense." These ideological goals are consistently of a coercive and anti-free market nature, "controversial at best and destructive of the entire social system which originally produced the funding wealth at its worst."

The author's philosophical persuasion is libertarian and Austrian. He advocates a laissez-faire economy in which government would be limited to the provision of local criminal justice and national defense, all other products and services being offered on the free market. He does not think "it is unreasonable to suppose that under such a system individuals would voluntarily pay the state for its two functions since they would not be forced to pay for anything else." And, as he notes, "in a free economy all problems relevant to tax-exempt foundations would disappear, except instances of criminal conduct punishable under other laws. All charities could function as competing, profit-making companies, offering some investment return to their contributors, or they might compete solely on the basis of their beneficent accomplishments." Such, he writes, is the ideal form of public accountability.

Meanwhile, foundation promotion of statist orthodoxy must be challenged "if we are to be able to create sufficient public understanding to prevent the foundations from destroying what remains of the system that made possible the creation of accumulated wealth which sustains them." McIlhany has accomplished a major step toward that public understanding. He has produced an excellently researched, substantively documented, analysis of the impact of the tax-exempt foundations. This book is definitely worth reading, including the footnotes.
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Nostalgia for the "good old days" may mean poverty and misery.

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The speculator serves by reducing price fluctuations.

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The highway example of waste in public sector spending.

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Anyone wishing to communicate with authors may send first-class mail in care of THE FREEMAN for forwarding.
I received a most appealing magazine in the mail the other day, a publication full of pictures of a good life that could be mine if only I would try to be more self-reliant. There were attractive log cabins with rustic, spacious interiors, lush greenhouses that produce fresh vegetables in the dead of winter, solar panels that will heat my home at a much lower cost than our local utility, and tips on living better with less dependency on automobiles and other such evils of modern technology.

The message was clear: by being dependent on the labor and productivity of others, we have lost our sources of independence; we are not truly free and, indeed, have enslaved ourselves in a technological society that can only demand more, more, more. There was even an editorial to that effect:

"Before 1776 we were less than free as a country, but Americans were independent in a personal sense. Most people then built their own homes, grew their own food, made their furniture and clothes, and even bred their own horses for transportation. True, life was much harder than now. But the support systems were within reach of almost everyone, and were subject to individual control. People 'paid' for much of what they used with their own effort. Almost all the raw materials were renewable. Our material culture was sustainable, and America could be cut off from the rest of the world without the creation of much

Mr. Anderson is Director of Publicity at Tennessee Wesleyan College and a free-lance writer.
suffering or hardship... What can be done about our growing dependence in these modern times?"

In one sense, that writer is correct. After all, it is to our advantage to be competent in many areas. It makes better sense for me to change a fuse than to pay an electrician $16 to do the same thing; it might be wise for me to know how to operate a fire extinguisher so should a fire ever break out in my house, I can quickly put it out rather than wait 15 minutes until the fire department arrives to salvage what is left of the structure.

This fall I am riding my bicycle to work on occasions both to save gasoline (but not time) and to get exercise that has been sorely lacking in the last year. Last summer I worked hard to nurture a very productive garden and at the present time I am constructing a small solar panel with aluminum cans and scrap materials. In fact, a visitor in our home might well assume, after observing my wife and me at work, that we do subscribe at least in part to a self-sufficient lifestyle. Nothing could be further from the truth.

**The Myth of Self-Sufficiency**

The self-sufficient lifestyle is a myth, and even if it were possible in this age, or was possible at any time in history, it is socially undesirable. The self-sufficient lifestyle is impossible to live because all of us are dependent upon the productivity of others and those who might choose to live entirely by their own hand do so at the high cost of poverty and misery to themselves.

There was a time in history when communities were, on the whole, relatively self-sufficient. The farmers grew all the community's food near the towns, blacksmiths forged tools and weapons in their grimy shops, the townspeople's clothing was made from wool and flax produced locally, and the community's safety was in the hands of the local nobleman. In case the readers have not figured out the time period, it was the Dark Ages when the world's most developed people, the Europeans, lived in squalor, semi-starvation and under constant threat of attack by the armies of rival noblemen—poverty and misery.

Most persons advocating the self-sufficient lifestyle will quickly reject any accusation that says they are advocating a form of feudalism. After all, most of them are self-proclaimed pacifists (no warring on neighboring villages permitted) who claim they simply wish to live in peace and live their lives without interference from hostile outside forces. But we still have not answered the basic question: Is the self-sufficient lifestyle possible and, if so, is it desirable?

Even in the tightly-knit feudal communities there was a need for
cooperation rather than self-sufficiency. The nobleman was dependent upon the productivity of the serf for his food; the serf was dependent upon the blacksmith for the tools (capital) that would enable him to grow enough food to keep the persons in the community alive for another year; and all were dependent upon the intelligence and leadership of the nobleman who had to keep rival armies from sacking the towns and destroying the crops. In this sense, individuals were not self-sufficient, but the combination of their productivity enabled most members of the community to eke out a marginal existence.

In reference to the aforementioned editorial, it might be good to compare the lifestyle of the American pioneers to that of the Europeans of feudal communities, and also to see just how desirable the pioneering life was in contrast to our present existence in this country. First, the pioneers had the advantage of firearms (made by other craftsmen) which were more effective in protecting their homes and settlement villages than the arrows and lances of the Middle Ages, and also provided an effective tool for hunting. But, like that of their ancestors of Medieval Europe, their life was a harsh one. “Most of them traveled on foot, their possessions on their backs, in wheelbarrows, or saddled to a few scrawny cows that had been transformed into beasts of burden. Travelers from abroad noted the characteristic bluish complexion of these settlers, many of whom suffered from forest fever, milk sickness, and especially the swamp-bred ague (malaria).”

Improved Standards of Living Through Specialization and Trade

It is true that many pioneers directly produced their items of necessities, but their lives also reflected the harshness of that kind of lifestyle. Their children did not attend school, but instead worked in the fields alongside their parents. Death by disease was high and infant mortality common. Alone in the woods, they were often easy prey for warring bands of Indians and outlaws. However, as more and more people pushed west, the pioneers became less isolated, banded together in villages, became more dependent upon each other for their goods and, as a result, improved their standard of living.

But, as the editorial writer might argue, at least the early pioneers were self-sufficient and had more control over their own destiny. To say that, however, one must assume that vulnerability to hostile raiders, the ever-present reality of mortal diseases, and the back-breaking labor needed to survive the wilds is somehow more desirable than our present status, dependent as we may
be on the productive efforts of others.

As for the self-sufficiency of America as a whole, one must look at the results of the Embargo Act of 1807 to see just how well the people of this nation lived when deprived of foreign goods.

"The Embargo Act meant ruin, not to Britain and Europe (the intended targets of President Thomas Jefferson), but to American commerce and American ports. In spite of the losses caused by the European wars, between 1803 and 1807 American exports had grown from $55 million to $108 million. By 1808, they had dwindled to the little that could be smuggled out of the country. In New York, as one traveler reported, 'the grass had begun to grow upon the wharves.' Industries associated with commerce, such as shipbuilding and sailmaking, were also at a standstill, their artisans unemployed."

Progress Regained After Repeal of the Embargo Act

It took little more than a year before America's experiment in consuming only what was produced within its own borders was junked for the more preferable "growing dependence" on producers of other nations. It was as though the American political leadership had finally regained its sanity and once again took heed to what Adam Smith in

*The Wealth of Nations* had told them 32 years earlier:

"It is the maxim of every prudent master of a family, never to attempt to make at home what it will cost him more to make than buy. The tailor does not attempt to make his own shoes, but buys them of the shoemaker. The shoemaker does not attempt to make his own clothes, but employs a tailor.... What is prudence in the conduct of every private family can scarce be folly in that of a great kingdom."

This passage is used mainly in defense of free trade between nations, but it is also vital for the individual as well. For example, my car needs major repairs before winter. Now, I can either attempt to repair it myself or take it to a mechanic. If I try to fix it myself, I must first buy some specialty tools in addition to the tools I already own. I must then purchase all the new parts, then put my talent and experience together into one less-than-magnificent effort as I try to do something I have never done before. Of course, I know enough about my car to be able to complete the job without being forced to have it towed to the junkheap, but the total cost of my effort, tools plus parts plus time plus high blood pressure, would be far greater than the expense I would incur by simply taking it to a mechanic I trust and leaving it with him for a couple days. In this case, my attempts at self-suffi-
ciency would be far more costly than dependency upon a knowledgeable mechanic.

But even if I could repair my car at a lower cost than I would pay for a repairman, in reality I still would not be self-sufficient. After all, I would be dependent upon the automakers for the spare parts, toolmakers for my tools, and writers and publishers for the repair manual. In other words, I would be dependent upon the voluntary cooperation of the thousands of persons who had a hand in making all those products in the same way the rugged, independent backwoodsmen were dependent upon the skilled craftsmen who made their accurate rifles.

For Survival and Comfort

The truth is, no matter how much anyone talks about self-reliance, interdependence is still necessary for, first, our survival, and second, any comforts we collect. We are told that if we ride bicycles, then we won’t be dependent on either the automakers or the Arabs who provide us with much of our oil. That may be true in one sense, but that view is extremely short-sighted. My 10-speed bike was made in Italy, which means that if I am to be personally independent of the automobile and its producers, I must now be dependent upon the competence of an Italian bikemaker. I am also dependent upon the skill of the ship captain who brings that bike across the ocean (on a vessel powered by Arab oil) and upon the good driving habits of the trucker who brings the product to the retail shop (on a truck powered by high-priced diesel fuel).

If my solar heating panel succeeds in lowering my utility bill, I will still have to depend upon the Tennessee Valley Authority to provide me with at least some of my electricity, but I will then be dependent upon the aluminum cans produced by the nearby Alcoa plant—which draws its electricity from the same source as I do. Neither does my productive garden make me a self-reliant person. True, I may not spend as much money at the grocery store as I once did, but my dependency is now shifted to the makers of rototillers and garden tools and fertilizer.

I am dependent upon the oak and maple trees in my yard to provide me with the leaves needed for a good garden mulch. I am also dependent upon the oil companies for the gasoline to power my tiller and my utility to provide electricity to run the deep freezer in which I store most of our produce. If I attach a windmill to my shed that will produce my electricity in windy weather, I am then dependent upon the skill of the maker of that windmill, along with being reliant upon the changes in the atmosphere that will produce the needed wind.

I can take another course of ac-
tion. I can unhook my electric, water and telephone lines, put my car and truck in mothballs, use pointed sticks as garden tools, wear oak leaves and animal skins, and go hungry six months of the year. At that point, I might be reasonably self-reliant upon my primitive wits, but I can't say much for my cave-man quality of life, nor would my neighbors give much support for my noble experiment.

Hidden Costs

What is ironic about this situation is that to live a reasonably self-reliant life, one must work much harder and do with much less than one who allows himself to be dependent upon the efforts and capital of others. If I ride a bike to work, I must also pay part of my cost in time and convenience. When I work in the garden, I am unable to spend as much time pursuing other productive ends. Of course, riding a bike or working eight hours under a broiling sun in my garden is a personal choice I make freely, but I make those choices without being under the illusion that somehow I am paying less for them.

Besides helping provide a better life for all, interdependence has another saving feature: it promotes cooperation between people, even people who might hate one another. For example, relations between the United States and Libya are presently near the boiling point, but even while the heads of state of the two governments are trading charges and countercharges, U.S. oil tankers line up in the Tripoli harbor each day to draw Libyan oil. The oil helps run the productive U.S. economy, while money paid for the crude enables Libyans to buy foreign goods that previously have not been available to them.

Seeds of War

It is noteworthy that people who urge national self-sufficiency do so because they fear what might happen to the lines of trade if a war breaks out. Yet, one of the reasons a nation will risk war is that it believes it can do so without chancing a collapse of its economic structures. Before Hitler's Panzer divisions invaded Poland and later France, the German dictator made reasonably sure by his earlier "nonviolent" conquests of the Rhineland, Austria and Czechoslovakia that his nation was self-sufficient in production of food and war goods. In the same way, Mao Tse-tung tried to insure China's self-sufficiency (at horrendous cost to the Chinese) not so much for national pride as for making sure China could withstand attack by the Soviet Union.

In both cases, the economic self-reliance of these nations was achieved not through freedom but rather through coercion that re-
quired a choice between complete obedience or death. One nation eventually helped plunge an entire world into a destructive war, while another seeks to reverse the damages inflicted upon it by more than 30 years of a communist system. The end results in both cases have been far different than were planned by the political leaders, and are certainly not the results that most people would desire if left to their own free choice.

And if interdependency builds cooperation between nations, it obviously does the same for individuals. Two workers on the assembly line at our local stove plant may not like each other, but both will cooperate in the building of a new stove, since both will benefit in the form of wages, while consumers benefit as well, since they can acquire new wealth in the form of stoves.

Contrary to the preachings of the "small is beautiful," "self-reliant" set, interdependency and a complex division of labor will promote freedom, cooperation, and a better, safer life for all. Those who attempt to circumvent this interlocking web will do so at the cost of freedom, and at the same time will promote conflict rather than peace.

—FOOTNOTES—

3Hofstadter, p. 209.

Free Trade or Protection?

*Which is best for America, free trade or protection?* The question might be rephrased more broadly: Which is best for America, freedom or compulsion? For in the act of protection lies the act of compulsion. Under protection consumers are no longer free; their choice is denied. Economic democracy breaks down; the rule of the few decides. To buy the foreign product consumers are compelled to pay a penalty, being forced in effect to do business with a high-cost domestic producer. As a result, the consumer pays more and gets less. The resources of the economy are prevented from flowing into the most productive industries; instead, much of the nation’s resources are locked in inefficient, high-cost, protected industries. With the exception of the protected investors and managements, everyone loses.

WILLIAM H. PETERSON, “Barriers to World Commerce”
More than a century ago, Frederic Bastiat described the state as “that great fictitious entity by which everyone seeks to live at the expense of everyone else.” The illusion haunts the modern state today. In country after country governments have dug themselves into pits from which they seek to escape by dragging the rest of society down. Yet they got there with good intentions.

There is an attraction to doing good with other people’s money that is very seductive. Men and women are drawn to politics by a desire to improve the lot of their fellows. If they choose to do so without reaching into their own pockets, who shall blame them? The welfare state makes philanthropists of us all.

Unfortunately it seduces us also with a belief that the state, which the citizens concocted to serve such common needs as for roads and lighthouses and police, and to which common purpose they contributed through taxes, has money of its own.

It is in this, in the changed perception from a man-made convenience to an independent organism, that we were led astray. Imputing to the state the abilities that only man possesses—to invent, to produce and to innovate—we have imputed to it also the ability that flows from them: to create wealth.

Thus when political leaders promise to do this for us, or to do that, we look gratefully upon them for their munificence, as if the wherewithal to do those things were somehow
plucked from the air. Forgetting that it must be plucked from us, we have forgotten that the contributions which we are now obliged to make were made at one time by an agreement which is no longer sought.

Having accepted that we shall be taxed, we have accepted that the proceeds will be spent, not merely upon roads and lighthouses and police, which serve us all, but upon a multitude of things which serve only some of us: in youth education; in age pensions; in between almost everything from failing companies at home to failing countries abroad.

As if to excuse the changed perception, our leaders explain that the state’s apparatus has become very complex, as indeed it has. But the complexity is man-made too, made by the state’s functionaries taking on more than they can handle.

Here we find a change from the good intentions to the compulsions of politics, from the common services that are necessary for all to the particular services that are desirable only for some.

“We have done such and such for this group. How can we deny the claims of that?” It is not long before those reflections are magnified into endeavors of the functionaries themselves. “We have regulated this. Why should we not regulate that? We have established a state corporation to do this. Why should we not establish another, and another? Having established them, why should we not put some of our own people in charge of them, or some others from the world of politics in which we have come to move so easily?”

Missing from the reflections is any sense of participation by the great mass of citizens who in the end must pay the price. Whether from the taxes that are paid or deducted, or from lending to the state through bond and other instruments that lose value every minute, or from the tax of inflation that results from the functionaries’ excesses, the ever-growing bill is paid by the citizens.

Never are they given a choice. Never, for example, are grants of their money put to them in terms they can understand, as in, say, to the citizens of Ourtown: “We are going to set up this industrial park in Anothertown and we’re going to take some money from you to pay for it. Is that OK?” Or, say, to the citizens of Anytown: “We are going to set up a pulp and paper facility in Transutopia and we’re going to take some money from you to pay for it. Any objection?”

William B. Stout, principal designer of the Ford Tri-Motor airplane, used to advise aircraft designers to “simplicate and add more lightness.” It is good advice for politicians today, but how are they to follow it?

As they know too well, any attempt to reduce the expenditures of
one department will be contested vehemently by that department's clients: Agriculture, farmers; Consumer Affairs, consumer associations; Regional Development, every region within hailing distance of the capital; and so on and so on. In short, their profligacy in the matter of promises to particular kinds of electors has come to haunt them: everyone has been promised something and no one will withdraw the claim.

The device that was concocted to serve common needs has puffed itself up into a multitude of state corporations and departments of state, many of which are duplicated in subordinate jurisdictions. Shrinking it is a task beyond the powers of a few; it must be undertaken by all.

Just as the state grew from a common need, so must its contraction be made a common purpose. Through inflation, all are suffering now. If the expenditures of all the departments were cut, all would endure the illusion of suffering for a time, but how could any complain?

Adherence to Principle

It is only in the moral realm that socialism's antagonists—freedom's devotees—can find any common ground for concerted or unified effort. Where we can make no impression at all over the personal loss of 30 cents, or any multiplication of small change, we can win agreement on the point that there is no difference in principle between the forcible extortion of 30 cents and the forcible extortion of one million dollars. One is misappropriation as well as the other. The distinction is one of degree, not of kind. To violate the principle, even minutely, is to compromise the amount but not the principle. The principle is surrendered, regardless of amount. To forswear allegiance to honesty and integrity—the principle here at issue—is to destroy the moral underpinnings without which no good society can endure...

Moral standards for individuals, fairly well established by all the world's moral and ethical systems, find no reasonable sanction for modification by individuals acting concertedly, whether organized as governments or labor unions or trade associations. No new rights come into existence by collectivizing two persons or a million of them.

LEONARD E. READ, "How to Reduce Taxes"
WHENEVER housing prices rise we hear a chorus of complaints blaming the speculator. Speculators have always been vilified for high and rising prices.

This view is incorrect. In fact, the opposite is true: speculation holds the rise of prices to less than would have prevailed without it. To see this clearly, let us consider the uncontroversial example of “widgets.” Then, having established the basic principles for the classic case, we can apply them to the special and more sensitive issue of land and housing prices.

Suppose that in the absence of speculation, the future supply of widgets is as in the Biblical story: seven fat years followed by seven lean. Given similar demand in the two periods, the years of ample supply would result in low prices and the era of short supply in high prices.

Enter the speculator. What will he do? He will try to buy when prices are low and sell when they are high. His initial purchases will, to be sure, raise prices above the low levels that would otherwise obtain in the first period, as his additional speculative demand is now added to the demand to buy widgets for consumption purposes. But his subsequent sales will reduce prices from the high levels that would prevail, apart from his efforts, in the second time interval. This is because speculative sales, when added to other sales, must depress prices further than all other sales would have done by themselves.

The speculator will be seen by people to be selling at high prices in years 8 to 14. People will thus blame
him for these escalated prices, even though prices would have been still higher in his absence.

But the speculator does far more than merely iron out prices over time. By dampening price oscillations, he accomplishes something of crucial importance: the stockpiling of widgets during the years of plenty, when they are least needed, and the dissipation of the widget inventory during times of shortage, when they are most useful.

Furthermore, the speculator's actions in the market signal to all other businessmen that an era of short supply is expected in the future. His present purchases raise widget prices, and hence the profitability of producing them now. This encourages others to do so before the lean years strike. The speculator is the Distant Early Warning System of the economy.

But, as in the days of yore when the bearers of ill tidings were put to death for their pains, modern day messengers—the speculators—are blamed for the bad news they bring. There is talk of prohibiting their activities outright, or of taxing their gains at 100 per cent confiscatory rates. Such moves, however, deprive society of the beneficial effects of speculation.

There is only one possible fly in the ointment. If the speculator guesses incorrectly and see years of plenty ahead when belt tightening is really in store for the economy, chaos can result. Instead of stabilizing prices and supplies of widgets, the speculator will destabilize them; instead of hoarding during the fat years and reducing inventories during famines—and leading others to do so as well—he will encourage needless saving under adversity and wasteful profligacy in good times.

The Market Guards Against Unlimited Profit or Loss

The market, however, has a fail-safe mechanism to prevent just this sort of disaster. The speculator who guesses wrong will buy high and sell low—and incur losses, not profits. If he continues to err, he will go bankrupt, and usually very quickly. Professional speculators who have survived this rigorous market test of profit and loss can be relied upon to forecast the future with far greater accuracy than any other conceivable group, including bureaucrats, politicians, marketing boards or swamis.

Now let us consider the effect of speculation on land and housing prices.

As in the case of widgets, the speculator is observed to be selling at high prices, to be holding land off the market until yet higher prices are reached. But if we carefully trace out the effects of such activities, we can see that the only time the speculator could have raised prices is when he buys—and that he bought
when prices were low, before the increase in demand. We can likewise see that the only result of speculative sales is to decrease prices. No matter how expensive the level at which the sales take place, prices would have been higher still in the absence of this additional land and housing supply.

The speculator can function as a distant early warning line in this market as well. His initial housing purchases can encourage the construction of additional housing: at higher home prices, more profits can be earned in building, lumber, cement, wiring and so on. By definition, additional land cannot be created (barring reclamation from the sea, as in the case of Holland) but space can be converted to housing from other uses, such as farming and industry.

Now let us consider several objections to the view that the speculator makes a positive contribution to the public good.

1. But the speculator's initial purchases start the upward price cycle even in the "fat years." Of course the speculator's initial purchases start the upward price movement during the "fat" years, when prices are low (and decreases prices when he sells during the "lean" years, during the time that prices are high). This is precisely the main effect of speculation: to dampen down the price oscillations, or cycles, that would otherwise prevail in its absence. Decreasing price variation must inevitably imply raising low prices, while decreasing high ones. To blame the speculator for this is like blaming apple pie for tasting so good. That's the whole point of the enterprise.

2. If the speculator hadn't scooped up the housing at that early point in the cycle and held on to it, exactly the same amount of housing would already have been available when the lean years arrived. This objection ignores the point, made above, that the speculator serves as a sort of Distant Early Warning System. By making his initial purchases during the "fat" years, when prices are low, the professional speculator may well encourage imitators. These people may want to "ride along" with the speculator, and earn profits by adding to the housing stock.

Moreover, there is another reason for dismissing the claim that "exactly the same amount of housing would be available." The speculator, it must be remembered, is by assumption one of the few people who foresees the lean years ahead. Surely we may expect more housing to be saved (through better upkeep, maintenance, more investments in repairs, upgrading) by people such as the speculators, who expect housing to sell at a premium in the near future, than by people who do not.
3. When the speculator finally sells, during the "lean" years, he will sell at homeowner prices instead of speculator prices—it being given that speculators can usually hold out for their desired price longer than homeowners who need to sell quickly. If any proposition is more likely, it is the very opposite. For the speculator is more likely to be a person with his eye strictly out for the "main chance." Who has ever heard of a speculator sitting on a piece of land and refusing to sell for any price, because the house on top of it "was in the family for years" and has "sentimental value"? In land sales homeowners can usually hold out for longer time periods than speculators, who are ever on the search for yet another profit opportunity, and unwilling to keep their funds tied up in any one venture for a long time.

4. The speculator keeps land idle. This is wasteful, and deprives the economy of a much needed impetus. We can answer this objection in several ways. On a somewhat superficial level, it (usually) exposes the inconsistency of the person who makes it. For most people who oppose speculation also favor conservation. But idle land is by definition land being conserved. If a person favors conservation, and thinks that speculation keeps land "idle," he cannot logically oppose speculation.

On a more fundamental level is the fact that land speculation serves several useful social functions.

The Functions of Speculation

First of all, speculation in an unhampered market tends to put land into the hands of the most capable property developers. Many people do not realize that property development requires a great amount of ability. They feel, somehow, that it is only a matter of renting (or selling) to the highest bidder.

Even were that the case, land development would still be a task calling for a great degree of skill. How else can we account for the economic importance of auctioneers and brokers of all kinds, whose "only" job is to ensure that sales are indeed made to the highest bidder (and that all bids are as high as possible in the first place)? How else to account for the graft, corruption and otherwise poor records attained by city governments which have taken upon themselves the responsibilities of "contracting out" municipal services to private firms (in this case, trying to ascertain the low bidder)?

But real property development calls for far more than the ability to rent or sell to the highest bidder. Right at the offset is the choice between renting and selling. If renting is decided upon, there are an indefinitely large number of alternatives, including duration of the lease, se-
curity, financial terms, services provided, and so on. A wrong decision in any of these dimensions can lead to lower profits through an inefficient use of property.

Land is valuable not only for what value it can create in the present but for what may be accomplished with it in the future. Prescience is denied mankind, at least this side of heaven. Therefore, the best future use of idle land is never known for sure. (Does anyone believe that present settlement and building patterns would have been as they now are had we somehow been able to know what the economic conditions of 1981 were to be like 10, 30, or 50 years ago?)

This is the reason speculators oftentimes keep their land “idle”: they do not as yet perceive the future course of events as clearly as they think they someday might. They forgo the present rents they might otherwise have obtained, in the opinion that the gains to be made by being flexible (keeping land idle and unencumbered) are likely to be higher than those alternatives. The speculator, in other words, fears that a better use for this land might make itself known later, right after he commits it to a poorer use; and that the cost of clearing up this mistake (demolishing a building, buying out a tenant’s lease) might be greater than the additional rents he could have collected from the better use. In weighing these alternatives, the speculator attempts to determine the most valuable use the members of society place on his land.

An Optimal Building Rate

Do the opponents of speculation really wish no land to be “idle,” for these precautionary purposes? If so, they cannot be motivated by a desire to satisfy consumer sovereignty. For there is an optimal building rate over time—that is, an optimal rate at which land is withdrawn from “precautionary balances”—deviations from which can reduce welfare. This rate is determined by consumer (and landowner) preferences, by interest and time-preference rates, by the prices of substitute and complimentary factors of production, and so on. Perhaps in some conceivable circumstances this optimum rate might call for the immediate discontinuation of all “idle” land, as desired by the opponents of speculation. But even under these circumstances, speculators would themselves be led “as if by an invisible hand” to sharply reduce “idle” balances of land. Thus, there would be no need to oppose the operation of the unhampered marketplace even in these circumstances.

Let us close with the observation that speculation is very much more widespread than its opponents seem to realize. Not limited to land, speculation certainly applies to other or-
organized markets such as stocks, commodities, currencies, metals and so on. But this is just the tip of the iceberg.

Speculation occurs even in the most ordinary of transactions. Every time the housewife goes grocery shopping she is speculating. If prices are falling, she might have been better off to defer her purchases; if they are rising, she might have done well to buy twice as much. Every time the worker upgrades his skills, he is speculating that the value of the additional wages he may earn as a result will be greater than the value to him of dollar expenditures, efforts and psychic costs he expended in obtaining the new training. Every time a child buys a toy he is speculating that he won't see another toy he likes still more—after the money is gone.

We may even say that speculation is at the very core of human action. The opposition to speculation, then, is at root an opposition to human freedom.

The Speculator's Role

In popular thinking, the speculator is a bold, bad man who makes money at the expense of others. Many people believe he gains his livelihood by luck, gambling, or inside manipulation. There are, of course, a few dishonest speculators who lie and cheat, as do some in all occupations, but the honest speculator is a serious specialist who serves mankind. He constantly strives to obtain a better understanding of future market conditions. He then places this better understanding at the service of all interested parties. Whenever his predictions are wrong, it is he who loses. When he is right, he and everyone who trades with him benefit. For if they did not expect to benefit, they would not trade with him.

The service of a speculator is to smooth out some of the gaps between supply and demand and some of the extreme ups and downs in prices. He tries to buy when and where a commodity is plentiful and the price is low and to sell when and where the commodity is in short supply and the price is high. When he does this wisely and successfully, he tends to raise extremely low prices and reduce extremely high prices.

PERCY L. GREAVES, JR., “Why Speculators?”
In our private lives it seems that crises are relatively rare events brought on by extreme circumstances and unforeseen situations. In the realm of public policy, however, crises seem to be the norm rather than the exception. We have international crises, domestic crises, monetary crises, fiscal crises, energy crises, crises of confidence, *ad nauseam*. The government apparently has the capacity to turn the most prosaic and mundane circumstances into crises.

The "crisis" of the '80s will be the need to rebuild America and make her great again. Dire consequences are predicted if we fail to meet this challenge. A subsidiary "crisis" to the more general need to rebuild America is a "public sector in ruins." Within the public sector, few things are as threatened with ruination as our highway system. In state after state, the cry has gone out that our roads are crumbling, that without drastic action (a doubling or tripling of taxes) we won't be able to get from here to there. Our economy will collapse and savagery ensue.

Why has the highway finance issue reached a crisis stage? Examination of the nature of the highway product and how the government has sought to provide it will reveal a classic example of public sector failure. The tragedy is that the failure was foreseeable and predicted by many critics of government waste and mismanagement.

We will be able to make more sense of the issues in highway financing if

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we realize that highways are investments. The decision to build a highway will have consequences very similar in nature to the decision to build any other capital facility. To insist, as some do, that since highways are publicly owned they are exempt from normal investment decision criteria will be destructive to the general welfare.

Regardless of whether a facility is owned and operated as a public or private undertaking, the economic law of scarcity still applies. This law of scarcity is a common-sense recognition of the finite nature of our existence. In the final analysis, there is only a limited amount of time available to us to devote to efforts aimed at serving a multitude of needs. Time consumed in acquiring or manufacturing the resources to serve a portion of our needs is not available to spend in efforts to serve other needs.

Recognition of this finite limit is important if we are to rationally manage our time and effort. Of necessity, any one need or problem cannot be considered in isolation from all other needs or problems. This might appear to make for an unwieldy mess, since it is unlikely that any one person or group of persons could conceivably consider all needs or problems simultaneously. Fortunately, society has evolved the market institutions that serve to calculate the best uses of scarce resources for the constantly changing needs and problems of a diverse world.

The Function of Prices

The price system of the marketplace yields us a "best estimate" of the current and future values of various resources in meeting human needs. This price system applies both to the commodities that might be employed in implementing our plans to meet our needs and to the capital required to purchase the commodities. By comparing the prices we must pay with the revenues we anticipate from our planned investments, we can determine whether what we intend to do is financially feasible. Inasmuch as the price system is a reflection of a continuous stream of voluntary choices, reliance upon its verdicts will also produce investments which are socially desirable.

Unfortunately, utilization of the market and its price system has not been well developed in the public sector. Past decisions in public highway construction were made on the basis of other factors. The result has been the creation of a roadway infrastructure which is becoming increasingly out of balance with the means to finance it. We cannot just build all that highway officials say we must build without massive increases in the amount of resources consumed by this activity. Our needs
for roadways must compete with a multiplicity of needs for every sort of good or service. To devote resources to highway construction will mean, of necessity, that these resources cannot be devoted to other uses. In order to employ resources for the maximum benefit, it is necessary to determine how highways compare with other investments in terms of the benefits produced.

The cost of errors in the expenditure of resources on highway facilities is considerable. Once time, effort, and money have been converted into a roadway, they are irretrievable. Decisions on highway construction are cast in concrete. This irretrievability factor raises the risk of highway investment. Roads which do not return as much in value as they cost to build and maintain cause total economic output to decline.

The long-term effects of lower economic output are reduced welfare throughout society. There would be fewer employment opportunities, more poverty (as well as the social ills associated with poverty), fewer resources available to meet other human needs in the areas of health, housing, education, and the like, including other transportation needs.

**Measuring the Value of Public Investment**

It is not enough to assert that roads are "essential" to a community's well-being. A lot of things are "essential" to this well-being. How are we to allocate scarce resources between competing "essential" goods or services? Given that wants are virtually unlimited, it is obvious that there won't be enough resources to satisfy all demands. Consequently, society will be forced to choose which wants go unfulfilled.

In a market economy, society's investments are made based upon the perceived return to be earned. That is, if the decision-maker believes that his gains from an investment decision will exceed the costs incurred in pursuing that decision, he will implement the investment. If he is right, he will enjoy profits which can be used for future investment or consumption. If he is wrong, he will suffer losses. If the losses are severe enough, the resources will be depleted and no future decisions or investments will be possible.

In the public sector, the connections between decisions and outcomes are more indirect. Establishing the costs and benefits for the purpose of estimating a future return on investment is more complex and difficult. The responsibility for the decision-making may be obscure. The profits or losses are diffuse and ambiguous. The short-term political impact of the decision will be more prominent in guiding public policy than the longer term investment returns. Nevertheless, these problems and complexities do not
relieve society of the consequences of bad decisions made in the government sector.

The simplest approach to evaluating an investment is to match cash inflows to cash outflows. If more cash is coming in than going out, the activity is sustainable. If the reverse is the case, namely more cash on the way out than on the way in, the activity is unsustainable. Unsustainable activities may be rescued in one of two ways: reduce expenditures or increase revenues.

Private businesses might resolve a cash flow problem by either cutting out losing product lines, or increasing prices, or both. The public sector could well take heed of this approach. There are a few barriers that must be overcome, though, before a rational public policy can be adopted. First to go must be the notion that access to the road system is some sort of inherent right to which persons or corporations are entitled. Roads are material goods that cost real resources to construct, operate, and maintain. Individuals or businesses have no right to demand access to highway services without paying the costs of that service.

A second barrier to be overcome is the idea that it is not possible to fairly assess highway users for the cost of the services they require. Granted, the public sector has little experience with pricing and marketing its products. This is not to say that it should not be done.

A third barrier to be overcome is the notion that the value of road services can or should be determined independently of the use and fees collected for that use. It has been stated that user fees do not capture all of the benefits enjoyed by road users. In this respect, roadways are no different than any other economic good. Everything exchanged in a voluntary transaction produces benefits above and beyond the revenues collected by the seller.

Uncaptured Benefits

The problem of uncaptured benefits is not unique to highways, or to the public sector for that matter. To argue that higher taxes for highway purposes are justified because of the non-revenue-producing benefits occasioned does nothing to establish what priority, if any, highways are to have over any other use for resources. The fact that highways are public facilities often conveys the erroneous idea that this in itself makes them especially productive in terms of non-revenue-producing benefits. There is no basis for assuming that public sector investments do, while private sector investments don’t, produce these benefits. Yet, many analyses conducted by government economists implicitly make this assumption.

Since there is such widespread
confusion surrounding this issue, an example may be most illustrative. A frequently cited example of a road's non-revenue-producing benefits is the reduced travel time for emergency vehicles. Cutting an ambulance's transit time by a few minutes may save a life. The value of this life is not reflected in the user fees collected from whatever highway taxes may be paid by the beneficiary of the life-saving event.

There can be little argument with the proposition that in instances like the aforementioned example, the benefits exceed the revenues produced. What isn't answered is how the benefits of better roadways compare to the benefits produced by the other components of the life-saving event. Isn't the phone call which summoned the medical help worth more than the 10 cents it may have cost? Isn't the medical equipment that may be used—cardiopulmonary resuscitation machines, surgical tools, and the like—worth more than the cost? Isn't the vehicle doing the transporting worth more than the cost? The list of other factors can be quite extensive. In the case of each component, it can be justly argued that the benefits to the person served exceeded the revenues captured by the manufacturers of the components.

The difficult question is how do we compare the non-revenue-producing benefits of each component? If we ignore the non-revenue contributions of every component other than the highway system, we will distort the investment picture. Universal application of a methodology which computed non-revenue-producing benefits for public sector investments only would result in a costly transfer of resources from their most productive uses to a series of largely arbitrarily selected public sector projects. This would reduce social welfare. The best road system in the world would be useless if vehicle manufacturers couldn't obtain resources.

Arizona: A Case Study

Investigation of the Arizona State Highway System in terms of return on investment demonstrates the folly of ignoring the market in highway investment decisions. Over 60 percent of the mileage on the State System does not generate enough revenue to cover the cost of upkeep. That is, nearly 4000 miles of roadway operate at a loss. These are roads under state jurisdiction. The situation appears to be even worse for county and local roads.

The investment performance of various portions of the State Highway System shows wide disparities in the returns generated vs. the costs incurred. Some segments cover their costs many times over. On the other hand, many segments won't even generate enough revenues to cover
a fraction of their anticipated costs. Even if taxes were doubled, over 45 per cent of the system's mileage would not generate enough revenue to cover the cost. If taxes were quadrupled, nearly 30 per cent of the State System would not cover the cost of upkeep. Finally, there are segments where the expenses are so high, or the revenues so low, that they can't even cover 10 per cent of the cost. Over 780 miles of the Arizona State Highway System falls into this category. Roadways in this category include the fantastically expensive urban freeways and portions of rural highways that see little use.

The Market Is the Answer

The profit/loss profile of the highway system is a reflection of past decisions in highway investments. The crazy quilt pattern of viable and non-viable road segments serves as an indictment of the previous highway planning process. The schemes, the mechanisms that have been used in the name of the "public interest" or "general welfare" have been a complete flop. The resulting highway infrastructure serves transportation demand worse than a random system of roadway funding would have done.

Contemporary public debate has shunned the issue of government responsibility. The mismatch of highway expenditures and demand that has produced clogged urban streets and nearly vacant rural roads is portrayed as an accident, or a result of OPEC manipulations, or Japanese auto manufacturers—anything but what it is: the failure of government in the provision of material goods and services.

It is easy to take the products of modern capitalism for granted. It would not be so easy to live without these products. If more and more resources are diverted to the public sector, because the total return on investment (with non-revenue benefits added) in the public sector appears better than the purely financial returns calculated for private sector firms, human welfare would be reduced.

It is not really feasible for us to attempt to measure the non-revenue-producing benefits of every possible use of resources. Fortunately, it is not necessary to do this. Comparability between alternative uses of scarce resources can be achieved by restricting analysis of benefits to the revenue-generating services for which users are willing and able to pay. This puts the onus on the public sector to exert more effort in ascertaining appropriate pricing systems in order to capture a larger portion of claimed benefits as cash inflow.

The fact that new pricing systems may be unprecedented or difficult to initiate is no argument against the legitimacy or the advisability of de-
vising them. The advantages of developing a more market-oriented pricing system and using it to fund sustainable highway investments are persuasive. The foremost advantage is that it would most fully employ the device of allowing consumer choice. Consumers would have the option of using—and paying for what they use. This would move from a politically determined decision-making environment toward a more market determined environment.

Greater customer satisfaction could be anticipated. Cash flows would be more stable—responding to the demand and use of the facilities, rather than to the political popularity of the road system. The continuous expression of market demand via user purchases of highway services would simplify the task of deciding what services to supply. Government would be more assured that it is providing value for the fees it collects.

Looking in the Wrong Place

No number or concentration of experts on road construction or of wizards on finance can find the solution to the highway problem until the search is conducted in the area in which the solution lies. The evidence is clear that the wrong place to look for the solution to the highway problem is in the area of government. That practically all highways are owned by some particular form of government—federal, state, county, or municipal—is the problem and not the solution.

Government is not creative, although misguided and misunderstanding citizens and elected servants have time and time again mistaken compulsion for creation.

The proper role of the government should be to defend our nation from outside attack, as a soldier, and defend us from lawlessness from within, as a policeman. Both of these tasks are very important, but neither is creative in nature. The company striving to develop a new vaccine for the elimination of cancer surely would not assign the project to the plant security police. Nor should we assign the development of highways to political policemen. We have too often hooked up coercive power to a creative field, and the results have ended inevitably in failure. When the hand of government is inserted in a problem requiring initiative, it becomes a dead hand—and the failure can be predicted.

JOHN C. SPARKS, "The Highway Dilemma"
Progress is difference. So wrote Herbert Spencer, the great English philosopher, scientist, and defender of individual liberty a century ago. Spencer's insight is simple—one might even say obvious—yet profound. He lived in an age, as do we, which took progress for granted, and very few people ever stop to analyze the essential nature of that which is taken for granted. Spencer did. What he is telling us is that if people are not at liberty to try something different, something out of the ordinary, if they have always to follow the traditional or approved course of action, then we would never discover any improvements at all.

Without difference, our products, services, and institutions would never have advanced beyond the level of our most primitive ancestors. Indeed, Spencer would point out, the physical advancement of the human species itself from a comparatively small-brained, ape-like creature to its present state has come about entirely due to the beneficial effect of differences. Changes which improved our chances for survival were incorporated; those which did not were selected against. That is the way natural selection works.

Unfortunately, as I said before, we live in an age which has seen so much progress that progress has come to be taken for granted. The danger in this is that we seem to be losing sight of the fact that progress is not a dependable, eternal given like the sun rising in the east. For there to be progress, there must be freedom to try new approaches. This explains why the communist bloc nations have such low standards of living and never invent anything
which is useful to man in his striving to live his life comfortably. Under tightly controlled and centrally planned societies, deviations from the standard are not permitted. Unwittingly (in most cases), the advocates of increased government ownership and regulation (which is de facto ownership) are taking us down this same path. The leftist intellectual fad of governmentally-enforced standards would put the creativity of human beings in a strait jacket. It would stamp out progress.

**Differences Outlawed**

Several examples will help to confirm the continuing relevance of Mr. Spencer's observation on the need for liberty to be different. Consider first the phenomenon of building codes. One finds them in virtually every locality; they tell the builder in minute detail how he must construct his building. The reason given for the enactment of such laws is that they protect the purchaser or any other occupier of space in a building against its collapse or other mishap due to the employment of improper methods or materials. To accomplish this objective, which could be achieved without any coercion through contracts and the invocation of tort law when necessary, the government sets up a standard. Failure to comply in any respect with this standard gives the building inspector the power to forbid further work on or use of the structure until the violation has been remedied.

Most people think this entirely good and proper. Protection against hazards always sounds beneficial, but we must look not only at what is seen, but also at what is unseen. As Bruce Cooley writes:

What (building codes) actually do is "protect" the consumer from any construction practice, faulty or not, which differs from those spelled out in the building codes. And in the process they make housing more expensive. One veteran builder, Sol Sylvan of Kennewick, Washington, puts it this way, "[the codes] tend to become treated by the officials who enforce them as religious dogma." This, he argues, limits the introduction of innovations in building materials and designs.¹ (Emphasis mine.)

Thus, by prohibiting differences in building, we prohibit the use of human ingenuity which could lead to better and less costly housing. As with all regulation by government, imposing conformity in order to prevent some harmful acts serves to filter out a large number of beneficial but nonconforming acts.

Another illustration of how prohibiting difference gets in the way of progress can be seen in the regulation of railroads in the United States. That the railroads have been regulated almost to death is well known. Here is a specific example. The Federal Railroad Administration is a part of the Department of
Transportation. Among other duties, the FRA oversees railroad safety, and therefore has the power to approve or forbid the use of advanced railroad technology.

In 1976, the Bi-Modal Corporation, of Greenwich, Connecticut, began development of a vehicle which could be either pulled as a truck trailer or as a freight car, depending upon whether its inflatable tires or railroad wheels were down. Bi-Modal named its creation the "RoadRailer." The advantages of the RoadRailer are obvious: compared with the standard "piggyback" train (trailers riding atop flatcars), RoadRailer trains reduce weight and wind resistance, thus conserving fuel. When tested, RoadRailers passed the stress tests of the Association of American Railroads.

But then the FRA entered the picture. The safety tests and potential cost savings did not matter in the least to the bureaucrats. They refused to approve the RoadRailer. Why? The official line went as follows: All railroad equipment must conform to the specifications of the Rail Safety Act, passed in 1893 and last amended in 1910. Since the Rail Safety Act was passed before the invention of the RoadRailer, the latter could not possibly meet the requirements. Unofficially, the reason for disapproval may well have been pressure from existing equipment suppliers who feared loss of business to the RoadRailer, perhaps combined with the usual animosity which bureaucrats have for the entrepreneur.

Eventually, the FRA's obstructionism was by-passed. A special act of Congress amended the Rail Safety Act to permit the employment of the RoadRailer. However, the Government's hostility to difference delayed its introduction by two years, and the FRA's aversion to innovation—progress—in railroad technology remains as strong as ever.

Medical Education Controlled

A third example of this phenomenon of governmentally-imposed conformity stifling progress is found in education, specifically medical education. At one time, medical schools were completely free of state regulation. The focus was on the output of the school, namely the competence of the physician, rather than upon the school's curriculum.

All of this changed after the famous Flexner Report of 1910. This most unscientific study found many of the medical schools in the United States to be "substandard." When the state legislators heard about this alleged problem, they swiftly set about remedying it. How? By establishing standards recommended by the American Medical Association. The AMA's interest in the matter is not difficult to see. Fewer medical schools and longer, more expensive
training periods mean less competition, hence higher earnings for those in the profession. Of course, the rationale presented to the public was that the standardization of medical education was for their protection.

What effect did this have on medical education in the United States? By now, it should be easy to predict the answer. With the imposition of rigid specifications, medical schools became hidebound and conservative. As Professor Reuben Kessel states, "There was a hiatus of over forty years in the search for better curricula and training methods, and in the utilization of the talents of scientists outside of medical schools for the training of physicians."3

Innovations—in anything—most often come from newcomers to the field who must do something different in order to compete with those already established in the field. But government standards prevented this in medicine. Any new school which dared to deviate from the orthodoxy risked loss of certification. Progress was arrested for over forty years, as Professor Kessel points out.4

The cult of standardization enforced by the power of the government has become deeply entrenched in the United States. Examples such as those discussed above could be multiplied almost endlessly. There is no need for that, though, as the principle at work here should be quite clear. Progress is impossible unless people are free to be different. This is an inescapable reality, and it applies to every aspect of human existence.

Those people who clamor for more control and regulation of our lives are necessarily advocating an end to experimentation and innovation. We owe our present lofty standard of living to the large measure of freedom enjoyed by our ancestors, and if we are to overcome the problems which now beset us, we too must have the liberty to use our greatest asset—ingenuity. The world is far from perfect. Progress is a necessity. And progress we will have, as long as people are free to be different.

—FOOTNOTES—

2For the complete story of the RoadRailer, see William D. Burt's article, "The Plot to Take Over America's Railroads" in Reason, March, 1981, pp. 20-28.
4For a fine discussion of the entire spectrum of problems caused by governmental regulation of medicine, see John C. Goodman, The Regulation of Medicine: Is the Price Too High?, Cato Institute, 1980.
THOMAS JEFFERSON has been justly honored, in the main, as the author of the Declaration of Independence, one of three accomplishments that he chose to be inscribed on his tombstone: "Here was buried Thomas Jefferson, author of the Declaration of American Independence, of the Statute of Virginia for religious freedom, and father of the University of Virginia."

It is indicative of the priority of values held by Jefferson that he asked to be remembered in finality by a legacy of principles of freedom and an institution of higher education. No mention was made by him that he had attained the very highest political offices of his state and nation: Governor of Virginia, Secretary of State of the United States, and successively Vice-President and President of the United States.

But how much credit is justly due Jefferson for composing the Declaration? How original and how complete was his authorship of this document? Did he create or invent it, or did he copy, recall, or borrow in good part?

Jefferson's role as the author of the Declaration seems securely established and likely to endure. However, there is little or nothing in the Declaration in concept or language that had not been previously written by Spanish and Italian Jesuits of the seventeenth century, John Morin Scott (1730?-1784) of New York, James Otis (1725-1783) of Massachusetts, Filippo Mazzei (1730-1816) of Italy and Virginia, Richard Bland (1710-1776) of Vir-
ginia, Thomas Paine (1737–1809) of England and Pennsylvania, and George Mason (1725–1792) of Virginia. What is more, Jefferson was most probably familiar with all of these prior writings with the possible exception of the polemical pieces by Scott that were broadcast at the time of the Stamp Tax controversy in 1765. Jefferson himself has been candid enough to write in later years in a letter of May 8, 1825, to Henry Lee: "I did not consider it as any part of my charge to invent new ideas altogether and to offer no sentiment which had ever been expressed before."  

A Necessary Connection  

It does not diminish the honor that of right belongs to Jefferson, therefore, if we call attention to the contribution of others to the Declaration of Independence and accord them their just recognition in turn. Also, we gain increased understanding of the relationship between the Declaration and the Constitution of the United States and subsequent amendments if we see their "necessary" connection. For we may regard the original Constitution, the Bill of Rights, and especially Amendments XIII, XIV, XV, and XIX, as "necessary" to implementation of the ideas stated in the Declaration.

And this is where proper recognition of the role of George Mason also becomes "necessary" to an improved perspective of historical development and justice to the memory of Mason. For not only did Mason make an important immediate contribution to the Declaration of Independence, but he also anticipated in general the structure and principles of government contained in the Constitution of the United States and those amendments which most added to freedom and equality before the law in America. We may also observe that Thomas Jefferson was not at the Constitutional Convention in Philadelphia in 1787 or in Virginia during the struggle for ratification, but George Mason was a leading actor during both events.

Robert Allen Rutland says of Mason's participation during the Constitutional Convention: "He was a faithful attendant at the sessions, speaking to the point on practically every topic of importance." In any event, Jefferson and Mason indisputably viewed each other as honorable, kindred spokesmen and were the warmest of allies, pleased with and supportive of each other. It was a friendship based on the strongest of foundations—mutual respect—and ended only with the death of Mason but a week after a farewell visit by Jefferson to Mason at Gunston Hall, his beloved plantation home.

The Declaration of Independence probably would have been quite similar in use of concepts, language,
and line of argument even had Ma-
son's Virginia Declaration of Rights
not been available to Jefferson. Per-
haps the same may be said of the
Bill of Rights and Amendments XIII,
XIV, and XV. However, we are able
to trace a direct causal connection
between the Virginia Bill of Rights
and the First Ten Amendments. In-
deed, a careful reading of the Vir-
ginia Bill indicates that its influ-
ence on the contents of the Declara-
tion of Independence is much less
than its contribution to the Bill of
Rights of the Constitution of the
United States. Also, the Bill of Rights
may be of more practical and endur-
ing value to the American system of
government than the Declaration of
Independence.

The Declaration embodies a credo
of lofty principles and sentiments—
but it is the Bill of Rights that is a
matter of everyday law and habit by
which Americans live. The Bill of
Rights fulfills the aspirations of the
Declaration of Independence as a
continuing effective limitation on the
power of government and as a pro-
moter of individual and group free-
don and opportunity. Is not this
combination the essential nature of
the American system of government
and society?

Therefore, it is really of minor
concern whether it be Mason or Jef-
ferson who is to be held responsible
for the phrase “the pursuit of hap-
piness” that appears in the Decla-
ration. For example, William Safire
writes in a column entitled “What
Government is For,” that Jefferson
departed from Locke’s phrase “life,
liberty and property” because, as
Safire states it: “A disciple of his,
Thomas Jefferson thought that he
would give that phrase an inspira-
tional lift, and our Declaration of In-
dependence hails ‘life, liberty and
the pursuit of happiness.’ That eu-
phemism started the trouble.” The
usually well-informed Satire has
strayed into areas dealing with his-
tory and political theory where he
lacks expertise and has thereby il-
ustrated the need for many of us to
become more familiar with the
background as well as the wording
of the Declaration.

The Origin of the Idea

It is not difficult to set straight
who was primarily responsible for
inclusion of the words “the pursuit
of happiness” in the Declaration by
pointing out that they were, in ef-
fact, contained in the earlier Vir-
ginia Bill of Rights that was adopted
on June 12, 1776, and that even be-
fore that date Philadelphia newspa-
pers had reprinted its draft text (e.g.,
the Pennsylvania Evening Post on
June 6, Pennsylvania Ledger on June
8, and Pennsylvania Gazette on June
12). Jefferson was not asked to draft
the Declaration until June 11 and
probably did not begin his task of
writing until June 12. 5
The first article of Mason’s Virginia Bill states: “That all men are by nature equally free and independent, and have certain rights, of which, when they enter into a state of society, they cannot, by any compact, deprive or divest their posterity; namely, the enjoyment of life and liberty, with the means of acquiring and possessing property, and pursuing and obtaining happiness and safety.”6 By comparing the texts of the Virginia Bill of Rights and the First Ten Amendments—and, incidentally, the contributions of its framers in 1776 to the Declaration of Rights for the State of Pennsylvania and of John Adams to the draft of the Massachusetts Declaration of Rights for its Constitution of 1780—we see clearly recognizable reliance on George Mason’s thoughts and words.7 Most important of all, the following provisions that are present in the First Ten Amendments are contained in the Virginia Bill of Rights as well, at times in the very same words:

**Amendment I:** Freedom of religion and of the press.

**Amendment II:** A well-regulated militia. (Mason goes well beyond the Constitution, e.g., by specifying “that, in all cases, the military should be under strict subordination to, and governed by, the civil power.”)

**Amendment IV:** No general warrants, but only those specifying the particular person, place, and thing and issued only upon probable cause.

**Amendment V:** No man to be deprived of liberty or property without due process of law, or compelled to be a witness against himself.

**Amendment VI:** In all criminal prosecutions the right of the accused to a speedy trial in the State and district and to be informed of the nature and cause of the accusation; to be confronted with the witnesses; and to have compulsory processes in his favor.

**Amendment VIII:** “Excessive bail shall not be required, nor excessive fines imposed, nor cruel and unusual punishments inflicted.” (E.g., Mason: “9. That excessive bail ought not to be required, nor excessive fines imposed, nor cruel and unusual punishments inflicted.”)

The influence of Mason and his tenets goes far beyond the Constitution’s Bill of Rights, however. Thus, we may note the following basic provisions that are present in the original articles of the Constitution and are also specified in Mason’s Virginia Bill of Rights: separation of the branches of government, a republican form of government, and periodic election to legislative and executive offices.

It is a matter of conjecture why Jefferson and his colleagues—who did make changes in his draft—did not include property or restore it. In fact, the word property does not appear in Jefferson’s Rough Draft or the final version, but we do not know what was contained in the earlier drafts that have been lost. Perhaps this omission was an oversight, and
perhaps not. Perhaps consciously or subsconsciously property was omitted because material things were lower in their scale of values than the independence, self-government, and personal freedom for which they proclaimed “we mutually pledge to each other our Lives, our Fortunes and our sacred Honor.”

**Opposing on Principle**

Even the pragmatic Alexander Hamilton in *A Full Vindication of the Measures of the Congress* (1774) had written with disdain of the economic aspects of the tea tax: “How ridiculous, then, is it to affirm that we are quarreling for the trifling sum of three pence a pound on tea, when it is evidently the principle against which we contend.” It is still the general rule that America, although rich in material accomplishments and possessions, considers things of the human spirit, including its pursuit of happiness, as transcendent. However, cognizance should be taken here that personal freedom, safety, and happiness are usually inseparable from enjoyment and protection of legitimate property rights.

The role of Thomas Jefferson and his Declaration of Independence as sources of continuing inspiration is a familiar one. Less familiar but no less important for America is the role that George Mason and his Virginia Bill of Rights played in fitting into place the capstone of American constitutionalism. It is not James Madison who is the original author of and prime mover for the First Ten Amendments to the Constitution of the United States: it is George Mason. George Mason refused to sign the Constitution at Philadelphia in September of 1787 because it failed to incorporate a Bill of Rights for the purpose of imposing limitations on the new federal government and because it failed to end slavery. He resolutely sat on his hands.

Mason went home to brave the wrath of George Washington and many of his countrymen by arguing in company with Patrick Henry that ratification of the Constitution should not take place until a Bill of Rights had been added to limit the power of the federal government and to protect the rights and freedom of states and individuals. To his great credit, although Madison adhered to his position that ratification should come first, he came to see the merits of Mason’s demand for a federal Bill of Rights and the need to forestall a new convention. Madison therefore was to be the leader in Congress of those working for adoption of a national Bill of Rights in fulfillment of their ratification campaign promise.

Until his end, Mason continued to hate slavery and to rue the failure of the Constitution to root it out from the new nation. But Mason ap-
proved of Madison's version of his Virginia Bill and lived to see the First Ten Amendments go into effect on December 15, 1791. It would therefore be appropriate if, just as Thomas Jefferson is remembered every Fourth of July in connection with America's Declaration of Independence from Great Britain, George Mason were to be more widely associated in the popular mind with the Bill of Rights that carried Independence a step further to "secure the Blessings of Liberty to ourselves and our Posterity" purposed in the preamble of a somewhat incomplete Constitution.

—FOOTNOTES—


6 In addition to The Freeman, Vol. 31, No. 7 (July, 1981), pp. 410–412, the text of the Virginia Bill of Rights is contained in Miller, Gentleman Revolutionary, pp. 337–340 (first draft, printed committee draft, and final version).


PERSPECTIVES ON RELIGION AND CAPITALISM

The two major terms in my title are subject to extravagant misunderstanding and occasional abuse. Some of this is natural, due to limited knowledge; much of it is willful and ideological. It is appropriate, therefore, that I try to elucidate at the very beginning how the term "religion" is to be used in this paper. The meanings I attach to "capitalism" will be clarified as we proceed.

It is my understanding that religion, at bottom, is not one sector of human experience separate from other portions of human experience; it is more like a common core. A college or university, for academic purposes, may have a department of religion alongside departments of chemistry, history, mathematics, or whatever, and this fact may mislead. In actual living, and in its deepest sense, your religion is not one subject among other subjects; your religion is the fundamental way you approach, understand, and evaluate all subjects. It consists of your first principles, the truths you regard as self-evident, the basic axioms you take for granted, and through which you view everything else. Your religion colors your outlook upon the universe, affecting the way you look upon life, your relation to other people, your treatment of things.

Religion is many faceted; it has its history, its doctrines, its exercises, its rituals, its ecclesiastical structures, and so on. But the central core of every religion is its vision of the cosmos, its understanding of the nature of ultimate reality. For the purpose of this paper I shall put aside several important elements of relig-

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gion and use the term as equivalent to world-view, or Weltanschauung. Everyone entertains some image of the entire scheme of things, a mental picture of what the totality—in the final analysis—is like. Some have pictured the universe as an immense and intricate piece of clockwork, a mechanism; others regard it as a gigantic organism, or as the great ocean of being, or as a featureless Absolute. Everyone operates in terms of some image of the nature-of-things, for to be human is to be a metaphysician. My own world-view is that of Christian theism.

A Creative Intelligence

Those who entertain the religious—or theistic—world-view conduct their lives on the premise that a Creative Intelligence is working out its mighty purposes through nature, in history, and above all, by means of persons. The Divine Intelligence is creative, as witness the continuing emergence of novelty on the world scene; the Divine Creativity is intelligent, because wherever we look we find a deft and ingenious adaptation of means to ends. There is order, beauty, elegance, economy and balance from one end of this universe to the other. Human beings may come to a sense of kinship with this Creative Intelligence by aligning themselves with the movement and configuration of its thrust.

At the same time we may become keenly aware that vast stretches of this universe appear to be indifferent to us. I refer to the natural order, the realm of nature subject to the laws of physics, chemistry, and the other sciences. Cause and effect operate inexorably in nature, independent of our fears and wishes. A stone falls to earth in response to the tug of gravity, and we have no choice but to adjust our actions to this and other physical laws. Natural forces affect our actions, and natural disasters cause human injury and sometimes death. The natural world piques our curiosity, and we seek to understand it so as to cope with it more successfully. Nature will never surrender unconditionally to man, but nature's stubborn otherness provides a necessary condition for the exercise of human freedom.

The nature we confront is a non-human Other, and this Other is neutral, so far as we as individuals are concerned; the rain falls on the just and the unjust alike. But if this were not so—if the Other were responsive to the conflicting and the constantly changing whims of billions of human beings, submissive to our rituals and incantations—if the Other were not largely neutral and/or indifferent it would be chaotic.

Actually, the Other is an order, a vast and comprehensible order consisting in discoverable patterns and
recurrences. The neutral orderliness of nature provides a basis for understanding and explanation; it affords a significant measure of predictability, allowing us to plan our lives and achieve our goals. A neutral order provides the necessary condition for exercise of the freedoms and powers proper to human nature. And as we come into a working relationship with the Other a sense of kinship begins to develop.

Let me illustrate: A man confronts a portion of the Other in the form of a body of water; a pond or a stream. He complains because the water is cold, wet, and indifferent to him; furthermore, the water is an obstruction, impeding him as he wades through it. But this same water, to an expert swimmer, is the necessary vehicle for his freedom as a swimmer. The swimmer does not complain about the water's friction, even though it does impede his progress through it and slows his speed. For him, the friction of the water is the same thing as its buoyancy, and without the buoyancy swimming would be impossible. The exhilaration our athlete derives from a vigorous swim begets his belief in the friendliness of at least this little segment of the cosmos—which now appears to have been constructed just for his delight. The relation is symbiotic. There is resonance between ourselves and the Other.

The realm of nature out there may sometimes appear arbitrary, indifferent to human values, or even antagonistic. But shift perspective even slightly and we realize that if nature were not neutral—that is, if nature could be bent to the human will we would not be free beings. If nature were not largely recalcitrant and unyielding, we free beings would have no incentive to cooperate intelligently with it, making use of its forces to advance our purposes—simultaneously strengthening our own powers and refining our skills as we do so.

Human Capacity for Choice

It is obvious that we human beings do not merely react mechanically to external stimuli—we are capable of a creative response to our environment. B. F. Skinner and his behaviorists declare that human beings are capable of little more than a Pavlovian reaction to a stimulus; they speak for themselves. They don't speak for us, for at the very core of our being we bear the imprint of the Creative Intelligence which is back of all things. We are gifted with free will, and it is this capacity for choice which makes us partakers of the primordial creativity.

Let me offer you some words of the great Russian religious philosopher, Nicholas Berdyaev: "God created man in his own image and likeness, i.e., made him a creator too, calling him to free spontaneous activity and
not to formal obedience to His power. Free creativeness is the creature's answer to the great call of its creator. Man's creative work is the fulfillment of the Creator's secret will.”

Human nature is threefold; we are implicated in nature, we are part of some society, and we are touched by the sacred. We human beings, with a portion of our being, are directly geared into nature. Drop us from a height and gravity operates on us just as it does on a sack of grain. The chemical processes going on inside our bodies differ little from the way those chemicals interact outside our bodies. We are largely within the same network of causal sequences which characterize nature.

We are natural beings, but that's not all we are. We are also social beings, involved in history. Occurrences in nature are explained in terms of causes; actions in history and society are explained in terms of choices. Society is our natural habitat. Society is a spontaneous order—as F. A. Hayek has taught us—emerging out of human choices but not resulting from conscious human design.

Social order—comprising both the written and the unwritten law, together with custom, convention, habit and taste—social order may occasionally appear to stand athwart the individual to frustrate his immediate intentions. But everyone knows, on sober second thought, that our very survival as individuals depends on social cooperation under the division of labor; human beings are interdependent. Everyone, therefore, has a personal stake in the fashioning, the strengthening and the refining of the structures of a free society. The free society provides the optimum environment for every productive, peaceful person.

Participants in a Divine Order

There are natural elements in our make-up, and everyone carries a portion of some society in his very being. And there is a third thing. Analyze human nature and you discover elements in it which are not reducible to either nature or society, important as those facets of human nature are. We participate in an order of reality which is beyond nature and beyond society. Call this the sacred order or the divine order, if you wish; or call it God—the unconditioned Creative Intelligence in which all contingent existence, including our own, is grounded.

The word “supernatural” has been battered beyond use, and in any event, it is completely “natural” for the person to bear the marks of sacredness in his own being. This fact has important political implications. In the 18th century, this central sacredness in the person—as he is conceived within the theistic worldview—was politically translated. The sacred in persons found secular
expression as the idea of inherent individual rights "endowed by the Creator," the rights referred to in our Declaration of Independence.

Given the idea of individual rights, in virtue of what a person genuinely is in his true being, it is the task of political philosophy to fashion a legal structure designed to protect every person's private domain, secure the rights of all persons equally, and maximize everyone's opportunity to choose and pursue his personal goals. A uniquely religious political philosophy oriented toward these ends was called Whiggism in the 18th century, and Liberalism during much of the 19th. Whiggism and Liberalism endeavored to protect each person in his life, his liberty and his property. The free economy, or capitalism, is the natural counterpart to Whiggism; you get capitalism in the second place when you have Whiggism in the first place. Whiggism lays the necessary political ground work for the set of economic arrangements called capitalism.

**The Capitalistic Order**

As 19th-century Classical Liberalism turned into the diametrically opposed thing called liberalism today, the economic order became less and less free market as governmental regulations and controls progressively expanded over the economy. Capitalism—ideally—means simply private property, individual liberty, and the voluntary exchange of goods and services between freely contracting parties.

Capitalism is what happens in the realm of industry and trade when force and fraud are eliminated from that realm. It involves peaceful competition for the privilege of serving consumers better, with a reward in the form of profit going to anyone the consumers believe has served them well. Capitalism is the only productive economic order, and the only equitable one; it submits everyone's offering of goods and services to the collective judgment of his peers and rewards him according to his contribution—as his peers assess it.

I firmly believe that a society of free people is impossible if economic actions are fettered and controlled by the government bureaucracy. The free market economy, or capitalism, is the only way free people can organize their bread and butter activities—business, industry and trade. This mode of economic activity—capitalism—enjoys a symbiotic relationship with the legal system and political structures called Whiggism in the 18th century. Whiggism and capitalism are the two sides of the same coin; you can't have one without the other.

Whiggery goes back to the 17th century—although Lord Acton made a good point when he referred to St. Thomas Aquinas as the first Whig. The Puritan religious movement in
17th-century England spawned a political arm of Dissenters and Non-conformists in opposition to the court party, whose members were contemptuously called Whiggamores—a Scottish term for horse thieves. Whiggery bore its best fruit on these shores, in the Declaration of Independence, the Constitution, and *The Federalist Papers*.

**Whiggery in America**

Whiggery gave rise to political structures designed around the sovereign individual person, to secure his rights, protect his private domain and afford him maximum scope to pursue his personal goals. These legal and political structures—which are the earmark of a free society—represent the secular projection of a religious vision of man and the universe unique to western civilization.

The introduction of Christianity into the Classical World of two thousand years ago had important political consequences, for this religion taught that only a part of man is social, a portion of his being is God’s. That which is God’s is sharply marked off from that which is Caesar’s. The realm which is Caesar’s becomes a mere province in the all-encompassing Kingdom which is God’s.

There are half-gods, false gods, and tribal deities—idols all. We worship the gods of power, wealth, fame or pleasure—or whatever else evokes our highest priorities. Some god you must have. Whatever thing you value so much that you would sacrifice all other values to it; whatever elicits your ultimate devotion; that which you invest your most ardent emotions in—this is your god. The nation state in our time usurps a god-like role as the arbiter of men’s destiny. It is a chief characteristic of the 20th century that multitudes of men and women in the world-wide mass movements of our time—secular faiths like Communism, Fascism and Naziism—have consecrated first-rate loyalty and devotion to fifth-rate dictators.

Every human being is capable of first-rate loyalty and dedication, and logically we need to match this up with a first-rate object, the Object of ultimate concern—the one true God. Only the Supreme Being, God, merits the utmost devotion and consecration of which human beings are capable.

**Religious Premises**

If there is to be a society—in the sense of a culture—there must be a measure of agreement as to the relation between God and man, and as to the nature of man and his proper end. There must be some agreement as to what constitutes justice, honor and virtue. The source from which a society derives its understanding of these matters is its religion. In this sense, every society is cradled in
some religion, Christian or otherwise. The culture of China is unthinkable without Confucianism; Indian society is the expression of Hinduism; and Islam is composed of followers of Mohammed. In like fashion, our western culture stems from the Judeo-Christian tradition; we are a branch of Christendom.

Our own institutions and way of life are intimately related to the basic dogmas of the Christian religion. From this faith we derive our notions of the meaning of life, the moral order, the dignity of persons, and the rights and responsibilities of individuals. Ours is a religious society, but it has its counterpart in a secular state. The Constitution forbids an official church, an act which permits religion to exercise its unique authority directly, unhampered by ecclesiasticism.

**Capitalism Under Fire**

The word “capitalism” itself has always been controversial, having been brought into use by Marxist writers for polemical purposes. Werner Sombart, a Marxist, claims to have been the first to use the term “capitalism” systematically in his analyses published around the turn of the century. The term still has pejorative connotations, as many people use it, including those who prepare ecclesiastical pronouncements.

The World Council of Churches was launched at a meeting of churchmen in Amsterdam in 1948. This ecumenical group appointed a commission on The Church and the Disorder of Society, chaired by one of my former teachers, John C. Bennett. The report of this commission kicked up a considerable stir because it recommended that “The Christian Churches should reject the ideologies of both *laissez faire* capitalism and communism . . .” When the press asked Dr. Bennett what he had in mind as the middle ground between communism and capitalism, he said it was British Trades Union socialism.

Precisely what did Dr. Bennett and his commission think they were rejecting when they turned their backs on capitalism? Well, they told us, by listing the four earmarks of the thing they dismissed. I quote from their report. (1) “Capitalism tends to subordinate what should be the primary task of any economy—the meeting of human needs—to the economic advantages of those who have most power over its institutions; (2) it tends to produce serious inequalities; (3) it has developed a practical form of materialism among Western nations in spite of their Christian backgrounds, for it has placed the greatest emphasis upon success in making money; (4) it has also kept the people of capitalist countries subject to a kind of fate which has taken the form of such social catastrophes as mass unem-
ployment.”

Everyone who has had even a limited exposure to the economic thought of men like Mises, Hayek, Friedman or Hazlitt recognizes the flavor of schoolboy Marxism in these allegations. If there is a form of social organization which gives economic advantages to the powerful at the expense of the rest of us, makes money grubbing the highest good, and periodically throws masses of people out of work—then every person of good sense and good will would oppose that system.

But if you really want to dismantle the thing Dr. Bennett and his cohorts ignorantly label “capitalism,” there's only one way to do it, and that is to labor on behalf of the free society on all three of its levels; the free market economy, the Whig political structures which sustain it, and the theistic Weltanschauung on which all the rest depends.

The Rule of Law

Whiggery insists on the Rule of Law—one law for all persons alike, because all are one in their essential humanness. Equality before the bar of justice means maximum liberty for all persons. In The Wealth of Nations, Adam Smith speaks of his “liberal system of liberty, equality and justice.” People are free to the extent that such ideals come to prevail in practice, and the only economic arrangement compatible with a free people is the market economy, or capitalism properly understood.

I should like to speak for a moment about the important distinction between principle and practice, or theory and history. Many good illustrations of this point are to be found in the history of the Church over the past nineteen centuries, where we find several instances of a wide discrepancy between Gospel Christianity and the practices of the Church in certain eras. The Church has occasionally sanctioned tyrannous political rule, it has lent its support to persecutions, inquisitions and crusades. It has forgotten its primary mission while pursuing secular ends like wealth and power.

In the economic realm, too, principle is sometimes obscured by malpractice. The late Wilhelm Roepke put it this way: “We must make a sharp distinction between the principle of a market economy as such . . . and the actual development which during the nineteenth and twentieth centuries has led to the historical form of market economy. One is a philosophical category, the other an historical individuality . . . a non-recurrent compound of economic, social, legal, political, moral and cultural elements . . .”

The theory of free market economics is one thing; the way some people used or misused such economic freedom as was available to them in 1870 or 1910 or 1960 is
something else again. A listing of the misuse or abuse of any specific freedom cannot be made part of a case against that freedom, for a mere multiplication of instances does not constitute proof one way or another. The case for freedom of the press does not stand or fall, depending on any evidence you might muster that editors are idiots and reporters knaves.

It is absolutely certain that freedom will be misused, simply because we are human beings. The fact that people sometimes misuse their freedom is indeed bad, but to try to correct the misuse of freedom by the denial of freedom would be infinitely worse. If there were a Richter Scale to measure social dislocation, the misuse of freedom would be one or two; the denial of freedom would be seven or eight—disaster.

Take this matter of academic freedom—a principle nobly exemplified by many educational institutions. Academic freedom does not justify the expectation that you will have Einsteins in the physics department, Nobel prize winners in chemistry, or a Whitehead in philosophy. Academic freedom could be justified on its own terms even if it could be demonstrated that the majority of professors had mail order degrees, turned up tipsy in class, and never cracked a book. Given these conditions on a campus there would be good grounds for a faculty house-cleaning; but a catalogue of these bad conditions does not add up to the first step in the argument against the principle of academic freedom.

Academic freedom is a sound principle even if many teachers are incompetent and others betray their profession. We defend freedom of speech and freedom of the press even though we are dismayed by the inferior quality of much of the spoken and written word. Freedom of worship is a good thing and we stand for separation of church and state even though some of the results are not to our liking. And by the same token we believe in freedom of economic enterprise—even though consumer demands and producer responses to them fall short of the Good, the True, and the Beautiful. As do the efforts of some contemporary philosophers, I dare say.

**Economic Freedom**

Economic freedom is to be cherished for itself, just as we cherish every one of our liberties. But economic freedom is doubly important because it sustains all the rest; economic freedom is the means to every one of our other ends. Economic freedom represents our livelihood, and whoever controls our livelihood has acquired critical leverage over every other aspect of our lives as well.

We stress private property as an absolutely essential ingredient of a
society of free people, an ancient bit of wisdom which Alexander Hamilton referred to twice in *The Federalist*. In the 79th Paper Hamilton wrote: "In the general course of human nature, a power over a man's subsistence amounts to a power over his will." Control the economy and you control people. So it is not simply for the sake of economic freedom and the prosperity it creates that we argue that business, industry and trade should come within the Rule of Law and be freed from governmental dictates, and bureaucratic regulations.

Incidentally, the free economy does not go unregulated — operating within the Rule of Law, the economy is regulated by the buying habits of consumers. We defend economic freedom—voluntary exchanges of goods and services between freely contracting parties—because every one of our more important freedoms depends critically on private property and free exchange.

It is my contention that a society of free people has a free economic order as an essential element of it. John Maynard Keynes, in backhanded fashion, lends support to my contention by declaring that his theory of economic planning adapts nicely to a totalitarian political order. In a Foreword to the 1936 German translation of his *General Theory*, Keynes had this to say: "The theory of aggregate production, which is the point of the following book, nevertheless can be much easier adapted to the conditions of a totalitarian state than . . . under conditions of free production and a large degree of laissez-faire."

**Axioms of a Free Society**

Capitalism—the free economy—appeared on the political foundation laid down during the eighteenth century by Whiggism in a period when the cultural climate of the West was at least vestigially Christian. The intellectual soil of Europe still bore the marks of centuries of tilling by the teachings of the Church. Theism had yielded to Deism in the eighteenth century but Deism was not secularism, and Deism did lay great stress on the three basic axioms of a free society: (1) each person is endowed with certain rights; (2) each person is gifted with free will; and (3) there is a moral law binding on all persons alike.

The eighteenth century's faith in reason really constitutes a fourth axiom; this was the belief that the universe is rationally structured, and so, by taking thought, unaided by revelation, we could convincingly prove that human beings possess inherent rights, free will, and a conscience which attaches them to the moral law. These four items constitute the heart of the religious Weltanschauung. If your image of the cosmos has three ingredients—rea-
son, rights, free will and the moral law—you have the proper religious foundation for the free society, of which the economic expression is capitalism.

The nineteenth century brought about a complete change in worldview, from Deism to Materialism. The latter finds its explicit and most familiar exposition in the Dialectical Materialism of Marx. The worldview of Marxism has no genuine place for reason, free will, the moral law, or the sacredness of persons. The same is true of every other variety of Materialism. Materialism sometimes goes by other labels, such as Naturalism, or Secularism, or Positivism, or Humanism.

Whatever the name, the thing here discussed is the theory which maintains that reality is reducible, ultimately, to mechanical arrangements of material particles. This is the non-theistic Weltanschauung, logically denying everything the theistic Weltanschauung affirms: inherent rights, reason, free will, and the moral law. Some Materialists may assert one or more of these religious axioms, but none of these axioms can logically be grounded in a universe consisting ultimately of nothing more than material particles, electrical charges, or whatever.

We hear much talk these days about “rights,” but to call something a “right” does not make it a right. Privileges, granted or withheld at the discretion of the state, may be called “rights,” but this notion is worlds apart from the idea of individual sovereignty in virtue of a sacredness in the very being of each person.

Free Will and Morality

Free will is incompatible with philosophical Materialism. If man is wholly natural, and if Nature is all-there-is, and if Nature is the realm where cause and effect operate inexorably, then men and women are as much caught up in causal sequences as water, stones, gases, and everything else. It follows that free will is a delusion, determinism a fact. “Man is unconditionally subject to the natural conditions of his environment,” a leading thinker tells us. Man does not act; like everything else in nature he is acted upon; he merely reacts.

A mechanistic universe has no moral dimension; there is no right and wrong per se. But people can’t avoid making moral decisions; human beings are habituated to thinking in moral terms, or perhaps the human mind is so constructed that it cannot function outside the moral categories. Those who assert that the universe lacks a moral dimension, frequently argue that the social system determines what is right and what is wrong—which is to subordinate ethics to politics.

Again, one hears it said that each
person decides for himself what is right and wrong for him. The inference is that the private will of each person is his only "authority"—there being no external norms or standards universally binding, to which the will and actions of every person should conform. Every man rolls his own and does his own thing. Whim, impulse, instinct, inclination, are the spurs of action. "If it feels good, do it," is the contemporary folk wisdom conveyed by bumper stickers.

If the cosmos provides no clues for human conduct; if justice is of merely human contrivance, representing the interest of the powerful, then no one has any moral obligation to do anything when he happens to feel like doing something else. By the same token, no one has any warrant for telling anyone else what he ought to do, or not do. This is what each person decides for himself, each getting his kicks in his own way, each doing whatever turns him on. The old covenant has been shattered, the rule book discarded.

Having reached this point, the argument is hoist with its own petard. The weak doing their thing are at the mercy of the strong doing theirs. The unscrupulous doing their thing is why good guys finish last. Some people get their kicks by preventing other people from getting theirs, and there is no rule to say them nay. Those who want to live and let live are put under the thumb of those who strive for ascendancy over others because for these latter the exercise of power "feels good." You cannot tell those who hanker after power that tyranny is "wrong," because they will tell you that wielding power is "their thing," which you have been at such pains to tell them to pursue!

The non-theistic world view has no real niche for the concepts of inherent rights and free will; it has discarded the norms without which no genuine ethical decision is possible; it makes reason the tool of class interest. Materialism is the appropriate ideology for a totalitarian society, but the Materialist who seeks to provide a rationale for the free society has saddled himself with an impossible task.

The Moral Foundations

Economic arguments for capitalism fall on deaf ears unless people, on other grounds, have first embraced a philosophy of man and society which incites them to seek their own good while working for the well-being of the whole community, that is to say, when they have given proper weight to the argument for the free society based on ethics, inherent rights, and free will.

The ethical argument for the free society limits governmental power by surrounding it with moral restraints. There is not one law for magistrates and another for citi-
zens; rulers and ruled are alike under the moral law. Statutes must conform to a higher law, or divine law, superior to the enactments of legislators, discovered by reason and intuition.

The argument from inherent rights views society's political agency as having the negative function of securing each person's private domain, protecting his life, liberty, and property, in order that he might have maximum freedom to pursue his personal goals.

The argument from free will is that the free society-free economy—Whiggism-Capitalism—provides the only social arrangements consonant with the nature of a creature gifted with the capacity to choose. The fact that each person is in charge of his own life, responsible for making the countless decisions required to bring his life toward completion, requires social conditions of maximum opportunity for choice. Human nature and the free society are complementary, two sides of the same coin. A society humane and just needs economic arrangements to match, and this means capitalism.

The free economy does not beget itself; the free economy appears only after we have the free society. And the free society emerges only after generations of exposure to the idea that there is a sacredness in persons which, in the political and economic spheres, demands liberty and justice for all. It is a mandate of our better nature as well as a requirement of our religion, that we work toward a society where every person has the widest possible scope to exercise his capacity as a freely choosing person, guiding his life by reason, within the moral law.

Is it not true—as Thomas Jefferson reminded us—that "The God who gave us life, gave us liberty at the same time."

Alfred North Whitehead

RELIGION is the vision of something which stands beyond, behind, and within the passing flux of immediate things; something which is real, and yet waiting to be realized; something which is a remote possibility, and yet the greatest of present facts; something that gives meaning to all that passes, and yet eludes apprehension; something whose possession is the final good, and yet which is beyond all reach; something which is the ultimate ideal and the hopeless quest.
Who Bears the Tax Burden?

One of the least understood concepts in economics concerns the effects of the corporate income tax. Many say the burden of this tax falls totally on the shoulders of the corporations since they actually “pay” the tax. Others see this as a consumer tax since everything the corporation earns comes ultimately from the consumer. While both statements may be partially true, neither gives the complete picture. To gain a better understanding of the effects of such a tax, consider the following example:

The small island country of Koala boasts a relatively free market, private property order. There are five corporations on the island which grow and sell pineapples. Assuming all pineapples to be similar, these businesses, in conjunction with their customers, have settled on a price of $1.00 per pineapple. This price has not been determined by the costs of the pineapple growers, but has been discovered as the market-clearing point satisfactory to both sellers and buyers. It is the price at which supply equals demand.

Now suppose the government of Koala imposes a $.50 per pineapple tax on these corporations. Some claim that since the tax is charged to these businesses, they bear the cost. Others argue that since everything these businesses earn ultimately comes from the consumers, the consumers bear the full burden of this tax. Who is right?

Assume the former are right and the sellers still charge only $1.00 per pineapple. Since the tax has
driven up costs, thus reducing and possibly eliminating their profits, some firms must close or move to more profitable areas. This reduction in the number of sellers results in higher prices for buyers since the supply of pineapples has diminished. Thus, consumers bear at least some of the cost of this tax.

Now suppose the latter argument is correct. This means that the businesses would charge $1.50 and remain unaffected by the tax. However, many buyers leave the market at this price, deciding they would rather do without pineapples or grow their own. If this weren’t so, sellers long ago would have raised their prices to $1.50.

As buyers leave, the sellers’ revenues fall. Sellers soon find they are better off bearing part of the tax burden by allowing prices to fall in order to retain more customers. The fact that all sellers have raised prices doesn’t mean they have been protected from the effects of the tax: some buyers still leave the market.

Because of this tax, the resulting price will be somewhere between $1.00 and $1.50. Depending on the nature of the market, the buyer will bear part by paying more than $1.00 and the seller will bear part by receiving less than $1.50. Buyers who can’t afford the higher price and sellers who can’t afford the cut in income will be forced out of the market.

Those who view the corporate tax as either a tax on business or a tax on consumers are right in part, but fail to grasp the entire picture. Because of the high degree of interdependence in the developed marketplace, no governmental act can affect just one group: the well-being of one depends on the continued well-being of all others. Thus, the corporate tax doesn’t fall exclusively on businesses or consumers, but on all those who wish to cooperate peacefully for their mutual benefit. Rather than being a tax on a specific group of people, this disruption of peaceful exchange is a tax on cooperation.

Liberty and Taxes

The voters of one period should not tax those of a later period. Those of the later period are not represented in the instant taxing body, and hence today's taxation of the citizens of tomorrow distinctly violates the principle of taxation by representation of those who pay the taxes. This means that to increase its expenditures government should not incur debt, because the burden of its redemption is thereby imposed on future taxpayers.

BRADFORD B. SMITH
Is Public Education Necessary?

As Edmond Opitz has said, where we once had public (State-connected) churches and private schools, the situation is now completely reversed. Whether the public schools are engaged in imposing a new faith, that of secular humanism, on an unsuspecting populace is a matter of much discussion. Such an imposition is surely happening in some places. But families and churches will combat it. The greater danger in public education is that State-supported schools must fail to give anti-Statist philosophies (in economics and political science) an even break. Who, in a public school, would recommend Hilaire Belloc's *The Servile State* as alternative reading in a course? I wouldn’t hope for anything better than a clash of opinion about Statism in a public school class, but I'm still waiting to see it.

Leonard Read once said that the struggle to separate school and State should be high on the libertarian agenda of the future. The recent upsurge in private schools is an indication the battle is already on. But declining scores on Scholastic Aptitude Tests (SAT) have had more to do with the change than any increase in philosophical understanding. We have been waiting for a long time for a book that would correctly assess the totalitarian potential in a universal “free” (i.e., tax-supported) public school system that relies on compulsion to recruit its students. But now the book is here.

Samuel L. Blumenfeld, the author of a previous book called *How to Start Your Own Private School—and Why You Need One*, has gone back deeply into history to write the story of the “Prussianizing” of American
education in the early Nineteenth Century.

His new book has a sharp title—Is Public Education Necessary? (Devin-Adair, P. O. Drawer A, Old Greenwich, Conn. 06870, $12.95). The big point that he makes is that the public school system was fastened upon us by a band of fanatics who were primarily concerned with imposing their elitist power on a public that had already achieved almost universal literacy by patronizing the private academies of the time.

Almost from the beginning America had some tax-supported public schools. The Boston Calvinists believed in a back-stopping arrangement that would give indigent students a chance at making their public Boston Latin School, which offered the classical training necessary to entering Harvard. But private academies were the general rule in most of the states in the early nineteenth-century years.

Literacy levels were higher then than they are now. The general system was peculiarly American. In Pennsylvania, for example, the law provided for tuition grants to help poor children enter the private academies. But most people paid for their own education. This would have become the "American way" if it hadn't been for the Boston meddlers who were breaking from their historic Calvinism to proclaim that human nature was perfectible and that it was the business of the State to train the young mind in the ways of perfectibility.

Harvard University became the forcing house of the new anti-original-sin doctrine when it was taken over by the Unitarians in 1805. The Unitarians were not averse to using the State to combat Calvinist influence. They sent their promising young men to Germany to study at Gottingen. It was there that George Ticknor and Edward Everett became converts to the Prussian system of State-directed compulsory education. With the help of an enthusiastic study of Prussian and Hegelian educational philosophy by Victor Cousin, a Frenchman, Ticknor and Everett made State-dominated public education a Unitarian "must."

Mr. Blumenfeld does not allege there was any conscious impulse toward socialism among the Harvard Unitarians. They had not yet yielded Harvard Power to Galbraithians. But it seems significant to him that the Owenites—the followers of Robert Owen—should also be working to impose compulsory State education on Americans in the 1830s. The Owenites had socialist ends in view, but they were willing to let the Unitarians' Horace Mann do the preliminary work in accustoming the American public to the idea that the State could best impose standards of virtue on the youthful mind by
training all the teachers in so-called normal schools. The Owenites, along with Josiah Holbrook of the Lyceum movement, were willing to wait for the day when socialism itself might be defined as the national way of virtue.

Horace Mann, who combined zealotry with a prodigious faculty for political manipulation, had his way all too easily with a country that had not had the opportunity to see how Prussianism could mutate into Bismarckism and, at the last, into Hitlerism. The Unitarians' belief that the State could be the inculcator of an anti-Trinitarian Christian morality was rudely shattered when American education, with Supreme Court blessing, went totally secular. By then it was too late even to save the day for voluntary prayer in the schools.

Mr. Blumenfeld's book is a blow in a good cause. It will help the growing private school movement. But it will take far more than a single book to separate school from State. Public education is a tremendous vested interest: Mr. Blumenfeld says it represents an annual cash flow of $80 billion. There are more than two million educators who are committed, through their National Education Association and other organizations, to increase the volume of the flow.

Up to the moment, local control of public education in the fifty states has prevented nationalization of the system in the ultimate Prussian manner. But the existence of a cabinet-rank federal Department of Education could be an omen if the present plans to abolish it aren't carried through.

For myself, I don't expect to live long enough to see the work of Horace Mann undone. But I do expect to see a dramatic increase in competition between the public and the private school. And, with the publication of such books as *Is Public Education Necessary?*, Leonard Read's hoped-for crusade to separate school and State will at least get into a strong uphill second gear.

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**EQUALITY, THE THIRD WORLD, AND ECONOMIC DELUSION**

by P. T. Bauer

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Reviewed by Roger R. Ream

Professor Peter T. Bauer of the London School of Economics is not an orthodox development economist. Rather than following the fashion and advocating the massive transfer of resources from developed countries to Third World governments, Bauer is the foremost critic of such
foreign aid. It appears that many of his proposals are beginning to get the consideration they merit.

His latest volume is a collection of fifteen essays on a variety of topics. Some are revised and extended versions of articles which have appeared elsewhere. Bringing them together in one volume, Bauer offers a superb overview of the major issues in development economics. Anyone concerned with this subject should study the ideas presented in this book.

Bauer begins by undermining many of the popularly accepted justifications for massive income transfers to less developed nations. "In an open and free society," he writes, "political action which deliberately aimed to minimize, or even remove, economic differences would entail such extensive coercion that the society would cease to be open and free. The successful pursuit of the unholy grail of economic equality would exchange the promised reduction or removal of differences in income and wealth for much greater actual inequality of power between rulers and subjects. There is an underlying contradiction in egalitarianism in open societies." Indeed, economic equality is a chimera.

Unfortunately, among mainstream development economists it is widely assumed that the economic positions of people are properly the concern of official policy. As Bauer comments, "Political power enables rulers forcibly to restrict the choices open to their subjects. But possession of wealth does not by itself confer such coercive power in this crucial sense. . . . In any case, wealth as such does not imply coercive power. Indeed, those who are rich are vulnerable to envy and to criticisms founded on an unreasoning presumption in favour of economic equality. These attitudes have at times led to the persecution and even destruction of productive or prosperous groups, often ethnic minorities. Possession of wealth offers no sure protection against such dangers."

Not only have the successful historically been victims of this envy and egalitarianism, the intended beneficiaries—the poor—also suffer. In many Western nations, the state provides for the necessities of life and the unexpected occurrences. Social security for old age, socialized medicine for ill-health, food stamps and aid to dependent children for poor, all these are financed by taxation. "As a result many people's post-tax income becomes like pocket-money which is not required for major necessities and hazards of life because these are paid for by taxes largely levied on themselves. This policy treats adults as if they were children. Adults manage incomes; children receive pocket-money. The redistribution of responsibilities implied in the operation of the welfare
state means the reduction of the sta-
tus of adults to that of children.”

This analysis of the effects of the
welfare state within a country ap-
plies to income transfers on a global
scale, known as foreign aid. There is
a condescending attitude implicit in
the policies recommended by ortho-
dox development economists. As
Bauer describes this outlook, “The
poor are seen as helpless victims of
their environment, people at the
mercy of external forces and without
wills of their own. The implication
is that they are without the primary
human characteristic of responsibil-
ity. . . . Poverty is thus a condition
caused by external forces and not by
personal conduct.”

Bauer presents a convincing case
for the proposition that “economic
achievement depends on people’s at-
tributes, attitudes, motivations,
mores and political arrangements.
. . . Moreover, policies of many Third
World governments are plainly
damaging to economic achieve-
ment.” Here, a recommendation of
Bauer’s has recently gained a lim-
ited degree of acceptance by the
World Bank. Bauer proposes that in
allocating aid, donors “should fa-
vour governments which within their
human and financial resources try
to perform the indispensable tasks
of government, but who refrain from
close control of the economy—briefly,
governments who govern rather than
plan. This would promote liberal
economic systems, minimize coer-
cion, reduce political tensions and
favour material progress.”

Bauer shatters the misdirected
attempts to promote Western guilt
for Third World poverty. “The West
has not caused the relative poverty
of the Third World,” Bauer writes.
“The opposite is the case. The con-
tacts established by the West have
resulted in improved living condi-
tions, longer life expectation and
much wider choice for hundreds of
millions of people in the Third
World. . . . Indeed, millions of people
who would otherwise have died sur-
vived because of Western tech-
niques and ideas, notably medicine
and public security which came with
colonial rule.”

The concept of exploitation is an-
other chimera. The material progress
in the developed West is not caused
by depriving the Third World of its
resources. In truth, “Western con-
sumption is more than paid for by
Western production. This produc-
tion not only finances domestic con-
sumption but also provides the cap-
ital for domestic and foreign invest-
ment as well as foreign aid.”

The West is not totally blameless
for the plight of Third World coun-
tries. Bauer identifies several areas
of fault. In particular, Western ac-
tivities since the Second World War
have done much to politicize eco-
omic life in the Third World. The
politicalization of economic life is
one of the primary inhibitors of economic progress. "In a subtle way, aid tends to perpetuate ideas and modes of conduct adverse to material progress." Chiefly, Bauer observes, "Aid promotes the delusion that a society can progress from indigence to prosperity without the intermediate stage of economic effort and achievement."

Bauer is perhaps at his best when destroying the prevailing myths in development economics. However, he also presents proposals for the reform of official aid, "while looking forward to its eventual termination and doing [the] best to bring that about." Ideally, he would leave most aid to voluntary charities, for they are "usually more interested in assisting the poorest and most distressed than are Third World rulers." The West must also reduce its barriers against Third World exports, a move which is unlikely to find much support among protectionist-minded businessmen in this country.

It is evident that Professor Bauer has a genuine concern for the poor of the Third World. Unfortunately, his thoughtful analysis and bold policy suggestions have been largely ignored by mainstream development economists. But they are beginning to gain consideration. The sad fact is that until they begin to set the tone for discussions of Third World poverty, much unnecessary suffering will continue to be endured in the underdeveloped world.
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Prepared by Bettina Bien Greaves of the Foundation staff

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