

the Freeman

VOL. 33, NO. 1 • JANUARY 1983

- Pilgrimage Among the Scribblers** **John A. Davenport** **3**
An article-review of John Chamberlain's autobiography.
- Law and Justice** **Hans F. Sennholz** **8**
Comparing an earlier view of rights to the modern idea of the welfare state.
- The Meaning of Federalism** **Clarence B. Carson** **12**
The relationship between the general government, state governments, and individual rights.
- Manning the Sea Walls** **Elgin Groseclose** **24**
An appeal for the resumption of free coinage—and economic stability.
- Boom and Bust** **Bill Anderson** **29**
Is the business cycle the Achilles' heel of capitalism or the result of government intervention?
- Economic Recovery** **Brian Summers** **43**
There is a vital difference between real savings and credit expansion.
- Constitutional Restraints,
The Market Economy, and
Individual Freedom** **Russell Shannon** **45**
How individual differences work to the benefit of all through open competition.
- Through Others' Eyes** **Roger M. Clites** **56**
How the market economy serves those who are alert to opportunities.
- Book Reviews:** **60**
"The Coming Boom" by Herman Kahn
"The Spirit of Democratic Capitalism" by Michael Novak

Anyone wishing to communicate with authors may send first-class mail in care of THE FREEMAN for forwarding.

the Freeman

VOL. 33, NO. 2 • FEBRUARY 1983

- George Washington on Liberty and Order** **Clarence B. Carson** 67
A review of the great truths set forth in Washington's Farewell Address.
- The World Debt Crisis** **Hans F. Sennholz** 76
Global inflation creates international enmity and chaos.
- The Armor of Saul** **John K. Williams** 84
The defender of liberty needs no extra burdens to bear.
- Market Prices vs. Communist Commands** **Henry Hazlitt** 93
The communist failures stem from lack of market prices as production guides.
- Unions and Violence** **Morgan O. Reynolds** 98
The economic reasons why unionism is so closely connected with violence.
- The Price of Education** **Ernest G. Ross** 107
If the price is misperceived the product or service may be less than the best.
- Thinking About Freedom** **Robert LeFevre** 113
Some provocative thoughts about the ideal of freedom.
- Book Reviews:** 122
"The State Against Blacks" by Walter Williams
"Concentration, Mergers, and Public Policy" by Yale Brozen
"Government's Money Monopoly" edited by Henry Mark Holzer

Anyone wishing to communicate with authors may send first-class mail in care of THE FREEMAN for forwarding.

the Freeman

VOL. 33, NO. 3

MARCH 1983

- Illegal Aliens** **Hans F. Sennholz** 131
Blaming illegal aliens for unemployment is to ignore the real causes.
- A Legal System for a Free Society** **Bertel M. Sparks** 135
The limits and functions of government to enhance freedom.
- Where Figures Fail: Measuring
the Growth of Big Government** **Robert Higgs** 151
The creation and extension of governmental authority must be re-
strained at its source.
- Free Enterprise in Space** **Gary McGath** 157
Exciting prospects, despite obstacles thrown in the way by
governments.
- A Distant Voice Speaks to
Us Today** **John K. Williams** 162
Pericles' message to the people of Athens speaks of the problems
plaguing us today.
- Democratic Freedoms vs.
Collectivist Newspeak** **Jack D. Douglas** 169
One aspect of a moral strategy for achieving peace.
- Capital, Deficits and Full
Employment** **William R. Hawkins** 175
How faulty theories warp political and economic conditions.
- Maritime Subsidies:
Overregulation** **Michael B. Cohn** 182
A brief history of the American Merchant Marine.
- Book Reviews:** 185
"The Businessman in American Literature" by Emily Stipes Watts
"The Case for Gold: A Minority Report of the U.S. Gold Commission"
by Ron Paul and Lewis Lehrman
"Introduction to the Study of the Law of the Constitution" by A.V.
Dicey
"The Portable Conservative Reader" edited by Russell Kirk

Anyone wishing to communicate with authors may send
first-class mail in care of THE FREEMAN for forwarding.

the Freeman

VOL. 33, NO. 4

• APRIL 1983

- Free Trade and Foreign Wars** **Sam H. Husbands, Jr.** 195
Trade barriers between nations lead toward friction and war.
- Free Riders Face a Rocky Road** **Melvin D. Barger** 205
Those who "go along" with pressure-group demands are also responsible for the consequences.
- The Crisis of the Welfare State** **Clarence B. Carson** 213
Policing the market against violence is a political, not an economic, process.
- The Virtues of the Free Economy** **Bill Anderson** 225
The market promotes cooperation instead of conflict—peace instead of war.
- Workers and Robots** **Hans F. Sennholz** 236
The impact of new technology on the job market and on workers.
- Robot Protectionism** **Ernest G. Ross** 248
Robots are a part of a man's technology and his future.
- Book Reviews:** 254
"Progress and Privilege: America in the Age of Environmentalism"
by William Tucker

Anyone wishing to communicate with authors may send first-class mail in care of THE FREEMAN for forwarding.

the Freeman

VOL. 33, NO. 5

MAY 1983

- Criminal Liberty and Civil Liability:**
Can Free Enterprise Survive? **Jane M. Orient** **259**
The sad consequences when our court system fails to control crime, but attempts to control everything else.
- Hong Kong's Future Uncertain** **Henry W. Vanderleest** **266**
The prospects if control of the Crown Colony reverts to the People's Republic of China.
- Minimum Wages** **Hans F. Sennholz** **270**
How political attempts to boost wages tend to harm those most apt to be unemployed.
- Robots!** **Russell Shannon** **282**
Let us not condemn the tools that free us from drudgery.
- The Trouble with Farming** **Clarence B. Carson** **286**
A risky business at best, but now beset with the consequences of massive intervention.
- From the Mouths of Babes** **Dennis L. Peterson** **299**
By one's example do others learn the ways of freedom.
- Economists and the Future** **Lawrence W. Reed** **302**
Words of caution to those who bet heavily on the accuracy of forecasters.
- Book Reviews:** **313**
"The Strategic Metals War" by James E. Sinclair and Robert Parker
"John Dickinson: Conservative Revolutionary" by Milton E. Flower
"Stalin's Secret War" by Nikolai Tolstoy

Anyone wishing to communicate with authors may send first-class mail in care of THE FREEMAN for forwarding.

the Freeman

VOL. 33, NO. 6

JUNE 1983

- The Stranglehold of "Big Business"** **Charles Dykes** 323
The large business enterprise, for all its faults, is vital in the defense of liberty.
- Primitivism: The Thrust of Government Intervention** **Clarence B. Carson** 328
The intrusion of government into market activities leads back toward the primitive life.
- The Academy versus the Market Place** **John Hospers** 339
Concerning the reasons for the antipathy of the academic profession toward the free market.
- Unemployment in Puerto Rico** **Hans F. Sennholz** 358
A classic instance of the harmful consequences of good but misguided intentions.
- Abundance and Scarcity** **Ben Barker** 369
An examination of opposing views about the nature and distribution of wealth.
- Book Reviews:** 377
"At the Eye of the Storm: James Watt and the Environmentalists" by Ron Arnold
"USSR: The Corrupt Society" by Konstantin M. Simis
"Development Without Aid: Growth, Poverty and Government" by Melvyn B. Krauss
"Privatizing the Public Sector: How to Shrink Government" by E. S. Savas

Anyone wishing to communicate with authors may send first-class mail in care of THE FREEMAN for forwarding.

the Freeman

VOL. 33 NO. 7

• JULY 1983

- | | | |
|--|----------------------------|------------|
| Your Freedom—What About It? | Robert Bearce | 387 |
| A serious look at the economic and political conditions that make freedom possible. | | |
| Prescription for Economic Health | Elgin Groseclose | 395 |
| Suggested correctives for the mania of going into debt. | | |
| The Constitution and Paper Money | Clarence B. Carson | 399 |
| Current inflation calls for review of what the Founders thought of the idea. | | |
| Why Anticapitalism Grows | Henry Hazlitt | 409 |
| Brief answers to common questions about capitalism. | | |
| The Moral Case for Competitive Capitalism | Donald B. Billings | 413 |
| The strength of capitalism lies not only in its efficiency but in its ethical foundations. | | |
| Farm Policy—Now What? | William H. Peterson | 420 |
| The prospects for less intervention on the farm. | | |
| Benefit Mandates Cause Unemployment | Hans F. Sennholz | 423 |
| Some unseen ways in which workers eventually pay for alleged benefits. | | |
| The Siren of Partnership | Ernest G. Ross | 440 |
| Beware the call for partnership between government and business. | | |
| Book Reviews: | | 445 |
| "Herbert Hoover: The Engineer, 1874–1914" by George Nash | | |
| "Death and Taxes" by Hans F. Sennholz | | |

Anyone wishing to communicate with the authors may send first-class mail in care of THE FREEMAN for forwarding.

the Freeman

VOL. 33, NO. 8 • AUGUST 1983

- | | | |
|--|---------------------------|------------|
| The Thatcher Revolution | John T. Murray | 451 |
| The challenges and achievements of the Thatcher administration in Britain. | | |
| No Nukes, No Consistency | Frederick C. Foote | 460 |
| Political and economic principles that make for war or for peace. | | |
| Privatization: Is It the Answer? | E. C. Pasour, Jr. | 462 |
| An appeal to turn back to the market for goods and services. | | |
| Is Forced Sharing a Panacea? | Dennis Bechara | 470 |
| Income redistribution policies create new victims. | | |
| Is There a Moral Basis for Capitalism? | Charles Dykes | 474 |
| Of all forms of economic organization, capitalism alone rests upon a solid moral foundation. | | |
| Lasers, Harobeds, and World Hunger | Howard Baetjer Jr. | 482 |
| Not redistribution, but capitalism, holds the cure for hunger. | | |
| The General Welfare | Clarence B. Carson | 487 |
| The modern use of the term, as distinguished from the Constitutional intent. | | |
| Commare N' Ciuzza and the Loan Shark | James Doti | 495 |
| Concerning the inefficiency of the laws against usury. | | |
| The Importance of the Obvious | Dennis L. Peterson | 502 |
| Six simple principles of the free market philosophy. | | |
| Book Reviews: | | 508 |
| "Political Economy and Freedom: A Collection of Essays" by G. Warren Nutter, edited by Jane Couch Nutter | | |
| "Pink and Brown People and Other Controversial Essays" by Thomas Sowell | | |
| "America: A Minority Viewpoint" by Walter Williams | | |

Anyone wishing to communicate with authors may send first-class mail in care of THE FREEMAN for forwarding.

the Freeman

VOL. 33, NO. 9 • SEPTEMBER 1983

| | | |
|--|---------------------------|------------|
| The Dilemmas of Public Education | Clarence B. Carson | 515 |
| The mounting problems await solution through free market policies. | | |
| Until Shrimp Learn to Whistle | David Smyth | 526 |
| Why private enterprise will always be superior to socialism. | | |
| Freedom and Utopias | John Hospers | 530 |
| A review of earlier attempts and of current proposals to remold society. | | |
| The Rising Protectionist Tide | Dennis Bechara | 545 |
| Trade barriers are detrimental to all producers and consumers. | | |
| Education in Colonial America | Robert A. Peterson | 551 |
| Evidence that the free market can meet America's educational needs. | | |
| Make-Work Won't Work | John Semmens | 561 |
| An assessment of the failing measures to relieve unemployment. | | |
| Book Reviews: | | 570 |
| "The World After Oil: The Shifting Axis of Power and Wealth" by Bruce Nussbaum | | |
| "Free Enterprise: A Judeo-Christian Defense" by Harold Lindsell | | |
| "Social Justice and the Christian Church" by Ronald H. Nash | | |
| "Benjamin Franklin" by Ronald W. Clark | | |

Anyone wishing to communicate with authors may send first-class mail in care of THE FREEMAN for forwarding.

the Freeman

VOL. 33, NO. 10 • OCTOBER 1983

- | | | |
|---|------------------------------|------------|
| Letter from the Paper Planet | Ernest G. Ross | 579 |
| The trouble with fiat money—as it might seem to a visitor from outer space. | | |
| From Caves to Computers | Bettina Bien Greaves | 587 |
| The blessings of freedom to specialize and trade. | | |
| Computers and Capitalism | John Jefferson Davis | 594 |
| Assessing the impact of the computer upon the way we live. | | |
| Why Not Deregulate Labor? | John A. Davenport | 601 |
| An article-review of the case for deregulating labor relations. | | |
| Judicial Monopoly Over the Constitution: Jefferson's View | Clarence B. Carson | 605 |
| A strict construction of the idea of limited powers. | | |
| The Ethics of Crime | Gary McGath | 616 |
| How the welfare-state idea is used by the criminal to justify his actions. | | |
| The Myth of Self-Regulation | Ridgway K. Foley, Jr. | 621 |
| Behind many of the efforts at industry self-control lurks the coercive power of the state. | | |
| How "Obscene" Are Profits? | Henry Hazlitt | 630 |
| Taxing profits punishes those who best serve consumers. | | |
| Book Reviews: | | 635 |
| "Healing America: What Can Be Done About the Continuing Economic Crisis" by Richard Cornuelle | | |
| "Mr. Jefferson" by Albert Jay Nock | | |
| "Our Enemy, the State" by Albert Jay Nock | | |

Anyone wishing to communicate with authors may send first-class mail in care of THE FREEMAN for forwarding.

IN MEMORY OF LEONARD E. READ
1898–1983

Included in this issue of *The Freeman* are samplings from the pen of the founder and president of The Foundation for Economic Education—his pledge to the cause of freedom—his call to those who would continue to serve that cause.

| | |
|--|------------|
| Memorial Resolution—Trustees of FEE | 643 |
| ESSAYS BY LEONARD E. READ: | |
| The Essence of Americanism (1961) | 645 |
| Those Things Called Money (1975) | 659 |
| Looking Out for Yourself (1956) | 663 |
| Flight from Integrity (1959) | 670 |
| Every Person Should Be Free (1954) | 676 |
| On That Day Began Lies (1949) | 677 |
| The Magic of Believing (1959) | 690 |
| I, Pencil (1958) | 691 |
| On Improving the World (1960) | 697 |
| Book Review: "Essays on Liberty" | 700 |

the Freeman

VOL. 33, NO. 12 • DECEMBER 1983

- The Two Faces of Risk** Ernest G. Ross 707
The free economy affords a greater number of risks, but without such deadly penalties for failure.
- Economic Forecasting:
How Good Is It?** Henry Hazlitt 712
There is uncertainty and risk in human affairs.
- Why Socialism Fails—
Why Markets Survive** Bill Anderson 716
How the powerful urge of self-interest keeps the market in operation.
- The Irony of Eternal Vigilance** Ridgway K. Foley, Jr. 729
A warning against trying political action to get one's "fair share."
- Kick a Businessman Today** William H. Peterson 732
An analysis of the businessman's image on TV.
- Business and Ethics** Edmund A. Opitz 735
Lawyers, doctors, businessmen are judged by the same moral law that applies to all of us.
- Japan's "Fifth Generation" Computers:
Threat to the Free Market?** John Jefferson Davis 741
Not a challenge but a new opportunity to prove the superiority of the free economy.
- Can Capitalism Guarantee
Right Answers?** Barry J. Schwartz 747
Individuals can answer—if they are free to do so.
- On Labor Unions** Percy L. Greaves, Jr. 751
An article review of Clarence Carson's *Organized Against Whom?*
- Book Reviews:** 758
"A Stroll with William James" by Jacques Barzun
- Index for 1983** 761

Anyone wishing to communicate with authors may send first-class mail in care of THE FREEMAN for forwarding.



the Freeman

A MONTHLY JOURNAL OF IDEAS ON LIBERTY

FOUNDATION FOR ECONOMIC EDUCATION

Irvington-on-Hudson, N.Y. 10533

Tel: (914) 591-7230

Leonard E. Read, *President*

Managing Editor: Paul L. Poirot
Production Editor: Beth A. Hoffman
Contributing Editors: Robert G. Anderson
Bettina Bien Greaves
Edmund A. Opitz (Book Reviews)
Brian Summers

THE FREEMAN is published monthly by the Foundation for Economic Education, Inc., a non-political, nonprofit, educational champion of private property, the free market, the profit and loss system, and limited government.

The costs of Foundation projects and services are met through donations. Total expenses average \$18.00 a year per person on the mailing list. Donations are invited in any amount. THE FREEMAN is available to any interested person in the United States for the asking. For foreign delivery, a donation is required sufficient to cover direct mailing cost of \$5.00 a year.

Copyright, 1983. The Foundation for Economic Education, Inc. Printed in U.S.A. Additional copies, postpaid: 3 for \$1.00; 10 or more, 25 cents each.

THE FREEMAN is available on microfilm from University Microfilms International, 300 North Zeeb Road, Ann Arbor, Mich. 48106.

Some articles available as reprints at cost; state quantity desired. Permission granted to reprint any article from this issue, with appropriate credit.



John Chamberlain

Pilgrimage Among the Scribblers

At a recent Berlin conference of the Mont Pelerin Society—that unique collection of libertarian economists and political conservatives—it was my good fortune to meet up with my friend John Chamberlain. Characteristically, he had made up his mind to come to the meeting at the last minute and, with Yankee parsimony, had chosen a roundabout route: Icelandic Airlines to Luxembourg, then a punishing bus ride to Frankfurt, and finally a late Sunday afternoon flight to Berlin on Pan American (since under present insane regulations German domestic airlines are prohibited from overflying the Eastern zone). Yet at the opening reception of the conference that evening, there was John unfazed by jet lag, mixing among aca-

demics till well after midnight and exercising his art of effortlessly picking up nuggets of information from whomever he meets—nuggets which will later be transmuted into equally effortless loping prose.

This art of absorption of detail combined with unifying intellection is much in evidence in Chamberlain's new autobiography (*A Life with the Printed Word*, Regnery/Gateway, \$12.95). Superficially, it is the story of how Chamberlain made his way up from cub reporter in the *New York Times* city room in the late Twenties to book reviewer and how thereafter he met the deadlines for *Fortune*, *Life* and many another publication. More fundamentally it is the story of how one man moved steadily from Left to Right—right politically and in the moral sense—amidst the clashing and false ideologies of our times. For anyone pon-

A former editor of *Barron's* and *Fortune*, Mr. Davenport is author of *The U.S. Economy* and a frequent lecturer on political economy.

dering the tragic significance of the Berlin Wall where the simple crosses mark the deaths of those seeking escape to freedom, this book is necessary and I was about to say required reading except that the latter word might offend John's sensibilities. For after all, he has emerged as one of our foremost advocates of the voluntary and cooperative society.

Such voluntarism was in full flower when Chamberlain, born in the same year in which the Wright Brothers took off at Kitty Hawk, grew up in New Haven and its environs, where he keeps a farm at Cheshire, Connecticut. In the turbulent Sixties, he recalls lending his barn to an itinerant youth seeking release from inner city pavements, only to find his acres invaded by aimless hippies and smogged, one may guess, by mists of marijuana. The incident serves as a deeper recall of the very different motivations of John's youth, when sailing in Morris Cove or expeditions to East Rock were the order of the day, leaving one too tired at night for endless and aimless palaver.

At school in New Haven John mixed freely with blacks before race became a fetish, and with immigrants of all nations—Swedes, Irish, Poles, with only the Italians still resisting the melting pot. Then on to Loomis Academy where more serious study was combined with ice skating on the Connecticut as far as Windsor Locks and canoe trips down

John Chamberlain's book reviews have been a regular feature of *The Freeman* since 1950. We are doubly grateful to John and to Henry Regnery for now making available John's autobiography, *A Life with the Printed Word*. Copies of this remarkable account of a man and his times—our times—are available at \$12.95 from The Foundation for Economic Education, Irvington-on-Hudson, New York 10533.

river to Long Island Sound. Finally an extraordinary *Wanderjahr* where John and a companion first shipped to New Orleans on the steamer *Momus* and then hitchhiked across Texas and proceeded by rail to the orange groves of California in the days when there were no minimum wage laws or powerful unions to prevent motivated boys from working in the packing sheds. It was an era when, to borrow from one of Chamberlain's later books, "men were free to walk over the horizon."

His recall of his college education (Yale 1925) and of the Twenties generally exhibits the same artistry and follows the same methodology. Yale was indeed a magic place with its careless freedom, its occasional gin and orange juice parties and above all the marvelous lectures of

Billy Phelps (Tennyson and Browning), Bob French (Chaucer) and Chauncey Brewster Tinker (The Age of Johnson). Yet one thing was lacking: a grounding in the great works of political economy and the nature of government—a lacuna for which as John wisely notes, many a grad including himself were to pay dearly in future years.

In casing the Twenties, Chamberlain attacks the myth that they constituted a crass materialistic era. They were, in fact an intensely creative period as evidenced by the flowering of poetry and literature and John pays loving tribute to Edna St. Vincent Millay, Stephen Vincent Benét, F. Scott Fitzgerald, Ernest Hemingway and many another. Yet this was a time when intellectuals paid scant attention to and even despised the enterprise system which sent them to college and sustained them in Greenwich Village and Paris. When the roof fell in in '29, political thinking was already moving leftward and the literateurs fell easy prey to Marxian ideologies.

From Left to Right

Chamberlain himself was vulnerable to this Leftward swing. His first book, *Farewell to Reform*, published in 1932 when his father, a New Haven merchant, was in financial trouble and when the economy was at sixes and sevens, was a radical document, arguing not only that capi-

talism was non-reformable but that sooner or later the “syndicates” and collectivists would march to power. Predictably this left him open to solicitations not just from Socialists but from Communist cells even then boring from within American society. Yet bit by bit, John’s Yankee shrewdness pulled him back to more solid ground, influenced, too, by discerning Trotskyites who had already taken the measure of Stalin, and later by reports of such men as William Henry Chamberlin who detailed the mass murders of the Communist Utopia.

Switching from the *Times* daily book column to *Fortune* magazine, he came to see that businessmen had something to be said for them. He was profoundly influenced by and wrote a ringing foreword to F. A. Hayek’s *Road to Serfdom*. His clinching conversion to the market economy came, he writes, when on post-war assignment to Britain he discovered that while governments were very good at putting on the economic brakes, they never supplied the gasoline or leaned on the accelerator pedal for economic advance.

This negative perception turns into positive affirmation in Chamberlain’s mature works: *The Roots of Capitalism* (1959) and *The Enterprising Americans* originally designed for a series in *Fortune* and later published in book form (1963),

still the best history of American business on the market. Here Chamberlain, strongly influenced by the American economist Francis Amasa Walker, breaks new ground.

The true hero of the economic process is the entrepreneur, large or small, who sets investment in motion and without whom Americans might still be stalled on the Great Plains. In stressing this thought, Chamberlain anticipated by a good many years modern supply siders who place primary emphasis on motivation. The business of government is not the impossible one of planning the economic future, but rather setting the framework for creative endeavor by maintaining law and order at home and adequate defense abroad.

War and Peace

As to that, Chamberlain's reflections on foreign policy are far more diffuse and difficult to interpret than his domestic philosophy. As a child of the disillusioned interwar generation he tells with refreshing candor how he at first favored a policy of strict neutrality at the time war broke out in Europe, and only bit by bit came to see how much would have been forfeited had Britain gone down in the terrible summer of 1940 with loss of the British fleet and control of the Atlantic. With Pearl Harbor these doubts and hesitations vanished only to be replaced by argu-

ments as to the conduct of the war and the shaping of the peace. In a chapter close to the end of his book Chamberlain, fascinated by strategy, pries into some of them: MacArthur's application of the theory of double envelopment in the Pacific, and more pertinently for anyone pondering the truncation of Europe today, General Al Wedemeyer's thesis that if only the Allies had launched their cross-Channel invasion in 1943 instead of 1944 they might have swept the Continent while Hitler and Stalin were bogged down along the Volga.

Here Chamberlain following Wedemeyer attributes the delay to Churchill's "love of empire." It seems more reasonable to suppose that in 1943 the West simply lacked the "gear and tackle" to make the Normandy landings possible. Moreover the whole thrust of Chamberlain's book suggests that ideas, no less than logistics, influenced the partition of Europe. The confusion of American intellectuals—what Julien Benda called *La Trahison des Clercs*—played a part in Roosevelt's extraordinary concessions at Teheran and Yalta. Had American public opinion taken the full measure of the Bear that Walks like a Man, Eisenhower even as late as 1944–45 might have been under firm orders to outpace the Russians to Berlin while Patton captured and held Prague.

The guardian of public opinion is,

of course, the free press and when it comes to the press, Chamberlain is fully in stride. His severest shafts are aimed at his first home, the *New York Times*, which while still an essential journal of record has fallen far from the standards of Adolph Ochs. John laments how Lester Markel finally took over the *Times* Book Review from the fairer-minded J. Donald Adams, and he faults managing editor Turner Catledge for his harboring Tom Wicker and Herbert Matthews who represented Fidel Castro as simply an agrarian reformer out of the Sierra Maestra.

With his second important employer, Henry R. Luce, John is more lenient. He himself squirmed under Luce's sudden shifts in tactics and dictates when he was writing *Life* editorials and he criticizes Luce severely for harboring so many woolly-headed Liberals in his entourage. But he concedes that Luce was truly a man of stature, and if he sometimes played with Liberals, he also harbored many a conservative—notably Whittaker Chambers who dominated *Time's* foreign news when the going was toughest, Charles J. V. Murphy who exposed the disaster of the Bay of Pigs against all the blandishments of President Kennedy, and for that matter John Chamberlain himself.

John learned to his cost just how hard it is for an editor or publisher

to hold any group of journalists together—prima donnas all—when he joined with Henry Hazlitt and Suzanne LaFollette in launching the fortnightly *Freeman* in the early Fifties. The venture broke up in squabbling among friends though the name and the tradition are still carried on today by the journal for which this review is written. Nor was John's venture in editorship all lost. For from the ashes of the old *Freeman* also came Bill Buckley's *National Review* and it turned out that Buckley had the resources and the skill to give the U. S. what it most lacked: namely, a fighting weekly of opinion that melded together libertarian economics with the higher conservative values as enunciated by Russell Kirk. That synthesis in turn has not been lost on Ronald Reagan.

With Reagan's election, the autobiography ends; John Chamberlain is not one to cast the future. But in recalling the past his book surely prepares us for the days ahead and in this sense we are all in Chamberlain's debt. Meeting him again close to the Berlin Wall made me wonder how this man of so many books and columns does it. But that is of course his secret and alchemy and I sometimes doubt whether he himself could explain it. Facility, yes. But likewise integrity, humility and compassion. These are rare virtues and this is a rare and significant book. ☉



JUSTICE is a cardinal virtue that renders to another what rightfully belongs to him. It is the ideal of man, the rule of conduct given to mankind. By necessity of nature man has certain rights, or claims in justice, which are moral and lawful to possess or obtain. These rights are antecedent to and independent of the state, rights which the state must not violate. In fact, the state, or civil society, is instituted to preserve these rights to its subjects, to adjudge rights as between individuals—to render justice. The idea of right and justice is the general basis of the legal and governmental institutions of what is known as Western Civilization.

The Declaration of Independence acknowledged the existence of nat-

ural rights in man and the duty of government to protect them: "We hold these truths to be self-evident, that all men . . . are endowed by their Creator with certain inalienable rights. . . . That to secure these rights, governments are instituted among men. . . . That whenever any form of government becomes destructive of these ends, it is the right of the people to alter or abolish it."

That declaration, while heard around the world, did not uproot those forms of government that make the state the sole and only source of rights. Throughout most parts of the world the source of all rights, laws and justice continued to be the king or sovereign, who derived his authority from God. The rights of the individual were dependent upon royal decree.

Various forms of modern government are built on this very philosophical concept. In totalitarian

Dr. Sennholz heads the Department of Economics at Grove City College in Pennsylvania. He's a noted writer and lecturer on economic, political and monetary affairs.

countries the supreme state denies the value of the individual and his rights except insofar as they may aid or assist the state. To be just is an attribute of the state; to obey to the utmost of his ability is the duty of man.

The representative governments of Western countries have been moving in the same old direction. Many now are defining justice as the freedom of each individual to exercise and enjoy all his rights *as long as such exercise does not violate superior or equal rights of others or the common good*. No longer is the individual in the possession of inalienable rights to enjoy "as long as he does not attempt to deprive others of theirs, or impede their efforts to obtain them." The state creates "equal" or even "superior" rights or defines "the common good" that takes priority over the rights of the individual.

New Rights for Old

The state creates new rights because the old rights of property are deemed to be deficient in morality and justice. Property rights are said to lead to large accumulations of wealth and "unearned incomes" while many workers are kept from keeping enough of what they produce to meet their basic needs. Property rights, therefore, must give way to the right of all members of society to subsistence, that is, to the goods

and services needed to support life.

The reasoning that rejects the property rights and creates superior rights is taken from the intellectual armory of modern socialism. It is based on the exploitation theory, the concentration theory, the class-conflict theory, and other fallacious and oft-refuted notions and doctrines. And yet, their wide acceptance and great popularity have given rise to a new code of morals that bring forth the superior rights.

Men continuously recast their laws, as their notions of justice change. In the long run, laws are affected by changes in moral outlook, and laws in turn have a great influence in shaping or perverting men's sense of justice. Law and justice thus reaffirm each other in the denial of natural rights that are inalienable.

The massive redistribution system that characterizes all contemporary governments is solidly founded on modern notions of justice, which in turn are reaffirmed by the reality of law. Millions of Americans who have accepted the socialistic reasoning plead for redistribution by force because it is "just." And many more millions of Americans are accepting the system as "just" because it is the law. Altogether they comprise a vast majority eager to use the system to their own benefit.

In fiscal year 1983 the federal government, in the name of justice, is subsidizing approximately 95 mil-

lion meals per day, or 14 per cent of all meals served in the United States. Through Medicaid and Medicare, it is paying for the medical care of approximately 47 million aged, disabled, and needy Americans. Through Old Age Survivors and Disability Insurance it is providing steady cash payments of up to \$868 per month to 24.5 million people who are 62 or older. Federal support for the elderly will average \$7850 per individual. Through the Food Stamp program it is providing assistance to 18.6 million participants. Through student assistance programs it is making available 6.9 million post-secondary awards and loans to students or their parents. (Executive Office of the President, March 12, 1982, Press Release).

All these beneficiaries are enjoying state-given rights that are superior to the inalienable rights to property. In fact, the former are resting on a denial of the latter, being financed by forced exactions from income and property producers.

Most Americans are embracing the new morality of income redistribution. But many Americans are yet aware in their working code of morals that there are contradictions and discrepancies between the new justice and the old. They usually seek to resolve the conflict of principles by adopting a double yardstick of morality: "Whatever I am receiving from the apparatus of redistribution

is 'social justice'; whatever is paid to others may be unjust."

Plundering One Another

In the name of "social justice" almost one-half of the American population now are taking income and wealth from the other half. A few may still base their claims on the right to subsistence; the vast majority advance other claims based on law. The elderly who comprise some 11 per cent to 12 per cent of the U.S. population and receive 28 per cent of federal budget outlays, are entitled to the benefits by law. The law is "just" and, therefore, the individual benefits are "just." After all, they paid taxes in the past which created the legal right to benefits in the present. Young people claim the right to federal and state assistance because they are "needy" in the present and will pay taxes in the future. Both groups, and many others, fully concur on the justice of their claims because the funds are "legal" and "available."

The temptations of the law have a great influence on perverting man's sense of justice. Many individuals who are clearly aware of the double-yardstick of morality readily succumb to it as soon as they are tempted by redistribution benefits. The champion of justice in freedom and free enterprise may quietly accept the superior justice of the state as soon as he is legally entitled to

Social Security and Medicare benefits. The industrialist who throughout his successful career scorned and scoffed at the new morality may embrace it as soon as he is falling on hard times. They all have been corrupted by the new justice of income redistribution.

There are few men who choose the right with invincible resolution, who resist the greatest temptations from within and without. They do not choose to live after the world's opinion, but, in the midst of the world, cling to the principles of moral law.

The world cannot do without them, but they are very odd and often troublesome to the world.

The new justice proclaimed by the state and anchored in law elevates the state and its political process to the position of omnipotent power and supreme judge. In the end, it denies and seeks to eradicate all inalienable rights while building a totalitarian order. But the justice that surpasses man's political designs can never be crushed; it springs forth again and again from the evil consequences of injustice. ☉

What Would You Give?

ASSUMING that you should own what you earn, then the question arises: Would you voluntarily give to government any amount of your income that it wanted, even though you knew it was going to be used for the sole purpose of subsidizing others? This is not a question of charity—how charitable you want to be—but a question of whether you would voluntarily give up the right to determine how your income, above and beyond your immediate basic needs, is going to be spent. It is a question of whether you think you should relinquish that right to certain other persons called “government,” or whether you should determine the spending of your own earnings—how much for your family, how much for various benevolent purposes, and so on.

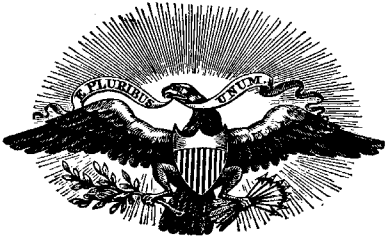
I am not asking whether you would be willing to pay for a basic protective service which government renders for you at your request. I am talking about an additional tax, on top of that, which is not for you at all, but for somebody else.

We might call one part of our present tax the *basic* tax; the additional part, a *subsidy* tax—a tax we pay in order to subsidize others.

IDEAS ON



LIBERTY



THE MEANING OF FEDERALISM

SEVERAL developments have contributed to making the meaning of federalism obscure. Some are old, some recent. Some may be more or less innocent; others are destructive of federalism itself. One of these that may be more or less innocent is the habit of referring to the United States government as *the* "federal government." Whether it is innocent or not, it does tend to confuse the unwary. These United States have a federal system of government. The system embraces both the general government and those of the states. Thus, both the United States government and the state government are cor-

rectly alluded to as "federal" governments.

When Felix Morley called attention some years ago "to the illogical practice of referring to the central government as the 'federal government'," he declared that the confusion was "due to historical accident." What he had in mind was that the supporters of the Constitution, when it was being considered for ratification, called themselves "federalists," and the government under examination "federal." From that beginning, he thinks, the idea of the general or central government being the federal government began to take hold.¹

Dr. Carson has written and taught extensively, specializing in American intellectual history. He is the author of several books and is working at present on *A Basic History of the United States* to be published by Western Goals, Inc.

That much is correct, but there is an additional reason: the Founders devised what was essentially a new system of government. It has come

to be called federalism. But they were so intent upon promoting or preventing its ratification and acceptance that they neglected to devise logical appellations for it in general discourse. Before the devising of a federal structure, leagues or unions of more or less independent states were usually referred to as confederations. The organizations over these leagues could be referred to as confederation governments. There is a comparable word—"federation"—in use. But it would be inaccurate and misleading to refer to the United States government as the federation government. Such terminology would imply that the central government is over the states rather than over the people. Whereas, it has a jurisdiction over the people primarily.

People Are Governed

The distinctive feature of the federal system of government is that the general government acts directly upon the people. For example, the government is financed by taxes on persons, not by levies upon states. The government in question can be described with sufficient precision by calling it the United States, general, central, or national government. However, my purpose is not so much to reform the use of the language as to remove the confusion engendered by referring to it as the federal government. More on this point later.

Another source of confusion about

federalism is the doctrine of states' rights, as it is commonly called. In the first place, states have powers (as do all governments), not rights. In the second place, what is being disputed within the federal system of government when so-called states' rights are asserted is the jurisdiction of the national government to act in some field. It is important that states act to restrain the national government to the exercise of its powers within its allotted jurisdiction. They are most apt to do so in defense of their jurisdiction. But what is ultimately important in this is the rights of persons and the liberties of the people. It is easy to lose sight of this when the dispute is conducted in the name of "states' rights."

Rights belong to individuals in the American constitutional system. Any government (whether state or national) may misuse its powers so as to violate the rights of persons. It is exceedingly important, then, that the rights of persons not become identified with the powers of government, either national or state. That can easily become the means for the enlargement of the powers of government (one or the other, or both) at the expense of the rights of persons. That can result from confusing either states' powers with rights or treating jurisdictions as if any power that can be conceived falls in one or the other. These are confusions of the federal system that have become

implicit in the states' rights doctrine.

A Mistaken Use of the States' Rights Arguments

How easy it is to fall into this trap is illustrated in the opinion accompanying a Supreme Court decision announced in 1936. The case was *The United States vs. Butler* in which the main provisions of the Agricultural Adjustment Act were nullified. The majority opinion was written by Justice Owen Roberts. (It should be noted that Justice Roberts did not linguistically confuse jurisdiction with rights, but he did rely on the states' rights argument in such a way as to ascribe powers to the states which they neither claimed nor possessed.)

Justice Roberts based his decision upon the fact that the act provided for taxing food processors in order to purchase the compliance of farmers with the programs it outlined. His main conclusion was stated in these words: "Congress has no power to enforce its commands on the farmer to the ends sought by the Agricultural Adjustment Act. It must follow that it may not indirectly accomplish these ends by taxing and spending to purchase compliance. The Constitution and the entire plan of government negative any such use of the power to tax and to spend as the act undertakes to authorize. . . ." Then, as if it were an afterthought,

he appended this dictum: "A possible result of sustaining the claimed federal power would be that every business group which thought itself under-privileged might demand that a tax be laid on its vendors or vendees the proceeds to be appropriated to the redress of its deficiency of income. . . ." This last is about as close as he came to dealing with the violation of the rights of individuals involved.

Even so, he was within shouting distance of the issue in the points he made that are quoted above. But then he dragged in the dubious issue of the alleged intrusion of the provisions of the act upon the jurisdiction of the states. He went on at length about the dangers to the states of such action. At one point, Justice Roberts concluded that the "Congress cannot invade state jurisdiction to compel individual action; no more can it purchase such action." At another point, he declared that if the principle of the act were accepted, Congress could invade the reserved jurisdiction of the states and accomplish the "total subversion of the governmental powers reserved to the individual states." The proponents of the act, Justice Roberts said, were trying to claim that the Constitution "gave power to the Congress to tear down the barriers, to invade the states' jurisdiction, and to become a parliament of the whole people. . . ." This claim flew in the

face of the 10th Amendment, he charged.⁴

In short, Justice Roberts did his best to bring the whole weight of federalism to bear on his position with what were spurious arguments about the jurisdiction of the states. If the act was not authorized by the Constitution, it was irrelevant whether or not it violated the jurisdiction of the states. That any or all states had power to pass any such act is nowhere proved.

The 10th Amendment does not disclose a single power possessed by the states. Rather, it disposes of the question as to whether the general government has some reservoir of powers not otherwise enumerated. (It doesn't.) And, if a state does not have the power to pass such an act, it would be no trespass upon its jurisdiction for the general government to pass one. He does not even explore the possibility that the states might be prohibited from passing such acts by the United States Constitution, for which an excellent case could be made. The most that can be said for the argument is that Justice Roberts grabbed the states' rights ball when it came floating by and ran with it with all his might.

None of this is said in derogation of jurisdictional claims of the states, of the decision the Supreme Court reached, nor of the powers of reasoning of the court. Rather, it is to illustrate the results of the confusion of

federalism inherent in the states' rights doctrine and some of its corollaries.

Subordinating the States

But the greatest confusion about federalism and threat to its survival has come from the concerted effort for more than half a century to turn the states and their dependent organizations into administrative units of the national government. The way was eased for this by the habit of referring to the national government as *the* "federal government." Off-the-mark talk about states' rights has had little more impact than dogs have upon the moon by barking at it. State organizations have been most effectively turned into administrative units in connection with the development of the welfare state.

More precisely, as the national government became more and more involved with redistributing wealth, state organizations, particularly counties, became instruments of much of the distribution. For example, state welfare agencies (called by a multiplicity of names nowadays) administer a great variety of programs funded by the national government. Over the past three decades, too, the courts of the United States have asserted increasing and widespread authority over agencies funded primarily by the states, such as schools, prisons, mental institutions, colleges, and what have you.

There should be no doubt that there have been large scale intrusions upon the jurisdictions of the states.

The confusion has been further compounded in recent years by what has been called the "New Federalism." Currently, the phrase is being used by the Reagan Administration to designate the plan to turn over some welfare programs to the states, to disentangle some state-national joint efforts by having the national government take over the funding of them entirely, and to reduce national controls over grants made to states by the government. But the idea of a New Federalism had been around for several years before Reagan became President.

The late Nelson Rockefeller proposed doing something to revive federalism in a book published in 1962, entitled *The Future of Federalism*. At the beginning of his second term, President Richard Nixon advanced the idea of having the national government aid in the recovery of federalism. About all that came out of that was the practice of providing large grants from the central government under the rubric of revenue sharing. What these various proposals and plans have in common is the notion that federalism can be restored to its full vitality by action of the national government. That may well be the problem rather than the solution. At any rate, it has succeeded thus far more in confusing

than in clarifying the meaning and function of federalism.

The main point I wish to make about the function of federalism is that it is a system for the protection of the liberties of people and the rights of individuals. The freedom of a people consists in the voluntary use of their property and faculties to their chosen ends. The Founders of the United States generally understood well something that is universally the case: that government is ever the greatest potential threat to freedom of action. The liberties that prevail consist of those acts not prohibited by law and those rights of individuals that governments are forbidden to violate and are enjoined to protect from all intruders. In short, the precondition of extensive liberty for a people is limited government. It is, then, as a device for limiting government that a federal system of government performs its most valuable function. But to grasp the full implications of this, the meaning of federalism needs to be clearly stated as free of confusion and complications as possible.

Two Governments in Power

A federal system of government is one in which two governments have jurisdiction over the inhabitants. In this country, the two governments are those of the states and of the United States. Both governments have sanctions, that is, may use force

upon the inhabitants. Both have enforcement officers and courts. This system is sometimes referred to as one of dual sovereignty. The phrase is, however, misleading, and when carried very far leads to conflicts for which there is no resolution short of the destruction of such independence as one or the other governments may have.

The term sovereignty came into currency in the modern world in the 16th century. Monarchs came to be referred to as sovereigns. The concept was used to buttress absolute monarchy. It means the supreme, or ultimate authority, over a land, state, or country. The United States does not have a monarch, or king; literally, it does not have a sovereign. It goes deeper than that, however. Neither the Constitution of the United States nor the constitutions of the states vest supreme authority in any man, any group of men, or the people as a whole.

It is the genius of American federalism that government is limited, not supreme. Sovereignty is a mischievous notion, an improper analytical tool for describing government in this country. It sends people in quest for an authority which can only exist in defiance of the constitutions of the states and of the Constitution of the United States.

Federalism is best understood, not as a political concept, but as a legal concept, which is what it is. Sover-

eignty is a political concept (an absolutist authoritarian one, at that); jurisdiction is a legal concept. Thus, the conclusion that in the United States the states have a jurisdiction, and the United States has a jurisdiction.

Defining the Jurisdiction

The Constitution of the United States, aside from describing the method of selection of its officers and the inner workings of the government, is mainly concerned with defining the jurisdiction of the government that it authorizes. Also, it denies jurisdiction to the states in certain areas, prohibits states to act in certain ways, and reserves powers to the states, and rights to the people. Before offering some proof for this and delineating the jurisdictions, however, there are two basic points that need to be nailed down.

The first is to show why state governments are federal governments as well as the United States. These United States have a federal system of divided jurisdiction in government. Severally, the states exercise authority over persons in one of these jurisdictions. The United States government exercises authority in the other. Both, therefore, are federal governments. To acclaim one as the federal government to the exclusion of the other is to deny, implicitly, that we have a federal system of government.

The other point has to do with the independence of the state governments of the central government and the powers of action independent of state governments by the United States government. That is not to say that each does not rely on the other in important ways—they do—but to affirm that their operations as governments are independent. Indeed, the independence of the states stands on more solid historical ground than does that of the national government.

James Madison noted that in this and several other matters, "The State governments will have the advantage of the federal government." As proof, he pointed out that "The State governments may be regarded as constituent and essential parts of the federal government; whilst the latter is nowise essential to the operation or organization of the former." His meaning was that elections occur within states, and that the general government depends upon the states to come into being. "On the other side," he continued, "the component parts of the State governments will in no instance be indebted for their appointment to the direct agency of the federal government. . . ." ⁵ Moreover, some of the states existed before the United States. True, after the adoption of the Constitution, states are admitted to the union by act of Congress. But they come into being at their

own instance, draw up their own constitutions, and select their own officers. Their independence of the general government, then, is antecedent to it.

The important point, however, is that both the government of the union and the states are distinct and separate entities. They are governments in their own right, neither being the creation of the other. Devotees of the states have sometimes argued that the United States was created by the states. ⁶ Not so, however. The states did send delegates to the Constitutional Convention, and they did hold elections for the consideration of ratification of the Constitution. But the latter delegates were chosen by the electorate, and the preamble to the Constitution refers to "We the people" as the origin of the government. In any case, both governments possess the essentials of separateness, distinctness, powers, and independence to be considered governments in their own rights.

Local Governments

By contrast, local governments are not independent governments. Except for the District of Columbia, all local governments are creatures of the states. They come into being by authority of the states, and derive such powers of governments as they exercise from the states. They are not, then, a part of the federal sys-

tem of government, but rather a part of state government. Or, to be absolutely precise, they are linked to federalism only by their ties to state governments.

If the independence of the state and United States governments were all that could be said about federalism, however, it would be a fearful and monstrous system of government. To have one independent government over the inhabitants is bad enough, but to have two would be intolerable, if each or either could exercise its power without restraint. That is not the case, however. Both governments are restrained, restrained by each other by the delineation of their separate jurisdictions, the denial of powers to one or the other or both, and by the specified manner in which they are to exercise their powers. Their independence of each other is important, because it provides a safeguard against intrusion by either into the jurisdiction of the other. But it is of even greater importance that in the assignment of jurisdictions both governments are limited and restrained. It is these restraints that protect the liberties of the people.

The bulk of these restraints are found in the United States Constitution. In the first place, the United States government was never granted all the powers that it might be claimed are inherent in government itself. It was granted only a

limited jurisdiction to deal with certain objects of government. These powers were described in general terms in the following ways at the time of the debate over the ratification of the Constitution. John Jay, speaking in the New York state convention, maintained that the powers were largely restricted to the following objects: "They comprehend the interests of the states in relation to each other, and in relation to foreign powers."⁷ James Madison observed that "the powers of the general government relate to external objects and are but few."⁸ Again, he emphasized that "The powers delegated by the proposed Constitution to the federal government are but few and defined."⁹ In the Virginia convention, Edmund Pendleton argued that the general government was to act "in great national concerns, in which we are interested in common with other members of the Union. . . ." At another point, and more heatedly, he insisted that the government authorized was not clothed with all powers of government. "It only extends," he said, "to the general purposes of the Union. It does not intermeddle with the local, particular affairs of the states."¹⁰

Specified Limited Powers

It is not necessary, however, to rely solely upon the comments and descriptions of contents by the Founders to learn that the Constitution

granted only limited powers to the general government. The document speaks for itself in this regard. The powers of the government were enumerated in several places in the Constitution, above all, in Article I, Section 8. For example, such powers as these are granted:

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. . . .

To provide and maintain a Navy.

To establish an uniform Rule of Naturalization, and uniform Laws on the subject of Bankruptcies throughout the United States.

In the most general terms, then, the Constitution provided for a general government to conduct foreign relations, to settle disputes among the states, and to facilitate trade and intercourse among the peoples of the states.

Further, the United States government is prohibited to do some things. For example, "No Bill of Attainder or ex post facto Law shall be passed." "No Tax or Duty shall be laid on Articles exported from any State." "No Title of Nobility shall be granted by the United States. . . ." and so on. The government is further restricted by amendments, such as the Fourth, which reads: "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." Beyond all these, there is a blanket limitation contained in the 10th Amendment: "The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people."

Limits to State Powers

The jurisdiction of the states was conceived as being much more comprehensive than that of the United States at the time of the drawing of the Constitution. The Constitution does prohibit certain powers to the states. For example, "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 Attainder, ex post facto Law, or Law impairing the Obligation of Contracts, or grant any Title of Nobility."

There are further prohibitions on the states in amendments, the most general of which are to be found in the Fourteenth, and the central ones

are embodied in these words: "No State shall make or enforce any law which shall abridge the privileges or immunities of citizens of the United States; nor shall any State deprive any person of life, liberty, or property, without due process of law; nor deny to any person within its jurisdiction the equal protection of the laws." Beyond such prohibitions, however, the main powers of government over the lives of persons were reserved to the states.

James Madison stated the case for the residual powers of the states this way. "Those which are to remain in the State governments are numerous and indefinite. . . . The powers reserved to the several States will extend to all the objects which, in the ordinary course of affairs, concern the lives, liberties, and properties of the people, and the internal order, improvement, and prosperity of the State."¹¹

State Constitutions Also Limit

It should be noted, however, that the states are further restrained by their own constitutions, and most of these have much more extensive restrictions than are contained in the United States Constitution. Moreover, as already noted, since the time of Madison, further extensive prohibitions on the states have been added to the Constitution. Thus, it is correct to say that both the United States and state governments are

limited and that neither possesses all those powers which may be conceived as inherent in government itself.

The object of this limitation, indeed, the highest object of federalism itself, was the rights of individuals and the liberties of the people. Alexander Hamilton put it this way: "This balance between the nation and state governments ought to be dwelt on with peculiar attention, as it is of the utmost importance. It forms a double security to the people. If one encroaches on their rights, they will find a powerful protection in the other. Indeed, they will both be prevented from overpassing their constitutional limits, by a certain rivalry, which will ever subsist between them."¹²

From our perspective, it is easy to conclude that Hamilton was wrong, at least in part, in his prediction. He was right, of course, in holding that the national government would defend its jurisdiction from intrusion by the states. He was right, too, in maintaining that this would provide security against states' encroaching upon the rights of the individual. It has worked that way historically, and it is still working that way. But what of that "rivalship" of the states over their jurisdiction and the security that was supposed to afford against concentration of power in the central government and its violation of the rights of the people?

Aside from clamors about "states' rights" and an occasional suit by some state in the courts of the United States, the states appear to be paper tigers. They are largely unable either to protect their own jurisdiction or the rights of their inhabitants from the central government. Either Hamilton was wrong or something has happened in the interval.

An Important Balance

It will be my position that Hamilton was right about the Constitution as it then stood. To understand why, it is necessary to look at the structure of the government and how it has been changed so as to effect the power of the states to defend their jurisdiction. The answers to two questions should lay open to view the crucial structure of the government. First, what branch or organization in the central government was crucial to the defense of the jurisdiction of the United States? While all the branches play a role in it, the ultimate power for the defense lies in the Supreme Court. By its power of review of legislation, both national and state, where a constitutional question is raised, it can vigorously and effectively assert and defend the jurisdiction of the United States.

Second, in what branch of what government is there an organization with the power and under the control of the states to defend the jurisdiction of the states? There is no such

organization today. There has not been one in the United States since 1913. Until 1913, the United States Senate had power to do it (and it still does), and state legislatures had crucial leverage over the Senate. That leverage was removed in that year by the 17th Amendment. The amendment provided for the direct election of Senators.

In the original Constitution, Senators were elected by the legislatures of the states. In effect, the state governments had representatives in Congress; they were the members of the Senate. The Senate is well placed in the government to defend the jurisdiction of the states, if it will and must. It can refuse to pass any bill which intrudes upon the jurisdiction of the states. Moreover, Supreme Court, indeed, all court, appointees of the United States government, have to be approved by the Senate. Presidents, too, have large incentives to get along well with the Senate, for all their major appointees and all treaties must be approved by the Senate. Further, trials of impeachment, including judges, are conducted before the Senate.

Since 1913, state legislatures have had little or no effective control over Senators. No longer do they have to please the state legislatures to be re-elected. State governments are no longer represented in the central government. It is not surprising, then, that the great growth and ex-

pansion of power of the national government have occurred since 1913. The main balance wheel for the states in the Senate no longer operates to restrain it. The courts have ever more vigorously asserted and expanded the jurisdiction of the United States, and the presidents and Congress have not been far behind.

That is not to say that federalism is meaningless today. It is still used to restrain the states. Moreover, the states still retain much jurisdiction, or portions of it, thanks largely, I suspect, to the voters. But the central government is no longer restrained significantly by federalism. It has become *the* government, indeed, *the* federal government, as we acknowledge in our references to it.

If the above analysis is correct, federalism can hardly be restored by redistributing welfare programs. It will hardly be revitalized, in any case, by federal aid or revenue sharing. It will only be able to perform

its salutary function of protecting its jurisdiction so as to defend the rights of its inhabitants when it has a means for doing so within the general government itself. Looked at that way, the election of Senators by state legislatures was a good idea. ☉

—FOOTNOTES—

¹Felix Morley, *Freedom and Federalism* (Chicago: Henry Regnery, a Gateway edition, 1959), p. 21.

²Henry S. Commager, *Documents of American History*, vol. II (New York: Appleton-Century-Crofts, 1963), p. 251.

³*Ibid.*, pp. 251–52.

⁴*Ibid.*, p. 249.

⁵*The Federalist Papers*, Willmoore Kendall and George W. Carey, intro. (New Rochelle, N. Y.: Arlington House, n. d.), pp. 290–91.

⁶See, for example, James J. Kilpatrick, *The Sovereign States* (Chicago: Henry Regnery, 1957), p. 4.

⁷Elliot's *Debates*, Bk. I, vol. 2, p. 283.

⁸*Ibid.*, vol. 3, p. 259.

⁹*The Federalist Papers*, p. 292.

¹⁰Elliot's *Debates*, Bk. I, vol. 3, pp. 40, 301.

¹¹*The Federalist Papers*, pp. 292–93.

¹²Elliot's *Debates*, Bk. I, vol. 2, pp. 257–58.

American Federalism

In its narrower sense, federalism refers to the division of authority and function between and among the national government and the various state governments. But it has come to possess a wider meaning in American political history. The idea of constitutional limitations of power, of both horizontal and vertical divisions of power, of the representative nature of republican institutions, and of a national government strong enough to perform certain necessary tasks and yet not so strong as to become a threat to liberty, is perhaps better epitomized in its unique American historical setting by the word federalism than by any other single term.

IDEAS ON



LIBERTY

MANNING THE SEA WALLS

THE rising tide of foreign government defaults on their overseas, dollar-denominated debt threatens to break and overflow the sea walls of international banking and inundate the capitalistic world.

The recent Toronto convocation of international bankers for the annual meeting of the World Bank and International Monetary Fund considered the approaching flood, but their efforts were like those of a platoon of Dutch school boys recruited to stick their fingers in the leaking dykes. In desperation they shouted for more bags of the sand that was being washed away; that is, more

international credit, more fiat money of the sort that was already being diluted into muddy liquid.

For the United States, with business bankruptcies soaring and the banking system tottering, confidence has begun to ebb in the power of the omnipotent Federal Reserve to control the flood. Although it mans the sluice gates of a mighty reservoir of credit, some see cracks in the great dam below which the economy sits like a present-day Johnstown. One journalistic commentator declares that the country faces its greatest economic crisis in fifty years.

The Great Debate

A popular cry is to denounce Reaganomics with its devotion to free market economics; more radical theorists accuse the capitalistic sys-

Dr. Elgin Groseclose, a financial consultant in Washington, D.C., is the author of *Money and Man* (1934, 4th edition 1976) and *America's Money Machine* (1966, 1980). He serves also as executive director of the Institute for Monetary Research.

tem and argue for authoritarian communist and socialist forms of government.

Advocates of more government intervention, however, face the dilemma that the crisis is severest in the Third World, most of which is governed by Marxist or socialistic principles under authoritarian regimes. Indeed, it is the collapse of Third World economies, despite a thirty-five year drain of Western resources under various foreign aid programs, that has complicated the problems of the West; it is the defaults of Third World countries on loans from Western banks that now threaten the international banking structure.

Advocates of more government subsidies and intervention, however, ignore the fact that if Reaganomics has not borne the expected fruit, it is because of its failure to extend free market principles into the most important area of enterprise—the money system.

Despite dismantling of many government barriers to trade, money—which is the lifeblood of enterprise—remains under authoritarian controls by a bureaucracy as aloof, as unrestrained, as a Soviet Politbureau. This is the Open Market Committee of the Federal Reserve which congeals the wisdom of twelve mortal beings enjoying long tenure into directives as to the amount and direction of money flow; each Friday

the markets of the world await with bated breath the effect of their liberations.

Historical Review of System

The development of this autocratic power was gradual and often unperceived. For twenty-seven centuries, mankind regarded as axiomatic that the only valid means of payment is intrinsic money, that is, coinage. Rulers throughout history, however, have wherever possible circumvented this principle by degrading or counterfeiting the coinage. The most pervasive effort was in 13th-century China, when the Mongol emperors substituted paper notes for metallic coinage in circulation. The Venetian traveler Marco Polo admired the device which, he noted, gave the emperor enormous profits. Despite the inflation that followed, with the notes at a discount, the practice spread to Europe; but in the Middle East, efforts to introduce paper notes were resisted by sedition, and in India, silver remained the standard money of account until the British introduced paper in 1893. The British paid the price; within 20 years they nearly lost their colony but for a U.S. rescue operation. Iran had only metallic money until the 1930s when Reza Shah introduced central banking, *a la* the Federal Reserve; this monarch lost his throne before a decade had passed.

Rise of "Scientific" Economics

The framers of the United States Constitution rejected paper currency, but despite Constitutional doubts, paper currency was introduced as a war measure during the Civil War; specie payments were resumed in 1879.

Meantime, there had been growing up in the 19th century a school of thinkers employing the concepts of mathematics and physics; they obtained respect for their novel theories by designating them as "scientific." Karl Marx called his theory "scientific socialism." Their view was that man was a creature of physical wants and demands that could be measured statistically and programmed mathematically. The profession acquired status after World War II by the formation of an official Council of Economic Advisers, enjoying access to the head of state and more influential than the Secretary of the Treasury or the Secretary of State. Added prestige came in 1969 when a Nobel Prize in "economic science" was set up along with those in medicine and physics.

From this new profession came the philosophical framework for fractional reserve currency which came into being in 1913 with the Federal Reserve System. With fractional reserve currency, the Reserve banks were authorized to convert into cash the debt of member banks. In exchange for the member bank's paper

the Reserve banks could issue legal tender notes up to 2½ times the amount of gold money held by the bank. The process was called discounting.

At first only short term commercial debt was generally convertible to cash, but such was the leverage given by this new mechanism, such was its power to create purchasing power by the stroke of a pen, that pressure for its expansion became irresistible. Government bonds became acceptable collateral—this helped finance World War I—the kinds of debt expanded; if not enough debt were offered for discount the Reserve, through the Open Market Committee, could go into the market and buy up debt either on the excuse of stabilizing the price level or of promoting employment. Eventually the requirement of a gold reserve was abandoned.

The Inflationary Flood and the Economic Consequences

The commercial banks, with this ever-ready fountain of liquidity, expanded their lending to the limits of their capital reserves. These dropped from around 25 percent of assets to currently less than 10 percent, with the 15 largest banks presently operating on margins of less than 5 percent.

Not finding productive use for this financial power, they have financed a rank and unhealthy growth of cor-

porate conglomerates with an economic justification no one has yet been able to define. The system of fractional reserve currency became a world fashion like the current rage for blue jeans and lettered T-shirts that may be found on the Ginza and in Red Square. Countries, from Italian principalities governing only a mountain top to continental empires like China, engaged in the issue of currency through central bank emissions.

Despite the collapse of the system in 1933, when every bank in the country closed its doors, such is the fascination with fiat currency that ever-wider powers were conferred on the System. In 1980 Reserve banks were authorized to convert to cash practically any collateral they pleased. Under this authority, the Reserve has acquired some \$2 billion of foreign government debt, and it is now being pressed to liquidate large chunks of the debt owed to United States banks by Poland, Mexico and others. Only John Law, in his effort in 1729 to turn the soil of France into money, showed such effrontery.

Despite the evidence that the main cause of the current world-wide economic debauch is fractional reserve currency adopted everywhere, the Secretary of the Treasury continues to voice confidence in the System. The President tentatively suggests that it should be brought under Treasury

supervision. This would be disastrous.

The correct course is to dismantle the Federal Reserve System.

True Function of Money

The function of a monetary system is not to manipulate the flow of credit and banking transactions to maintain a given, or even stable, price level; nor is the function to create employment. The money system should be managed neither in the interest of creditors nor of debtors; neither in the interest of producers nor consumers; neither in the interest of government nor of taxpayers. The function of government is to maintain the integrity of the standard; its function toward money is the same as toward the measure of length or of weight or of quantity. It is as corrupt to vary the standard of value and deferred payments as to change the length of the yard in the interest of cloth merchants, or the content of a bushel in the interest of wheat farmers.

The means of maintaining the standard is the definition of the dollar in terms of a given weight of silver or gold; since 1900, the sole metal of the standard has been gold; the dollar is still by law and statute defined in terms of gold. The regime under which the money system has been corrupted came to a climax in 1934 when the mint was closed to the free coinage of gold. The mecha-

nism by which the circulation is always adequate to the needs of trade is that of free coinage. Under free coinage anyone can bring gold to the mint and have it coined only for the cost of mintage. Under this system the free market, rather than a bureaucracy, determines the amount of circulating media.

Restoration of Free Coinage

The system of free coinage was established in England in 1666; for the first time in history the government monopoly of money ceased; during the succeeding centuries, gold flowed to England, the circulation was al-

ways adequate, and England rose to be the principal commercial power of the world. The same system was adopted by the newly formed United States, and under this system the United States became the only rival of Great Britain as a commercial and industrial power. This is the system that should be re-established to restore stability in the United States. It is no more necessary for an international agreement to this end, as some argue, than for every country to agree on the length of a meter or the weight of a kilogram; the natural effect of integrity will compel them to do so. ☉

Monetary Manipulation

If the nineteenth century was an era of the gold standard, free trade, and monetary stability, the twentieth century has been an era of managed currency, protection, and monetary instability. This instability—i.e., violent inflation—has boded ill for international trade, which wholly depends on international payments. Inflation—the expansion of money and credit—distorts “official” exchange rates. Domestically, it tends to set in motion a flight from currency into goods. Externally, it tends to cause another flight: a flight of “hot money” fleeing to foreign sanctuaries where inflation is relatively quiescent. Inflation ultimately causes domestic prices to rise with the result that foreign importers are strongly inclined to shop harder for better bargains elsewhere. . . .

The past generation has been one of fantastic inflation the world over. Governments spend and spend, pumping out ever more money. One Keynesian admitted in the London *Economist* a few years ago: “Inflation is nine-tenths of any practical full employment policy.”

Inflation, in short, is the handmaiden of exchange control and protection. It generally spells death for free trade.

IDEAS ON



LIBERTY

Bill Anderson

BOOM and BUST



IN THE COURSE of discussion about the pros and cons of free enterprise, the subject inevitably seems to turn to the business cycle. Capitalism's critics—and there are many—waste no time in decrying the alleged “instability” of the free economy, a system that they claim allows a few to garner great fortunes while leaving the masses to lurch from semi-poverty in good times to squalor in depressions.

Notes a business columnist of a major U.S. newspaper:

Unbridled supply-and-demand ideas led to great wealth, but also great poverty, in the late 1800s and early 1900s. There

Mr. Anderson is a teacher of social studies at Rossville, Georgia, Junior High School. He is the 1982 winner of the Olive W. Garvey essay contest on “The Virtues of the Free Economy” involving a fellowship to the general meeting of The Mont Pelerin Society.

were also periods of great economic boom and bust, of which the Great Depression is the best example. The Western nations grew tired of waiting for supply and demand to work everything out, and along came Mr. Keynes and his ideas for them to grasp.¹

At this writing, the United States is suffering from its eighth recession since World War II, an economic phenomenon that is again leading persons to question the qualities of capitalism. Politicians, believing the nation can be taxed into prosperity, claim it is once again time for the government to “take over” the reins of the economy. As an influential U.S. economist has written:

We need an increased degree of government selection of priorities, channeling of funds in the direction of those priorities and a recognition of a need for

some kind of planning by the federal government. Even some members of the corporate community now say that free markets, such as they are in the United States, are not doing the job.²

Economists, journalists, intellectuals and politicians seem to agree that the free economy is indeed the source of boom and bust, of recession and depression. If the economy is left without the guiding hand of state direction, they believe, the forces of supply and demand will eventually self-destruct, leaving a wreckage of vanished fortunes and massive unemployment. And should the economy go into recession, they say, the central government should immediately launch programs of transfer payments, public works and business bailouts to stem the tide of the slump.

Liberals are not the only persons to advocate such centralized measures for dealing with economic downturns. Conservative economists all too often accept the business cycle as an inevitable price of capitalism's success and look to the state as a source for minimizing the trauma caused by recession. The public understanding seems to be that the business cycle, in a capitalistic economy, is simply a fact of life that cannot be any more avoided than winter in New Hampshire. Discussion of the business cycle, then, centers not on preventing it, but, rather, as Keynes suggested, on using gov-

ernment monetary and fiscal policy to allow for a smooth transition from one end of the cycle to the other.

The Great Depression

When the *causes* of business cycles are discussed, the subject is usually the Great Depression from 1929 to 1941 (although diehard believers in Franklin D. Roosevelt insist the depression ended in 1933 with FDR's ascension to the Presidency). Yet, the Great Depression had similar characteristics to the so-called panics or crises that had occurred in the United States and abroad in the previous century: a period of boom—accompanied by inflation—then a sudden and violent bust with prices and wages dropping quickly and banks and other businesses going belly-up.

Because the boom-and-bust periods in American history have had such similar features, it would seem best to study the general causes of those economic phenomena rather than to concentrate on only the Great Depression. However, since it took far longer for the U.S. economy to work its way out of the slump in the 1930s than it had in previous bad times, this essay will also look at what set the Great Depression apart from its predecessors, along with examining the business cycle since World War II.

In examining the stated causes of the business cycle, one finds two explanations that stand out. The first

is the traditional one—which includes socialist and Marxist variations—and the second is the Austrian Malinvestment Theory. There is also a third explanation, one that deals with the so-called “instability” of capitalism, that will also be examined.

American history textbooks are rife with explanations of 19th-Century recessions that center on “overexpansion” of the railroads or troubles on the farm. The idea, of course, is that a recession begins within a certain sector of the economy and snowballs into other areas, pulling them down as well.

In the industrial society, because of the unusual acceleration which takes place in durable goods, *the results of individual freedom are more complicated and far reaching* (italics mine). Assume that each year twenty million men’s coats are sold, produced by 210,000 machines, each of which can make only 100 coats a year . . . with a ten percent increase in the sale of coats, there is a one hundred percent increase that year in the machines needed . . . When the demand for a product drops, however, the snowballing effect begins . . . he lays off his workers, whose own buying power is now greatly reduced, thus affecting other businesses . . . and the downward cycle is accelerated.³

While the above explanation of the business cycle may seem viable to publishers of history books, it, in reality, is wracked by fallacies, the first being the informal fallacy of

converse accident or hasty generalization. The author assumes that because one particular industry goes bust, all the other industries will topple as well, a sort of business domino theory. However, the demise of one industry may only be signaling the rise of another. For example, to use the coats again, should there be a lessening of demand for a certain brand of coats, the change in consumer taste may be only because another brand of coats is less expensive or more attractive. Or, perhaps, the entire coat industry in an area has lost its market because the surrounding temperatures have permanently risen 30 degrees, which might mean a subsequent boom in the sun dress and bathing suit industries.

The Fallacy of Composition

Whatever the reason for the demise of one industry, there is nothing in economics that suggests that the general economy will collapse because one sector loses its appeal to consumers. As economist Lawrence Reed has pointed out, to hold that what might be true for one individual is also true for all others is to commit the fallacy of composition.⁴ For example, lobbyists in the home building industry recently persuaded Congress to approve a \$3 billion housing bail-out bill to prop up that recession-torn sector for another year (fortunately, President

Reagan vetoed the bill). Construction lobbyists and their supporters argued that the general economy was sick because the housing market was slow, and, therefore, a general recovery could only be precipitated by giving an artificial boost, via inflation, to housing. Again, we were presented with the fallacies of converse accident and composition, this time in reverse.

The traditional explanations to the business cycle are more endemic in economic circles, with socialist and Marxist theories, it seems, being drawn from this area of thought. These arguments center around the idea that downturns in the business cycle result from a shortage of money. In pre-capitalist times, as Henry Hazlitt writes, "Whenever business was bad, the average merchant had two explanations at hand: the evil was caused by a scarcity of money and by general overproduction."⁶

This argument has since been refined by socialist and liberal critics of the marketplace, and, indeed, has become the standard fare when explanations for the business cycle are sought. In examining this argument, it is necessary to study not only the ideas of theorists in pre-capitalist times (and the disastrous results of their "solutions"), but also the socialist and Marxist notions and why they are fallacious.

Economic historians are all too aware of the problems of the French

economy during the early years of the French Revolution. In 1789, business was slow. Merchants and politicians in the National Assembly demanded that the government solve the nation's fiscal problems (which were due to a top-heavy government debt). In seeking a solution that fit with the economic thought of the times, the French Government floated massive amounts of paper money to give its citizens "purchasing power." What resulted from this action, of course, was a wild hyperinflation that destroyed the French economy, helped bring about the famous "Reign of Terror" and ultimately led to the dictatorship of Napoleon. The French leaders in 1789—as well as most government officials since then—assumed the fallacy that money is wealth, a notion that was exploded by Adam Smith in *The Wealth of Nations* when he pointed out that wealth comes not from money but rather from the increase of desirable goods and services.⁶

The Labor Theory

Socialists, beginning with Karl Rodbertus and Karl Marx in the mid-Nineteenth Century, have built many of their anti-capitalist arguments upon the fallacy of money being wealth. For example, in his famous *Overproduction and Crisis*, Rodbertus declared that production was solely for profit and that all pro-

duction was simply a result of the efforts of labor or the workers.

This standard socialist doctrine, when joined with his beliefs on diminishing wage share,⁷ led him to a theory of crises. All wealth being a product of labor, the laborer with his declining wage share was unable to buy back the products he produced. Markets would be flooded with goods which would bring falling prices and unemployment and, finally, precipitate an economic crisis. To relieve the situation, Rodbertus proposed that the state take over.⁸

This general crisis that Rodbertus predicted was the same sort of crisis Marx predicted for the advanced capitalistic West; he emphatically believed that, as production of goods and services increased, the profits of the "capitalists" would increase, wages would fall and the laborer would be unable to purchase those products that he had created with his own labor. Such would be the crisis that would ultimately lead to the workers revolting against their "masters" and leading the western world to communism.

The influence of Rodbertus and Marx is still felt strongly today, especially when leading writers and intellectuals explain their pet causes for the Great Depression. Declares Michael Harrington, who heads the Democratic Socialist Organizing Committee:

The Great Depression discredited Say's Law (which, in short, declares that sup-

ply creates its own demand). During much of the 1930s, there was a glut of consumer goods because workers lacked the purchasing power [i.e., money] to buy back what they produced. That was why government began to play a role in the economy on behalf of middle-and-low income people during the period of Franklin Delano Roosevelt's New Deal.⁹

Says *Time* magazine:

Economists debate to this day about what caused the Great Depression. A prevailing view, persuasively argued by John Kenneth Galbraith, is that the technological increases in productivity throughout the 1920s (up 43% per factory man-hour) were not matched by increases in wages and thus in the public's capacity to consume (factory pay rose less than 20%). The collapse of the overinflated stock market therefore started a downward spiral in both demand and ability to pay. Conservative economists like Milton Friedman, on the other hand, blame the Federal Reserve System for failing to expand the money supply sufficiently in the wake of the stock market crash.¹⁰

Friedman vs. Galbraith

Although Milton Friedman and John Kenneth Galbraith lead schools of economic opinion that vastly differ with each other, one cannot help but note at least some similarity between the two men's reasons for the coming of the Great Depression. Galbraith believes—as do most modern historians and intellectuals—that Ricardo and especially

Rodbertus were correct: production growth outstripped wages, which meant the laborers' wealth diminished while the capitalists' or owners' profits increased. Or, to put it in more familiar terms, the rich got richer and the poor got poorer. To rephrase Harrington, the workers were drained of purchasing power, which was siphoned off by their bosses.

While Friedman certainly is no advocate of the above theories, his explanation of the Great Depression ultimately implies that the Federal Reserve System did not *inflate enough* (i.e., put "purchasing power" into the economy) from 1929 to 1933. So, viewing the causes of the Great Depression from the angle of the major schools of economic history, it can be said that the economic downturn happened because the printing presses of the federal government did not turn fast enough to enable people to hold enough "money" in their hands to "buy back" enough of the products that they had created.

Of course, Galbraith and Harrington—unlike Friedman—have argued that in addition to inflating, it is the duty of government also to heavily tax those in upper income brackets and give the revenues to those in lower brackets to insure that people "on the bottom" would have enough "purchasing power" to consume, thus avoiding "a glut of consumer goods."

Implied in the traditional and socialist interpretations of the business cycle, of course, are the notions of overproduction and underconsumption, fallacies that have remained with us to the present time.¹¹ But whatever the line of interpretation, be it lack of "purchasing power," overproduction or underconsumption, the theories still abound with fallacies and false assumptions of the economic system.

"Money Is Wealth"

The first fallacy, as I have already stated, is that *money is wealth*. When Galbraith and Harrington dolefully observe the rate of production outstripping the growth of *money wages*, they have immediately jumped to the conclusion that buying power has diminished. Nothing could be farther from the truth. Such a view suggests that wealth causes poverty, or, in other words, a society becomes poorer as it produces more wealth.

The vast increase in production in the 1920s—and, indeed, through most of the industrial age in our nation's history—served to *bring down* prices as goods and services became more abundant and thereby more accessible to the masses. For example, the automobile, once a plaything available only to wealthy Americans, became a staple in households with the advent of mass production. In the past decade, we

have seen electronic marvels such as the pocket calculator evolve from extremely expensive but inefficient solvers of mathematics problems to the \$10 models that are far superior to their predecessors (and this improvement in quality and decrease in price has come in the face of the galloping inflation of the past 10 years).

The socialist viewpoint fails to recognize that wealth is a variable of production of goods and services, not of production of money. Any government on the earth can quickly crank out a vast increase in the supply of its designated means of exchange (provided that means is paper money or base-metal coins, not valuable commodities) and many governments, including our own, have done just that. But the sad lesson is, though few politicians and intellectuals have realized it, that inflation does not bring increased wealth, but rather chaos and, in the end, more poverty.

Burdening the Poor

Another important criticism of the socialist notion that the increase in production "makes the rich richer and the poor poorer" is that history has shown this view to be utterly false. Even one historian whose text is laced with anti-free market rhetoric concedes that standards of living for ordinary workers rose during the 19th Century, the time when

Rodbertus was claiming that the opposite was true.¹²

In order for the socialist argument to be true, the lot of the average person today would have to be far worse than the lot of the average worker *before* the Industrial Revolution when most people spent about 90 per cent of their income on food. Even the claims of Galbraith and Harrington of the deterioration of purchasing power during the 1920s are based on the false assumption that the lot of the average person worsened during that decade.

Yet, as historians admit, the lot of the common worker rose dramatically during the 1920s. When President Herbert Hoover in his inauguration speech of 1929 trumpeted to the world that the "eradication of poverty" in the United States was in sight, few persons saw fit to disagree with him. In fact, the other pre-1929 depressions in the United States usually followed periods of increases in the standard of living for most people. There is simply no historical evidence that shows that Americans have become gradually poorer since the beginning of the Industrial Revolution. The socialist claim that capitalism enriches the few at the expense of the many simply has no logical base.

There is, however, some truth to the idea of overproduction and underconsumption in times of recession. After all, many businesses in

the late 1920s *did* expand greatly, only to find no markets for their goods. There *was* an abundance of farm products in the early years of the Great Depression that, for some reason, could not be sold. As one political cartoonist noted in a sketch, there was "too much oil, too much wheat and too much poverty."

It does no good, however, to only state the conditions. One must investigate the *causes* of such a calamity. There was a *reason* why wheat in America's heartland was in abundance but families went hungry. There was a *reason* that factory inventories were choked with goods that no one seemed able to buy. To simply claim that farmers grew too much wheat or factories produced too many widgets and those actions brought about the Great Depression or any other depression is to commit the fallacy of false cause. Most economic historians, however, have done just that. They have seen the results of the problem and have concluded the results were in reality the cause.

Periods of Boom and Bust Preceded by Inflation

If we are to solve the riddle of the business cycle, it is necessary to first look for common characteristics of the periods of boom and bust. And, as pointed out earlier in this paper, inflation seems to have been present in most of the boom periods. For example, in the years after Andrew

Jackson killed the Bank of the United States and before he issued his famous Specie Circular in 1836, irresponsible state-chartered banks created vast amounts of paper money, much of which went to speculation on public lands, finding its way ultimately into the Federal treasury. As the supply of partially-backed money increased, Jackson became alarmed and ordered that public lands be paid for in silver and gold rather than paper. As noteholders rushed to convert their paper into specie, many banks, unable to meet any sort of reserve requirement, went under. In 1837, a panic began which brought hardships to many Americans and guaranteed President Martin Van Buren only one term of office.

In the violent but short-lived Panic of 1893, one finds the roots in the Sherman Silver Purchase Act of 1890 which required the U.S. Treasury to purchase overvalued silver with gold certificates, thus creating a run on the treasury's gold reserves. The resulting monetary crisis forced President Grover Cleveland to call a special session of Congress in 1893 to repeal the Sherman Act, thus halting the silver inflation. A deep recession began that year, an event that led to Coxey's Army (which wanted the federal government to print money to pay for public works programs, a plan Cleveland wisely refused) and the 1896 free-silver

Presidential candidate William Jennings Bryan.

During depression periods, businesses held goods they could not sell, farmers had crops, that despite low prices, no one could seem to afford. People lost their jobs; wage earners could not support their families; businesses could not expand despite the availability of cheap materials and cheap labor.

At this point one might ask: Was there any correlation between the monetary problems in the boom-bust periods and the business downturns? Were these phenomena related or was their simultaneous appearance just coincidence?

There are other questions to be answered as well. The overexpansion of one business or even a few businesses has an easy explanation: investors and entrepreneurs do misinterpret the market at times. For example, when the World's Fair recently was held in nearby Knoxville, many entrepreneurs invested in campsites, mobile homes and quickly-built motels, hoping to cash in on the expected horde of tourists. However, the flow of fair visitors, though heavy, did not fall into the preconceived patterns of some investors, which means, in the vernacular, they took a bath. There were other investors, however, who accurately read the coming markets and, indeed, did strike their fortunes.

But to take the specific, that is,

the probability that some investors will misread the market, and place it in the general, or that *most* investors will misread the market at the same time—under normal business conditions—is to commit fallacies of converse accident and composition. What is true for one person may not be true for everyone; to assume otherwise is fallacious, but that is precisely what most economic historians have done.

Why the Cluster of Errors?

Yet, as one can tell by the unsold bumper crops, the glut of goods and the dashed plans of expansion that have characterized the down-side of the business cycle, those who look upon overproduction or underconsumption as the prime causes *seem* to be right. But, we must ask, why the *cluster of errors*? Why did so many investors and producers commit the same general errors at the same time, especially during the late 1920s? Few economists have sought to answer that question. Liberal historians blame the disastrous stock market speculation and subsequent crash on the Coolidge-Mellon tax cuts, which slashed the top rates from 63 per cent to 24 per cent, claiming that the rich had too much money with which to speculate (which implies, of course, that government officials spend other peoples' money more wisely than the people spend their own funds).

But tax cuts or low tax rates had never been responsible for faulty speculation or malinvestment before 1929, which makes it difficult to believe that investors, from the very wealthy to lower-class savers, had suddenly in concert thrown much of their hard-earned money into a bottomless pit. All of which leads back to the original question: Why the cluster of errors?

The answer can be given in one word: inflation. But to understand why inflation has been responsible for misleading large numbers of investors and producers at the same time, one must first comprehend the role of saving and spending in the economy.

Concerning the Role of Saving and Investment

As classical economists since Adam Smith have pointed out, the creation of wealth originates with capital, which is a product of entrepreneurial perception and action financed by savings. The basis for the productive economy—despite what politicians, journalists and liberal economists tell us—is not *spending* but rather *saving*. Consumer spending acting in concert with a free, unhampered price system serves as a guide or a rudder to the economic process. Consumers, by voting with their dollars, decide which investors are to be winners and which will lose. Spending does not create wealth; it

only decides what, in the final analysis, will be considered to be wealth and what will not.

It seems logical, then, that the greater a community's or nation's pool of savings, the more opportunities to create wealth exist. But what happens when government, by injecting credit into the market via the purchase of government debt and a blip on a computer, expands the available pool of money beyond what has been saved by individuals? Free market economist Hans F. Sennholz clearly spells out the results:

The creation of credit by monetary authorities causes interest rates in the loan market to fall below the natural rate of interest. This natural rate, or unhampered market rate, reflects the people's choices as to spending and saving, and is responsible for the relative proportions of production for the present and the future, that is, consumers' goods and producers' goods. A rising rate of saving, for instance, causes producers' goods industries to expand as more economic resources become available for expansion and modernization. If, without such new savings, monetary authorities arbitrarily expand credit, interest rates tend to fall, *which then misleads business men to invest more funds in the capital goods industries* (italics mine). Thus misled by artificially lower interest rates, they embark upon countless expansion projects that are unsupported by genuine savings. They engage in business activity that causes maladjustments and distortions.¹³

In other words, inflation misleads investors who mistake fiat rates of interest as being real or genuine rates. However, as numerous adherents to the "New Economics" have held, why can't the Federal monetary authorities continue their creation of new credit indefinitely, thus giving the economy a permanent boost?

The answer lies in the nature of inflation itself. Inflation is, as aptly said by Friedrich von Hayek, a "tiger by the tail." Continued doses of inflation to stimulate an economy soon take on a life of their own. As the amounts of fiat money are injected into the economic mainstream, prices rise—despite efforts of government officials to control them with price controls—profit margins diminish, lending authorities are forced to raise real levels of interest, thus forcing a slowdown of business activity, and the market processes continually become more and more distorted. And, as the inflation continues to drive prices beyond the reach of more and more citizens, a public outcry grows from a frightened people who demand an immediate end to the calamity.

The Rate of Saving Declines

During the inflationary period, another sinister development besides rising prices and business slowdowns occurs: the diminishing of savings rates. While inflation

rages, the continuing debasing of the currency causes savings to lose their value, thus changing the engine of the economy from savings and investment to accumulation of debt. And once authorities stop the inflation, the reversal of debt-accumulation trends brings severe contractions to the economy. Without an adequate savings pool to keep interest rates at former low levels, debtors who prospered during inflation now face financial hardships.

As for the producers' goods industries that expanded during the inflation, Sennholz writes:

The credit expansion misleads businessmen into costly errors of expansion and modernization for which there is no consumer demand. The fiscal deficits that are to stimulate economic recovery and full employment bolster some industries while depressing others.¹⁴

The end result, which occurs no matter if governments halt the inflation or not, is recession and unemployment. Victims of inflation may have more money in their hands, but their real purchasing power, because the troubled economy is producing less, has shrunk. That phenomenon is clearly seen at this present time with many European nations, including Ireland and England, along with our neighbor Canada, suffering from both high inflation and high unemployment. The United States, on the other hand, having brought its recent double-

digit inflation rates to near five per cent, now is paying for its previous fiscal foolishness with unemployment.

A Depressed Housing Industry

A clear example of the course of inflation can be seen in our nation's housing construction industry. In the 1970s, while the federal government subsidized the industry with below-market interest rates, housing boomed, along with the related industries such as carpet-making, lumber and large home appliances. However, once inflation had finally driven the low rates far beyond the reach of the average buyer, along with pushing construction costs to record levels, the industry, along with companion producers, slipped into depression. And without a large savings pool to help finance new construction (government spending presently takes nearly 80 per cent of savings), the outlook for the housing industry, at least in the near future, is bleak.

As mentioned earlier, however, home building lobbyists have convinced the Congress to push through an ill-advised inflationary bail-out bill. But such action—which could only aggravate inflation—is to seek a cure by taking in another dose of the disease.

But, with business bankruptcies increasing and unemployment rates reaching near 10 per cent, what

should government do to alleviate the problem? The answer, which may seem heartless to liberal historians, economists and intellectuals (not to mention the millions of persons out of work) is to do nothing that would add to the burden of government. As we have shown, government is the *cause* of boom and bust, the inflationary boom coming first when the original doses of credit spur ill-advised economic expansion, and the bust coming when the forces of supply and demand take their natural course. Politicians cannot repeal the law of supply and demand. Therefore, it is best for government officials to admit their inflationary mistakes and then step back as the economy goes through the painful but-usually-brief period of readjusting itself in line with market prices and wages and real consumer demand.

In fact, before the Great Depression, the policy of the federal government, once its ill-advised actions had led to boom and bust, was *laissez-faire*. The depressions, though often turbulent, were mercifully brief.

However, when the stock market crashed in the fall of 1929, following nearly a decade of an inflationary boom engineered by the Federal Reserve System, the federal government, first under the leadership of Herbert Hoover and then Franklin Delano Roosevelt, intervened at al-

WHEN there is relative stagnation in business, and unemployment, it is usually because an unbalanced and unworkable relationship has developed between prices at which goods can be sold and their costs of production. The main difficulty, usually, is that wage-rates are too high in relation to prices. This could be cured by a readjustment of specific wage-rates, by more flexible wages and prices, by permitting competition to work. The first effect of a new injection of bank credit or paper money into the system is, indeed, an apparent increase of that "purchasing power" which is so much wanted. It enables "surplus" goods to be sold at their existing prices. It enables prices of other goods to be raised to levels at which existing wage-rates can be paid and a full complement of workers hired. So it tends to restore that "full employment" so cherished, at any cost, by the modern reformer. This goal is achieved under inflation by raising prices enough to validate the existing level of wages. But what is forgotten is that the adjustment could have been made not only just as well, but much better, by a realignment of the particular wages that had got out of line.

—from Henry Hazlitt's Introduction
to Andrew D. White's *Fiat Money Inflation in France*

most every level. The Hoover administration, for example, doubled the income tax rate, pushed tariff rates to ruinous levels, attempted to cartel both industries and the agricultural sector and sought to keep both prices and wages far above market levels. Any one of those actions following the stock market crash would have seriously impaired a business recovery; together they acted in concert to bring the economy to its knees, and, in the process, throw nearly a quarter of the American work force off the job.¹⁵

Nor can it be said that the Roosevelt Administration acted with any

more soundness. During the FDR years, the federal government assaulted property rights, inflated, stymied agricultural production, raised taxes and took ever-increasing bites from the nation's production of wealth. By acting in concert with labor union leaders in attempting to unionize much of the U.S. labor force, the government helped drive wage rates above market levels, thus touching off the ruinous depression of 1937-38. It is clear that the "humanitarian" attempts by both the Hoover and Roosevelt administrations to slow the forces of supply and demand as the nation lurched

into depression in the long run only served to *increase* the human suffering so starkly depicted in the grim, austere photographs that record the anxious years of the 1930s.

The governments of the so-called capitalist West have learned little since the disasters of the 1920s, '30s and '40s. Politicians still see inflation as the best weapon to fight unemployment even while the record shows their actions to be foolish. The business cycle is still seen by many as the natural result of "unbridled" *laissez-faire*.

But there is much we can learn by examining the business cycles. By carefully studying historical economic developments, we can easily see that inflation is not the cure but rather the culprit. Inflation may, in its early days, give people an illusion of wealth; when it has run its course, however, it has borne not riches but rather poverty.

How does a nation avoid the roller-coaster of the business cycle? The words of Ludwig von Mises seem to be wise counsel:

If the policies of nonintervention prevailed—free trade, freely fluctuating wage rates, no form of social insurance, etc.—there would be no acute unemployment. Private charity would suffice to prevent the absolute destitution of the very restricted hard core of unemployables.¹⁶ ④

—FOOTNOTES—

¹Gene Tharpe, "Fitting Economics to Economic Reality," *The Atlanta Constitution* (March 18, 1982), 5-A.

²Robert Lekachman, "Reverse Most of Reagan's Policies," *U.S. News & World Report* (April 5, 1982), p. 38.

³Marvin Miller, *The American Dream: Shadow and Substance* (Covina, California, 1976), pp. 278–279.

⁴Lawrence W. Reed, "Seven Fallacies of Economics," *Freeman* (April, 1981), p. 212.

⁵Henry Hazlitt, *The Failure of the "New Economics"* (Princeton, New Jersey, 1959), p. 33.

⁶Reed, pp. 212–213.

⁷Rodbertus accepted Ricardo's "Iron Law of Wages" that claimed that laborers would always make no more than subsistence wages because any real increase in pay would only serve to make the laborers' families larger. Ricardo's so-called "Iron Law" has historically been shown to be made of paper.

⁸John Fred Bell, *A History of Economic Thought* (New York, 1953), p. 373.

⁹Michael Harrington, "And the Poor Get Poorer," *Today's Education* (September-October, 1981), p. 31.

¹⁰*Time*, February 1, 1982, p. 22.

¹¹For an excellent critique of long-held causes of the business cycle, read *America's Great Depression* by Murray N. Rothbard.

¹²John A. Garraty, *The American Nation* (New York, 1971), p. 608.

¹³Hans F. Sennholz, *Age of Inflation* (Belmont, Massachusetts, 1979), p. 130.

¹⁴*Ibid.*, p. 131.

¹⁵Rothbard spells out in detail the effects of Hoover's interventionism in *America's Great Depression*.

¹⁶Paraphrased from the William E. Rappard contribution "On Reading von Mises," in Mary Sennholz, ed., *On Freedom and Free Enterprise* (Princeton, N.J.: Van Nostrand, 1956), pp. 18–19.

Economic Recovery

AMERICANS are once again hoping for an economic recovery. If recovery comes, can it be sustained? Or will it soon collapse, as have all recent upturns?

The answer depends on how the recovery is financed. If economic recovery is financed from the real savings of the American people, a sustained period of economic growth may occur. But if the recovery is induced by an artificial expansion of banking credit, any upturn will quickly abort.

To see this, we need to understand the difference between saving and credit expansion. Perhaps a simple example will make the distinction clear.

A businessman has been thinking about building a new factory. But every time he adds up the costs—

construction, equipment, wages, interest on the needed loan—he decides that the factory is too expensive.

Suppose, however, more savings become available for investment. The rise in real savings may result from a tax reduction which removes some of the penalties placed on savers. Or more savings may become available due to reduced borrowing by the various levels of government. In either case, interest rates decline, not because more money is added to the economy, but because existing funds are shifted from consumption to saving.

This shift, in the long run, benefits all Americans.

The businessman benefits because lower interest rates mean he can now afford to build his factory. The construction company and suppliers benefit because they receive new or-

Mr. Summers is a member of the staff of The Foundation for Economic Education.

ders. And workers benefit because the factory creates new jobs.

But the real beneficiary is the buying public. The businessman builds his factory because he thinks he can produce goods that consumers will prefer to those being offered on the market. He takes a financial risk because he thinks it will enable him to satisfy consumers better than his competitors. If he fails, the loss is his. If he succeeds, consumers get more of what they want and thus enjoy a higher standard of living. The consumer—each and every one of us—is the final judge and ultimate winner.

The key to real growth, therefore, is to increase the amount of savings available for productive investment. If the savings pool is allowed to grow—without being choked by tax increases, government borrowing, or other hindrances—a sustained economic recovery can get under way.

Unfortunately, in previous recessions the savings pool hasn't been permitted to grow. Taxes haven't been cut and government borrowing hasn't been reduced. Instead, the Federal Reserve System has resorted to credit expansion. It has tried to induce artificial recoveries by injecting new paper money into the banking system.


To the casual observer, these new funds seem no different from money that has been saved. Businessmen borrow these dollars, use them to

expand their operations, and hire more workers. For a while, the economy appears to recover.

But there is a fatal difference. The Federal Reserve action does not shift funds from consumption to saving. Instead, new money has been created. As the new money works its way through the economy, prices are bid to higher levels. Rising prices cause long-term interest rates to climb, as lenders come to anticipate a depreciating dollar.

With inflation heating up and interest rates on the rise, the Federal Reserve finds itself in a vicious spiral. Credit expansion causes prices to rise, and the only way to stay ahead of rising prices is to pump more and more credit into the banking system.

Before long, prices are rising at double-digit levels, interest rates are soaring, and the banking system is overextended. The Federal Reserve has little choice now but to tighten credit, break the "inflationary psychology," and plunge the economy into another recession.

This, then, is the decision we face. Do we reduce taxes and cut government borrowing, thereby expanding the savings pool and permitting a sustained economic recovery? Or do we try to induce yet another artificial recovery through credit expansion, and reap the whirlwind when it collapses? 



Constitutional Restraints, the Market Economy, and Individual Freedom

He sat at a table, and the light of his lamp fell on the copy of an ancient document. He had marked and crossed out the contradictions in its statements that had once been the cause of its destruction. He was now adding a new clause to its pages: "Congress shall make no law abridging the freedom of production and trade. . . ." —Atlas Shrugged¹

IN his new book *Bound to Be Free*² economist Richard B. McKenzie echoes this constitutional proposal from Ayn Rand's epic novel. He urges us also to impose limitations on federal tax revenues and monetary growth. Through this approach, he believes we can restore the personal freedom which promotes both our individual growth and economic development.

Professor Shannon teaches in the Economics Department, Clemson University.

His is, of course, not a solo voice—merely one in a growing chorus which includes Nobel economists Friedrich Hayek and Milton Friedman as well as tax reformer Howard Jarvis. Together they seek to constrain not only liberal idealists with their social schemes but also conservative businessmen who seize government powers for their selfish ends.

Of course, government policies are not the only source of current discontent; disappointment with the enterprise system and distrust of business are also widespread.³ But much of such distress flows from failure to analyze and understand market forces. A while back, for example, I overheard a lady excoriate American automobile companies for failing to produce more fuel-efficient cars. She apparently believed that General Motors and Ford, not to mention Chrysler, are managed by

idiots and incompetents. Yet the "failure" she perceives is quite readily explained without resorting to such charges.

After all, the American auto companies have for over two decades been producing such small cars as the Camaro, the Falcon, and the Valiant. Even before that, American Motors devoted its main productive efforts to this end. But the American public treated these offerings with disdain. Small was not beautiful. And no wonder! Gas was so cheap that it made economizing unnecessary, even silly. And for those who worry about safety, there continues to be much evidence that bigger is better.⁴

In fact, government regulation has frequently been the factor that frustrated moves toward fuel efficiency. Mandatory guidelines for safety equipment—some of it amazingly redundant, like seat belts and padded dash boards—not to mention stringent goals for improved auto emissions, have been hopelessly contrary to efforts to improve engine economy. Now in desperation GM has announced it will import greater numbers of Japanese cars for sale here under its own name.⁵

Wasteful Use of Resources

Indeed, there is much evidence that the free market, overall, does a far better job of allocating our scarce resources to their socially optimal use than government bureaucrats can.

A vivid example showing that government management is not inherently superior is the approach taken by the Forest Service in managing our timber resources. As explained recently by Thomas M. Lenard of the Office of Management and Budget, the Forest Service imposes a "non-declining even flow" scheme for cutting trees which, Lenard says, "arbitrarily limits the timber harvest in any one period and stretches it out for decades beyond the point of economic efficiency." In another policy the Service prevents trees from being cut "until they reach the age that maximizes average annual growth. It is based on biological criteria and has no economic rationale," Lenard notes.⁶

According to one estimate Lenard quotes, if these policies were eliminated and timber production were concentrated in the most productive areas of our national forests, wood production might increase by as much as 74 percent—requiring 27 percent fewer acres! And the marvelous fact is that this process would not only allow more timber production (with the associated benefits of reducing construction costs, which would give the housing industry a needed boost); it would also "triple the amount of forest land in the area on which timber harvesting is not permitted," thereby greatly increasing the area available for recreational purposes. Under such an im-

proved management system, both private and public uses of our valuable timber resources would flourish.

Of course, a privately managed firm may similarly excel at inefficiency. In fact, it would be easy to offer a long list of examples. But if a business is poorly run, its profits will drop, its shareholders will dispose of their stock, and the company will quietly disappear. Like W. T. Grant, it may not even be remembered by a tomb. Or, as in the case of General Motors with its Frigidaire appliances, if the parent company can no longer manage a subsidiary effectively, it will sell it off.

Free of Competition

But how often can we anticipate that process with government? We are usually far less certain that pressure will come to bear to assure that, if a government agency is not using resources efficiently, it will be replaced by someone who can.

In fact, private producers so envy the security which government management provides that they frequently seek to take advantage of it. Chrysler and Lockheed are but two of the companies which in recent years have benefited from government bailouts. A multitude of other producers have received assistance in substantial but far less obtrusive ways.

A striking case in point is the "fil-

bert fracas" in Oregon. A couple of years ago that state tightened up quality standards for filberts to prevent "decayed" nuts from appearing on the market. Consumers had not complained; it was producers who sought the rule. As reported in *Regulation*, this new rule automatically became part of the federal marketing standards and thereby was imposed on the entire nation.⁷ Here is what followed: "imported filberts, most of which come from the Black Sea regions of Turkey, are air-dried in the traditional way and shipped at ambient temperatures, whereas the American nuts are uniformly machine dried, inspected as soon as they are shelled, and then shipped under refrigeration. According to Agriculture Department estimates, 46 percent of shelled filbert imports surveyed recently would fail the new and stricter test. Importers often would not know in advance whether a particular shipment would pass the test, however, and a nutty cargo turned back at an American port would have to spend another eight weeks at sea for the return trip. The combination of uncertainty and expense would be enough, importers say, to keep out 80 percent of the foreign nuts." In effect, the ruling neatly disposed of much, if not all, foreign filbert competition, to the benefit of Oregon filbert farmers but to the detriment of consumers. In fact, some activist consumer groups

have condemned the filbert ruling and urged its repeal.

Of course, this is but one example from a large array of cases where American producers have sought protection from foreign imports. Some attempts at stifling free markets, such as those by producers of cars and textiles, have received widespread publicity. Most, however, like the case of filberts, are unknown and go unnoticed. A while back, the *Washington Post* noted that import restrictions have been sought on such diverse items as canned Bartlett pears, ice cream sandwich wafers, bicycle speedometers, plastic mattress handles, water circulating pumps, and dried eggs.⁸

Why do economists object to such trade restrictions? Primarily because they raise costs and reduce choices for consumers. While producers find their profits enhanced, consumers are impoverished. But as McKenzie stresses in his book, such policies designed to help producers and maintain employment in one industry also have the secondary impact of hurting producers and reducing employment in other industries.⁹ In effect, businessmen are using government to wage a wasteful war among themselves.

A notable example involves policies designed to inhibit "dumping" of foreign steel in our markets. Whatever the justice of helping our steel industry may be, one baleful

effect is to raise the cost of steel for American automobile producers. They are now forced to pay more for steel, even if they don't actually buy from foreign sources. As a result, GM, Ford, and Chrysler find it more difficult to compete with their German and Japanese rivals, who can produce cars using less expensive foreign material.

But that too is just one example among a vast multitude of others. Peter Paul Cadbury and Entenmann's have opposed the filbert ruling because it would raise the prices of their candies and pastries, thereby discouraging sales and dampening profits. A more notable current case involves the quotas on sugar imports imposed by the Reagan administration. Although designed to relieve distressed domestic sugar growers, the quotas came as a cruel blow to some independent U.S. refiners of sugar imports. A few even foresaw the possibility of having to close down.¹⁰

Minorities vs. Majorities

Too often, these secondary effects of selfish policies sought by producers are not foreseen. Moreover, those who benefit are commonly concentrated; those who are harmed are usually dispersed. Thus a minority may readily achieve its goal at the expense of the majority. In the end, the social costs outweigh the social benefits.

But along with selfishness is another fault—simplicity. A crucial underlying failure of advocates of government regulation and control is that they almost always ignore the variety of individual talents and tastes. This profound fact provides a vital, underlying thrust in McKenzie's work.¹¹

For emphasis and illustration, McKenzie refers to economist Frank Knight, who "used to puzzle his students at the University of Chicago with the elementary question, 'What is an apple?' If called on, we can all identify an apple, but once we reflect seriously on the puzzle, we begin to understand that apples are different things to different people."¹² For growers, they are a source of profits; for cooks, the basis of pies; for students, a gift to teachers. Spelled with a capital A, they are now a vibrant force in the burgeoning computer industry!

The critical point which Knight and McKenzie stress is that all of us are essentially different. In fact, human beings are as unlike as snowflakes—or our fingerprints. One man who has dwelt at length on individual variety, Roger J. Williams, past president of the American Chemical Society, points out in a book called *Free and Unequal: The Biological Basis of Individual Liberty* that even our handwriting and breathing patterns are distinctive.¹³

What is particularly crucial here,

however, is the variety in people's tastes. It has been revealed through tests with a substance called phenylthiocarbamide. According to Williams, in one study involving over six thousand people, "65.4 percent said it was *bitter*, 21.3 percent pronounced it *tasteless*, 5.4 percent said it was *sour*, 4.8 percent said *salty*, 2.1 percent said *sweet*, and the remaining 1.9 percent thought it tasted like miscellaneous fruits and vegetables—rhubarb, lemons, cranberries, etc."¹⁴ Williams even notes a dramatic difference in our ability to smell. "I know of three individuals," he says, "who have ordinary sense of smell in most respects, but are unable to smell the odor of skunk, even when it is very strong. To most people the skunk odor is most unpleasant. I know of two individuals whose reaction is different. One likes the odor. The other likes it if it is not too strong."¹⁵ With such disparity of tastes, no wonder there are now so many kinds of cars, clothes, and even breakfast cereals!

The Wondrous Brain

Carl Sagan gives further evidence of individual variety in his discussion of the human brain, which, Sagan says, functions through the use of connecting links called "synapses." According to Sagan, "the human brain is characterized by some 10¹³ synapses. Thus the number of different states of a human brain is

2 raised to this power—i.e., multiplied by itself ten trillion times. This is an unimaginably large number, far greater, for example, than the total number of elementary particles (electrons and protons) in the entire universe.”¹⁶

These amazing numbers boggle the mind. It cannot comprehend itself! What are the implications? Sagan continues: “It is because of this immense number of functionally different configurations of the human brain that no two humans, even identical twins raised together, can ever be really very much alike. These enormous numbers may also explain something of the unpredictability of human behavior and those moments when we surprise even ourselves by what we do. Indeed, in the face of these numbers, the wonder is that there are any regularities at all in human behavior.”

Confronted by this astonishing variety, Sagan reaches a dramatic conclusion. “The answer must be that all possible brain states are by no means occupied; there must be an enormous number of mental configurations that have never been entered or even glimpsed by any human being in the history of mankind. From this perspective, each human being is truly rare and different and the sanctity of individual human lives is a plausible ethical consequence.”

How does an economist view this

variety? At least one has spoken directly to the point. Friedrich Hayek notes that “the knowledge which any individual mind consciously manipulates is only a small part of the knowledge which at any one time contributes to the success of his action.”¹⁷ No one knows fully the factors which enter into his motivation and his behavior. But, more importantly, no outsider can possibly discern all that dwells within another’s brain. Furthermore, Hayek says, “the sum of the knowledge of all the individuals exists nowhere as an integrated whole. The great problem is how we can all profit from this knowledge, which exists only dispersed as the separate, partial, and sometimes conflicting beliefs of all men.”¹⁸

No One Knows

The futility of trying to plan and organize human activity centrally is admirably evoked in a recent statement by Dennis O’Brien, a deputy assistant secretary of our Department of Energy. “All forecasters, both in the government and in the private sector,” O’Brien states, “have been awful at figuring out where the energy markets were headed the past few years.”¹⁹ No one possesses sufficient information and insight to predict even the energy future accurately.

Given the variety and essential mystery of human tastes and drives,

what are the implications for social organizations? How can we best tap these various skills and tastes? For Hayek as well as for McKenzie, Friedman, and others, the answer is simple and straight-forward: free markets.

This suggestion is, of course, not new. Two hundred years ago Adam Smith wrote in a famous passage which McKenzie quotes: "by directing that industry in such a manner as its produce may be of the greatest value, [an individual] intends only his own gain, and he is in this . . . led by an invisible hand to promote an end which was no part of his intentions. Nor is it always worse for the society that it was no part of it. By pursuing his own interest he frequently promotes that of society more effectually than when he really intends to promote it."²⁰

Almost a century later in his famous essay *On Liberty* John Stuart Mill echoed Smith: "it was once held to be the duty of governments, in all cases which were considered of importance, to fix prices, and regulate the processes of manufacture. But," Mill continued, "it is now recognized, though not till after a long struggle, that both the cheapness and the good quality of commodities are most effectively provided for by leaving the producers and sellers perfectly free, under the sole check of equal freedom to the buyers for supplying themselves elsewhere."²¹

He further noted, in complete accordance with the illustrations previously presented, that "restrictions on trade . . . do not really produce the results which it is desired to produce by them."

Mill was so outspoken an advocate of individual liberty that a few years ago the American economist Paul Samuelson commented in his presidential address to the American Economic Association: Mill's "views on liberty will, even in the post-Freud world, never go out of date and can perhaps best be summarized in the words of Mrs. Patrick Campbell, Bernard Shaw's pen-mistress: People should be allowed to do anything they like—provided only they don't scare the horses in the street."²²

Can Consumers Be Trusted to Guide Economic Action?

But do the ideals of Smith and Mill still hold? After all, the scale of industry has vastly changed. Can we depend, in this complex and cosmopolitan age, on the luxury of allowing self-centered individuals to be the fundamental guiding mechanism for production?

In fact, there is evidence that we not only can but must. After all, even now, in order to make a profit, particularly over the long haul, producers must provide a good or service which consumers want. Somehow, if they are to survive, they must deter-

mine what it is that millions of Americans truly desire.

Indeed, as McKenzie points out, the invisible hand and free markets evoke the very essence of individualism. "If we were all alike in preferences and abilities—identical—there would be no basis for so many of the markets we observe in the real world."²³ It is because, while some of us are gardeners or golfers, others are numismatists, philatelists, spelunkers, and scuba divers that the multitude of markets exists.

There is another element besides individual *tastes* to consider and that is individual *talents*. Since they also differ, we need a system of social organization which encourages all people to develop their own individual skills. This certainly entails selfishness of sorts, but it has some admirable social advantages. Two modern writers have expressed the matter as follows: "Concern for others implies concern for oneself in the following way: to be concerned for the well-being of another is to want to contribute to that well-being; but we can contribute nothing of worth to others unless we have taken the trouble to cultivate resources in ourselves, and this implies self-concern."²⁴ As John Stuart Mill put it: "In proportion to the development of his individuality, each person becomes more valuable to himself, and is therefore capable of being more valuable to others."²⁵ We cannot, in

short, give to others unless we have something of our own to give.

The Virtue of Individualism

Individualism thus construed is not the epitome of selfishness or self-centeredness. It is not a social vice but rather a social virtue. It is in finding ourselves that we can best use our talents for the social good. In his work *The Constitution of Liberty*, Friedrich A. Hayek quotes a passage from H. B. Phillips which underlines this point: "In an advancing society, any restriction on liberty reduces the number of things tried and so reduces the rate of progress. In such a society freedom of action is granted to the individual, not because it gives him greater satisfaction but because if allowed to go his own way he will serve the rest of us better than under any orders we know how to give."²⁶

In studies of American and British industrial development over the last two centuries, much is often made not only of the sordid state of working conditions but also of the "Robber Barons" whose greed seemed bound to destroy both our natural and our human resources. Too little has been said of inventors and entrepreneurs whose new ideas and initiative unleashed a plethora of revolutionary innovations.

In Britain two centuries ago there was, for example, the remarkable coterie including James Watt, Mat-

thew Boulton, Josiah Wedgwood, and others who comprised the Lunar Society of Birmingham.²⁷ In the U.S. during the late 1800s there was an even greater host of innovative individuals, most conspicuously Thomas Edison but including also many others such as Borden, Swift, Armour, Walgreen, Eastman, and Birdseye. Their stories have been marvelously retold by Daniel Boorstin in his book *The Americans: The Democratic Experience*.²⁸

Nor have we any reason to believe that individual variety and initiative are any less lacking today than in the past. Examples run the gamut from such medical advances as CAT scanners and interferon, to cable TV and video games, even to a report in the *Wall Street Journal* that, despite all the furor over nuclear weapons and waste, residents of one town in Colorado are actively seeking establishment of a low-level nuclear-waste dump in their area for the jobs it would provide. (Their promotion of the project includes bumper stickers which read "Nuclear Power Plants are Built Better Than Jane Fonda!")²⁹

To solve all our energy, environmental, and economic problems, is it not essential that we allow all possible opportunities for the full development of individual talents and diversity? In his book, McKenzie rightly deprecates many Keynesian economists for prescribing government deficits which have unleashed

an unwarranted (and often unwanted) expansion of government's role. However, it should be noted that the famous British economist is not always well read by his own disciples. If they paid close attention to his famous work, *The General Theory of Employment, Interest and Money*, they would discover toward its end what may well be one of the most eloquent passages ever written about the advantages of individualism.

"Let us stop for a moment to remind ourselves what these advantages are," Keynes wrote. "They are partly advantages of efficiency—the advantages of decentralization and of the play of self-interest. The advantage to efficiency of the decentralization of decisions and of individual responsibility is even greater, perhaps, than the nineteenth century supposed; and the reaction against the appeal to self-interest may have gone too far. But, above all, individualism, if it can be purged of its defects and its abuses, is the best safeguard of personal liberty in the sense that, compared with any other system, it greatly widens the field for the exercise of personal choice. It is also the best safeguard of the variety of life, which emerges precisely from this extended field of personal choice, and the loss of which is the greatest of all the losses of the homogenous or totalitarian state. For this variety preserves the traditions

The Authoritarian Society

THE authoritarian society is the natural and stable form of society because it is in solid conformity with the survival characteristics of the human being. It is dominant in history. Once established it tends to perpetuate itself because those wielding power seldom give it up short of bloodshed. If an authoritative state is overthrown through organization and exercise of still greater physical power, then the wielders thereof won't let their power go after they have won. They just become the new set of rulers. Hence, much of human history is the story of a squirrel-cage succession of one authoritative regime after another from which the people almost never break out, as you may see in many countries of the world. George Washington was the exception. He refused to become our king; he gave up his wartime powers and insisted upon establishment of a representative republic of limited power. He uniquely opened the door to the squirrel cage. We can, of course, crawl back into the cage, well-baited with promised security; and the door will then snap shut.

—BRADFORD B. SMITH, "Our Unique Economic System"

which embody the most secure and successful choices of former generations; it colours the present with the diversification of its fancy; and, being the handmaid of experiment as well as of tradition and of fancy, it is the most powerful instrument to better the future."³⁰ In Keynes' view, both the individual and society reap a great harvest from planting the seeds of free choice and initiative.

Thus it is that McKenzie and others advocate adoption of Constitutional constraints on government. Surely, some flexibility will be sacrificed. Moreover, it remains true that government has important roles to play, providing for "public" goods such as defense and dealing with "externalities" such as pollution.

Some people would also reasonably require efforts to protect consumers from fraud.

A Dangerous Course

While it can be admitted that the distribution of income provided by a free market economy may not be ideal, it is still not clear that government intervention will improve on matters. In fact, the danger in our present course is that, without some effective constraints on both liberals' and conservative businessmen's redistributive schemes, both economic growth and the individual freedom that enable incomes to rise will be eroded to the point of extinction. That is a possibility no less awesome than a nuclear holocaust.

Right now, many people, out of deep concern for both ourselves and our posterity, seek to avoid that awful destiny by advocating a nuclear weapons freeze. Isn't it equally essential to lend our efforts to developing policies to assure that markets and individuals are free? ☉

—FOOTNOTES—

¹Ayn Rand, *Atlas Shrugged* (New York: Signet, New American Library, 1957), p. 1083.

²Richard B. McKenzie, *Bound to Be Free* (Stanford, Calif.: Hoover Institution Press, 1982).

³"The Recession Sours Voters on Business," *Business Week*, May 31, 1982, p. 13.

⁴... the death rate, calculated per registered vehicle, for subcompacts from 1978 to 1980 was more than twice that for full-size cars." Dale D. Buss, "Small Cars May Save Fuel but Cost Lives, Safety Experts Think," *Wall Street Journal*, April 27, 1982, p. 1.

⁵John B. Schnapp, "GM Shakes Up the Auto Industry," *Wall Street Journal*, May 26, 1982, p. 30.

⁶Thomas M. Lenard, "Wasting Our National Forests," *Regulation*, July/August 1981, pp. 29-36.

⁷"Dispatch from the Nut Wars," *Regulation*, January/February 1982, pp. 8-10.

⁸Jane Seaberry, "Dumping Cases: Ice Cream, Steel, Carts and Pears," *Washington Post*, May 4, 1980, p. G1.

⁹McKenzie, pp. 120-22.

¹⁰"Sugar Imports to Be Limited, Reagan Decides," *Wall Street Journal*, May 5, 1982, p. 4; "Sugar Refiners' Group Files Lawsuit to Halt Quotas on Imports," *Wall Street Journal*, May 12, 1982, p. 47. Indeed, the Reagan Administration's stance on "free trade" has been the subject of some sharp attacks; see Sheldon L. Richman, "Examining Reagan's Record on Free Trade," *Wall Street Journal*, May 10, 1982, p. 30, and Clifton B. Luttrell, "Reagan's Farm Economics," *Competition*, III (May 1982), pp. 8-9.

¹¹See especially Chapter 3.

¹²McKenzie, p. 55.

¹³Roger J. Williams, *Free and Unequal: The Biological Basis of Individual Liberty* (Indianapolis: Liberty Press, 1979), Chapter 4.

¹⁴*Ibid.*, p. 63.

¹⁵*Ibid.*, p. 70.

¹⁶Carl Sagan, *The Dragons of Eden: Speculations on the Evolution of Human Intelligence* (New York: Random House, 1977), p. 42.

¹⁷Friedrich A. Hayek, *The Constitution of Liberty* (Chicago: University of Chicago Press, 1960), p. 24.

¹⁸*Ibid.*, p. 25.

¹⁹George Getschow, "More or Less Oil Will Go Up or Down or Maybe It Won't," *Wall Street Journal*, May 5, 1982, p. 1.

²⁰Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (New York: Modern Library, 1937), p. 423.

²¹John Stuart Mill, *On Liberty*, in Edwin A. Burt (ed.), *The English Philosophers from Bacon to Mill* (New York: Modern Library, 1939), p. 1024.

²²Paul A. Samuelson, "Economists and the History of Ideas," *American Economic Review*, LII (March 1962), p. 11.

²³McKenzie, p. 63.

²⁴David L. Norton and Mary Kille Norton, review of *Sex Without Love* by Russell Vannoy, in *Reason*, May 1982, p. 57.

²⁵Mill, p. 998.

²⁶Hayek, p. 9; quotation is from H. B. Phillips, "On the Nature of Progress," *American Scientist*, XXXIII (1945), p. 255.

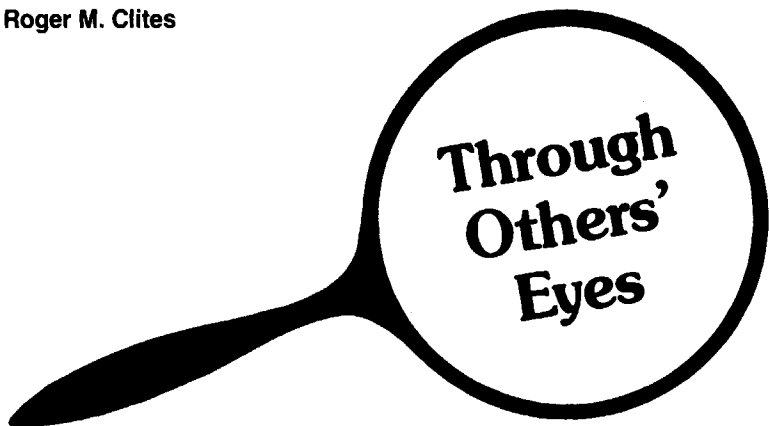
²⁷Lord Ritchie-Calder, "The Lunar Society of Birmingham," *Scientific American*, June 1982, pp. 136-45.

²⁸Daniel J. Boorstin, *The Americans: The Democratic Experience* (New York: Vintage Books, Random House, 1974).

²⁹Eric Morganthaler, "To Keep Their Town Alive the Residents of Naturita, Colo., Want a Nuclear Dump," *Wall Street Journal*, July 1, 1982, p. 21.

³⁰John Maynard Keynes, *The General Theory of Employment, Interest and Money* (New York: Harcourt, Brace and World, 1964), p. 380.

Roger M. Clites



WE are often reminded by the news media of the value placed on political freedom by those who challenge overwhelming odds to escape from iron curtain nations, be they in eastern Europe, Asia, the Caribbean, Central America or elsewhere. Occasionally slight mention is also made of a desire for economic freedom. However, the emphasis nearly always is on escape from political repression. (In fact, our federal government policies concerning refugees allow that status only on the basis of political repression, not on the basis of economic repression.) My purpose here is to recount the importance of the relative economic freedom of the United States to two citizens who spent their early years in other economies.

Roger Clites is Associate Professor of Business at Clarke College, Dubuque, Iowa.

Herman was a university student I had in several classes between 1956 and 1959. A few years earlier he had won a competition among 1300 students about to graduate from the gymnasium level of German education. The prize was a year of college study in the United States. Based on his observations of the relatively greater amount of economic freedom in the United States, Herman resolved to return to America and to become a citizen. At that time the quickest way for Herman to secure United States citizenship was to enlist for a period of servitude in the U.S. military; so he joined the navy.

I first met Herman when he was working in a camera store and attending my night class in "Principles of Economics." Early in that course he taught all of us something I've cherished ever since. I had been

listing and discussing with the class various reasons why the U.S. economy out-performed that of other nations. We discussed such matters as abundant natural resources, geographic removal from the destruction of most major wars, settlement of the country by ambitious and able immigrants and other factors. Herman then pointed out that we were overlooking the most important of all considerations. He called that matter, "non-policies of government." He went on to explain what he meant by giving several examples, both of government policies and of traditions and attitudes that complemented those policies, which fostered and perpetuated economic waste in his homeland.

The Academic Route

Herman rapidly took advantage of the relative economic freedom he found in the United States. A year following our first meeting he was still working to support himself but was now attending the university full-time so as to ready himself to enter a higher level of the work force as soon as possible. When Herman graduated the next year, he had been voted two honors. The faculty selected him as the student who had contributed the most to the school of business during his student years. Remember, he did this while working his way through the university. Meanwhile, his fellow students se-

lected him as "most likely to succeed." Herman was a talented person, pursuing an "intellectual" path to economic improvement.

The other person I have in mind was more a "common man," though uncommon in many ways. He called himself "Pete," since most people in this country could not or would not learn his real name. He migrated to the United States from Greece in 1957 at age 18 with no knowledge of English and little more than a dream. Pete started working at the commonest of common labor while learning the language. After a time he became manager of a soft ice cream store.

When Pete was 23 years old he decided he wanted to marry Anne, one of his customers, who was about to graduate from college. Anne's father might well have objected to the marriage on religious grounds. She was Southern Baptist and Pete was of nominal Orthodox persuasion. However, her father took an economic approach. He pointed out to Pete that his thriving automobile dealership had made it possible for him to provide well materially for Anne and questioned whether she would long be happy with Pete's earnings.

As usual, Pete saw this as one more temporary obstacle to be overcome. He consulted with some of his friends in the local Greek community who happened to be in the restaurant

business. They told him they had learned that they could cut their costs of produce more than half by buying directly from nearby farmers. So, Pete decided that he could buy directly from the farmers, who were in the Carolina Piedmont region, and successfully compete with the large wholesalers who sold to stores and restaurants in the mountain area 100 to 150 miles to the northwest. He challenged Anne's father to help him finance a used pickup truck with the claim that within six months he could be earning more than the father earned from his auto dealership. The truck purchase was arranged.

Entrepreneurial Achievement

Pete made good his prophecy. The large wholesalers had the expense of storage warehouses, sales commissions, management salaries, truck drivers' wages and, most of all, spoilage costs of up to one-third of their produce. Pete, however, was management, salesman and truck driver combined. His glove compartment was his office. Every day he worked until the large "dog house" he had built to protect and contain goods on the rear of his truck was sold out, so he had virtually no loss due to spoilage. He charged at least 20 per cent lower prices than the big wholesalers, so he had no trouble selling his merchandise.

I met Pete in 1965 when he was 25 years old. He and Anne lived in

an apartment house I managed and Anne was in two of my classes studying toward her MA degree. Pete normally worked three days a week for about 14 to 16 hours, each. He would make \$200 to \$300 per day. (Remember, this was 1965 when prices were roughly one-third what they are today.) Pete once worked six consecutive days to see how much he could earn in a week. It came out about \$2000, he claimed. Even if he exaggerated, he must have done quite well. I used to tell him he would either be a millionaire or dead by his 40th birthday. He claimed his primary goal was to make it possible for Anne to earn her PhD from Harvard.

I was next in touch with Pete in 1969. He was in Boston collecting substantial royalties from a route of coffee vending machines he had established. Anne was home with their little girl, but was planning to begin work on her doctorate before long.

When our paths next crossed in 1980, Pete was almost 40 years old. Anne had her doctorate, not from Harvard, but from another university in the Boston area. She was head of her department at a community college in Boston. Pete still collected royalties on his ever-expanding coffee machine routes and owned upwards of a dozen store buildings plus other real estate. He, Anne and their two children spend each Christmas vacation in either Florida or the Ca-

ribbean. Every other summer they visit his family in Greece for an extended period.

These two entirely different men came to the United States from greatly divergent backgrounds, saw the opportunities available in this land of relative economic freedom and put into action their appreciation of the opportunities available to them. Herman took the approach of education and, eventually, the corporate world. Pete, who arrived without either skill or knowledge of the language, decided to learn the

language and put to work whatever talents and abilities he could find within himself. He was able to see what was needed or wanted, wherever he located, and set out to provide it at a price that would be competitive and yield him a good income.

Why is it that these men who were not accustomed to our relative economic freedom could profit so much more from it than can most who have grown up surrounded by it? Perhaps it is because they appreciated it, whereas we take it for granted. ☯

Freedom, Productivity, and Progress

EMERSON once remarked that if a man made a better mousetrap the world would beat a path to his door, but he neglected to mention what some of the folks would do when they got there. It is to be expected that the Amalgamated Mice of America would mouse-cott the new arrangement, nor can one help sympathizing with those who may be hurt in the short run by the march of progress. But more than likely, the Emerson Better Mousetrap Company would come in for a lot of opposition from others with less obvious reasons for objecting to the innovation. Unfortunately, it seems that ever since our stone age grandparents thought of moving out of the cave, anyone who upset the status quo by trying to do things a bit more efficiently has been suspect. Doubtless that is why human history is largely the story of poverty and stagnation.

We often fail to realize how hard it was to get the machine age in motion and how hostile forces threatened to swallow the fresh new ideas which sparked this revolution before it got started. . . .

The sudden burst of productivity, coming nearly two centuries ago to a world with a chronic and psychopathic fear of abundance, generated a bitterness against the machine which persists even today.

IDEAS ON



LIBERTY

THE COMING BOOM

David Raboy, a Washington-based economist, has come up with an unconventional view of the inflation and subsequent depression of Andrew Jackson's day. Jackson's war on the Second Bank of the United States had nothing to do with the case. It was the British substitution of opium for silver in making payments to the Chinese for tea and silks that caused Jackson's troubles. The opium released silver to flow into the United States. When Britain later encountered difficulties at home, the withdrawal of silver caused the panic of 1837.

Thus events that are not comprehended by politicians control the course of history in ways that mock fiscal and monetary policies. Herman Kahn, in his *The Coming Boom* (New

York: Simon and Schuster, 237 pp., \$14.95), though he approves of much that the Reagan Administration has been doing, thinks that America is about to experience a revitalization no matter who occupies the political seats of so-called power. Things are happening for cyclical reasons that control individual and group psychologies, and the spill-over into economics will be of happy consequence no matter what transpires on the Potomac.

Kahn admits that the federal spending of the past thirty-five years has been unfortunate, but he doubts that it will prove fatal. For, while the spending has doubled in constant dollars, the Gross National Product has tripled. Expenses at the local level may be a far more trou-

blesome problem. Kahn counts on a sobering period in which people will rediscover the ideas of caution and discipline. Holding a job is now something to be prized. The work ethic is no longer despised. The feeling that there are no overwhelming material limits of growth (as contrasted with socially imposed limits) has induced a new optimism. Books such as the Club of Rome's *Limits to Growth* and the *Global 2,000* report that was instigated by Jimmy Carter have been discounted.

Energy costs have figured in many a recent price increase, but the OPEC energy cartel has lost much of its menace. Kahn thinks its ability to set prices has peaked, and we can count on two decades during which a \$40 top for a barrel of oil will be unobtainable. Meanwhile the abolition of price controls will insure significant discoveries of new sources of oil and gas in non-OPEC countries.

The "New Class"

Kahn worries a bit about the so-called New Class of "liberal" intellectuals who encourage an unwise distortion of market forces for non-market purposes. As children of their own parents' affluence, the members of the New Class command incomes ranging from \$25,000 to \$100,000 a year. Satisfied with their own status, they work to impose laws and regulations that keep others from achieving the golden circle. In the

name of ecology they fight the uncovering of new sources of minerals, forest products and energy. But they have been losing ground lately. Blue collar workers who are interested in holding old jobs or getting new ones no longer follow the dictates of the "liberal" elite in matters pertaining to environmental purity. Trade-offs have become respectable, and cost-benefit analyses are the new order of the day.

Kahn puts a lot of trust in the fact that the young grow older. The children of the "baby boom" period are now reaching the "nesting age," which has conservative implications. Faced with the need to spend on durable goods, they have a sudden interest in fighting inflation.

"High Tech"

Kahn is quite aware that our old basic industries—steel, automobiles—are in trouble. But we are in the early stages of a change to "high tech," which will surely expand the economy in thousands of still unplumbed ways. Using the new shorthand of the silicon chip age, Kahn speaks of C4I2 technologies. The "C4" stands for "command, control, communications, computing"; the I2 for "information and intelligence." The new systems make remote library access available to everybody. The advent of C4I2 systems add new dimensions to the procurement, processing and use of intelligence.

Companies such as General Electric use computers and existing telephone networks to achieve instantaneous and inexpensive communications with major cities around the world, drawing at the same time upon files stored in a single location.

The new dynamics of high tech are destined to pound some new common sense into union leaders who have spent the past thirty years in devising new ways of milking the industrial cow without feeding it. Roger Smith, the chairman of General Motors, has said that "every time the cost of labor goes up \$1 an hour, 1,000 more robots become economical." The use of robots will probably increase by 35 per cent a year through the 1980s. Thus high tech will come to the rescue of traditional industries that are fighting hard to live in the same world with the Japanese, the West Germans and such newly emergent industrial nations as Taiwan, Singapore and South Korea.

In matters of military defense Kahn derives solace from situations that other people have deprecated. When four or five powers besides Soviet Russia and the United States have nuclear missile capacity, the need to keep a wary eye on "swing" military establishments may help mitigate the confrontational zeal of the biggest powers. Russia and the United States might even have an interest in promoting a general

"freeze" that would not only extend the peace but save everyone a lot of money.

Commodity Bonds and Unconventional Finance

Kahn doubts that a return to the gold standard is in the immediate offing, but he thinks the United States might experiment with bonds payable in gold. He also champions what he refers to as commodity bonds. An oil bond, payable in a certain amount of oil, might be issued to facilitate the build-up of an oil reserve, with the stored oil providing a guarantee that the bonds would be cashable on maturity. Since payment would be in a stipulated quantity of oil, inflationary worries would disappear. Bonds could be issued with mineral backing other than gold. Kahn hasn't gotten anywhere yet with his commodity bond idea, but he has his hopes. He thinks we are just beginning to explore the wide possibilities of what he calls "unconventional finance." Contracts don't necessarily have to be written in terms of money—or "I owe you nothings," as John Exter would have it, referring to the world's fiat currencies.

By the year 2,000 A.D., says Kahn, we will be able to do things that would have seemed miracles or magic 200 years ago. It is an exciting world that waits for us if the presuppositions of *The Coming Boom* stand up.

THE SPIRIT OF DEMOCRATIC CAPITALISM

by Michael Novak

(An American Enterprise Institute/Simon & Schuster Publication, 1230 Ave. of the Americas, New York, New York 10020, 1982)

434 pages ■ \$17.50 cloth

Reviewed by Tommy W. Rogers

If this book does not become a classic catalytic agent on behalf of the natural system of liberty—as opposed to the command society of socialism—as the desirable political economy on the basis of theological reason, it will not be due to any fault of Mr. Novak. The author must be credited with a major achievement. He set for himself the task of articulating a moral theory and a theological base for the implicit ideals of democratic capitalism. His success is to have made a credible, compelling, intellectually solid and theoretically sound presentation of the political economy of the free society. He shows it to be the spiritually and morally commendable alternative to the collective and compulsive ethic of socialism.

If, as Novak asserts, social forms are constructs of the human spirit, the first of all moral obligations is to think clearly. This is an objective wherein the theological proponents of socialism, whether in the form of

Catholic “liberation theology” or the collectivism of Protestant theologians, are neither totally honest nor innocent. Novak feels it a sad commentary that

... few theologians or religious leaders understand economics, industry, manufacturing, trade and finance. Many seem trapped in pre-capitalist modes of thought . . . Many swiftly reduce all morality to the morality of distribution. They demand jobs without comprehending how jobs are created. They demand the distribution of the world's goods without insight into how the store of the world's goods may be expanded . . . They claim to be leaders without having mastered the techniques of human progress.

Novak first inquires into the structural dynamics which are requisite for and, in turn, give nurture to the economic order which expresses itself in a noncoercive society, a social order within which individuals and peoples may realize, through the vocations to which they believe they have been called, the greatest degree of personal dignity, human freedom and personhood. The free economy requires in practice a moral-cultural ethos, and it is a failure of democratic capitalism not to have made a moral presentation of itself to the world. The result, as Novak sets it forth, is that capitalism

... discusses itself and allows itself to be discussed, in sheerly material and procedural terms. The intellectuals of those incredibly varied nations ideologically

tied together as the "Third World" heap upon it a burden of guilt they do not consider attributing to themselves. There has grown up, as P. T. Bauer observes, a dishonorable international politics. It is morally wrong, not only intellectually dishonest, to cooperate with such ideas and values, and to deny before the world those moral-cultural qualities without which neither economic development nor democratic governance can be achieved.

Novak next examines the socialist idea and displays its hollowness against the backdrop of the realities and the promise of democratic capitalism. The genius of the free society is its recognition that the most precious of all common goods is the individuality of each person, and that the best way to increase the common good is to empower people through differentiated systems.

Collectivism, by contrast, pits man against man. It narrows the circles of trust and goodwill as groups competing for the same allocations run afoul of each other's interests. The end result is a zero-sum society which promotes the Hobbesian "war of all against all." Economic growth, liberty, and opportunity for social mobility on the other hand promotes charity, trust, and cooperation.

The third section of Novak's inquiry into the spiritual wealth of nations, and the practical import and manifestations of this wealth in quality-of-life, is devoted to an at-

tempt to set forth a religious perspective on democratic capitalism. Not even a society free politically, economically and culturally holds out the promise of perfectionism or utopia; it does not claim to represent the Kingdom realized. The finest social order conceivable has to be practiced by men as they are, with all the foibles and propensities for evil by which men, in reality, are characterized. Thus, constant assessment, evaluation, modification, in the light of democratic capitalism's own ideals is desirable, possible, and necessary.

There has been, as Novak recognizes, a failure of the moral-cultural leaders of democratic capitalism to sow widely a moral vision promotive of the system of natural liberty. While, under the capitalistic political economy bread is more abundant, more equitably distributed, and less scarce and dear, even here human beings do not live by bread alone. In no major sphere of life have the traditions of theology fallen further behind. Many contemporary theologians and other intellectuals seek a return to the unitary society from which democratic capitalism provided liberation. Novak has addressed attention to the life of the spirit of democratic capitalism with a solidity and insight which deserves to have a crucial and long-lasting impact. ☉

the Freeman

VOL. 33, NO. 2 • FEBRUARY 1983

- George Washington on Liberty and Order** **Clarence B. Carson** **67**
A review of the great truths set forth in Washington's Farewell Address.
- The World Debt Crisis** **Hans F. Sennholz** **76**
Global inflation creates international enmity and chaos.
- The Armor of Saul** **John K. Williams** **84**
The defender of liberty needs no extra burdens to bear.
- Market Prices vs. Communist Commands** **Henry Hazlitt** **93**
The communist failures stem from lack of market prices as production guides.
- Unions and Violence** **Morgan O. Reynolds** **98**
The economic reasons why unionism is so closely connected with violence.
- The Price of Education** **Ernest G. Ross** **107**
If the price is misperceived the product or service may be less than the best.
- Thinking About Freedom** **Robert LeFevre** **113**
Some provocative thoughts about the ideal of freedom.
- Book Reviews:** **122**
"The State Against Blacks" by Walter Williams
"Concentration, Mergers, and Public Policy" by Yale Brozen
"Government's Money Monopoly" edited by Henry Mark Holzer

Anyone wishing to communicate with authors may send first-class mail in care of THE FREEMAN for forwarding.



the Freeman

A MONTHLY JOURNAL OF IDEAS ON LIBERTY

FOUNDATION FOR ECONOMIC EDUCATION

Irvington-on-Hudson, N.Y. 10533

Tel: (914) 591-7230

Leonard E. Read, *President*

Managing Editor: Paul L. Poirot

Production Editor: Beth A. Hoffman

Contributing Editors: Robert G. Anderson

Bettina Bien Greaves

Edmund A. Opitz (Book Reviews)

Brian Summers

THE FREEMAN is published monthly by the Foundation for Economic Education, Inc., a nonpolitical, nonprofit, educational champion of private property, the free market, the profit and loss system, and limited government.

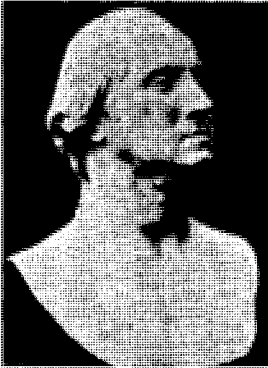
The costs of Foundation projects and services are met through donations. Total expenses average \$18.00 a year per person on the mailing list. Donations are invited in any amount. THE FREEMAN is available to any interested person in the United States for the asking. For foreign delivery, a donation is required sufficient to cover direct mailing cost of \$5.00 a year.

Copyright, 1983. The Foundation for Economic Education, Inc. Printed in U.S.A. Additional copies, postpaid: 3 for \$1.00; 10 or more, 25 cents each.

THE FREEMAN is available on microfilm from University Microfilms International, 300 North Zeeb Road, Ann Arbor, Mich. 48106.

Some articles available as reprints at cost; state quantity desired. Permission granted to reprint any article from this issue, with appropriate credit.

Sculpture by Houdon



George Washington on Liberty and Order

THERE are truths to which the passage of time and the gaining of new experience add luster and vitality. So it has been, for me at least, with those contained in Washington's Farewell Address. With each new reading of it, I have been impressed anew with the relevance of so much that he had to say to our own time. Often, too, I discover some new theme or emphasis that I had not been aware of earlier. Undoubtedly, these different impressions arise in part from the richness of the material but also may be conditioned by my particular interests at a given time. At any rate, the theme of liberty and order stood out for me in my latest reading of the Farewell Address. It

seemed to me that all the parts fitted together into a whole within the framework of this theme.

Before getting into that, however, it may be of some aid to place the address in a much broader historical frame. Some observations about liberty and order more generally will help to set the stage for his remarks.

Thoughtful men may differ about the desirability of liberty, but they rarely do about the necessity for order. Also, nations, kingdoms, and empires have differed much more over the extent of liberty within them than of the degree of order, over long periods of time anyway. They have ranged from the most compulsive tyrannies to ones in which considerable liberty prevails. By contrast, all governments are to a greater or lesser extent devoted to maintaining order. But there are great differences of belief, persuasion and prac-

Dr. Carson has written and taught extensively, specializing in American intellectual history. He is the author of several books and is working at present on *A Basic History of the United States* to be published by Western Goals, Inc.

tice as to how order is to be maintained and the proper role of government in doing so. It is the differences on this that largely determine the extent of liberty in a country.

There have been, and are, countries in which those in power believe that government must act to impose order in every nook and cranny of society. The active principle in this, if principle it be, is that if government does not impose order then disorder and chaos will prevail. Thomas Hobbes, English philosopher in the seventeenth century, expressed this view with clarity and force. He declared that if men were permitted to act according "to their particular judgments and particular appetites, they can expect thereby no defense, nor protection against a common enemy, nor against the injuries of one another." There must be a power over them, he said, and the way to get that power is "to confer all their power and strength upon one man, or upon one assembly of men, that may reduce all their wills . . . unto one will. . . . For by this authority, given him by every particular man in the commonwealth, he hath the use of so much power and strength conferred on him, that by terror thereof, he is enabled to perform the wills of them all. . . ."

A view similar to this of what was necessary to order and how it could be achieved, as well as the role of

government in it, was widespread in Europe in the seventeenth century. It was an age of royal absolutism, of claims about the Divine right of kings, and of the assertion of government power to direct the lives of peoples. England had an established church; no others were tolerated. All were required to attend its services, contribute to its support, and have most of the great events of life celebrated or recorded in it. The church officials censored publications, licensed schools, and kept watch over the doings of the people.

Mercantilism

Economic life was circumscribed and controlled by the government under a system most commonly known as mercantilism. The government controlled exports and imports, gave subsidies, bounties, and grants to encourage certain undertakings, prohibited others, gave patents, charters, and other forms of monopolies to individuals and companies, enforced craft regulations, and maintained much power over the lands of the realm. Harsh penalties were imposed for every sort of offense from blasphemy to treason. Evidence abounded that government was making massive efforts to impose order. As for liberties, they had most commonly to be asserted against the grain of the prevailing system.

So, too, in the twentieth century,

the dominant view of those in power in many lands is that government must impose an all-encompassing order upon the peoples under its sway. At its farthest reaches, this view achieves its fruition in the totalitarian state, with its direct control over all the media of communication, every aspect of the economy, over education, over such religion as is permitted, over work and over play.

In other lands, where this bent toward state-compelled order has been moderated thus far—has been kept from going so far—it evinces itself in government intervention in the economy, the thrust of regulation into many realms, in redistribution of the wealth, in controls over education, medicine, charity, and hundreds of other areas. The ideologies supporting this pervasive government power differ in many particular respects from those that supported seventeenth-century government power, but the notion that government must impose an order else chaos and disorder will prevail is common to both. Extensive liberty can hardly be reconciled with such compulsive orders.

That George Washington held a view on how to maintain order and the proper role of government in sharp contrast to those described above is manifest in his life and works. Moreover, a seismic change in outlook, both in England and

America and over much of Europe, had taken place between the time when Hobbes had penned his *Leviathan* and the founding of the United States. A major aspect of that change was a shift from the emphasis upon a government order imposed on men toward individual liberty and responsibility. The shift sparked in many Americans an awareness of the danger of government both to liberty and to order. At the root of this shift was a different conception of the origin and nature of order.

Belief in a Natural Order

George Washington and his contemporaries were imbued with a strong belief in a natural order. Order, in their view, was not something that could be arbitrarily contrived and imposed by man. The foundations of order, they held, are in the frame of the universe, in the laws that govern it, in the nature of man and his faculty of reason, and in the principles of relationships by which constructive activities can take place. At best, men can only act in accord with and imitate the order that is given.

The belief in a natural law and natural order was not new to the eighteenth century, of course; it had been around since the ancient Greeks and Romans, at least. But it had come to the forefront in the century before the founding of the United States as a result both of vigorous efforts to

revive it and of many scientific and philosophical formulations of it.

Newton had persuasively set forth in mathematical terms the laws governing the course of the heavenly bodies. Thinkers were getting impressive results in their searches for the laws and principles governing all sorts of relationships. What struck so many in that age was the idea of proportion, balance, harmony, and order resident in the natural tendencies of the world about them. Most marvelous of all, at least to many, this order was consonant with human liberty. Rather than frustrating man in the use of his faculties for his benefit (and for the commonweal as well), the natural order provided means for him to do so most effectively. The foundations of liberty in this belief in a natural order were in the natural rights doctrine.

In his Farewell Address, Washington did not expand upon or elaborate on the theme of liberty. Although the word "liberty" occurs several times in the document, it plays mainly a supportive role in what he has to say. The attachment to liberty is assumed, a given if you will, upon which to hinge his arguments. Washington said as much himself: "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." But, he says, from first

one angle then another, if you would have liberty you must support those things on which it depends.

For example, in recommending a united support for the general government, he declared: "This Government, the off-spring of our own choice, . . . 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 support." To clinch the argument, he says that these "are duties enjoined by the fundamental maxims of true liberty." In arguing against the involvement of Americans in foreign intrigues, he says that by doing so "they will avoid the necessity of those overgrown military establishments which, under any form of government, are inauspicious to liberty. . . ."

A Sense of Order

The word "liberty" occurs frequently throughout the address, but by my fairly careful count the word "order" occurs only once. Even that instance is insignificant, however, for the word is used in a phrase, as "in order to" do something or other. It occurs at one other point as part of the word "disorders," which, while more significant, is hardly proof of a theme. Yet a sense of order pervades

the whole document. It is there in the cadences of the sentences, in the matching of phrase with phrase, in the balance of one tendency against another, in the thrust toward discovering a common bond by piling up references to particular interests. It is clear, if one reads between the lines, that there is an order for men's lives, an order for nations, an order for relations among nations, an order by which parts belong to a whole, and an order by which balance and harmony can be maintained. Government is not the origin of this order, but it is necessary to the maintenance of it, even as it is ever a potential threat to it. Government is made necessary by the bent in man to disrupt order.

The two main sources of disorder to which Washington alludes are these. First, there are those passions in men which incline them to pursue their own particular and partisan designs at the expense of the well-being of others. Washington called it the spirit of party, but we might understand it better as partisanship for causes. (He had in mind the dangers of this to the stability of government, but it does no violence to his idea to apply it to individuals as well as groups.) "This spirit," he said, "unfortunately, is inseparable from our nature, having its roots in the strongest passions of the human mind." Among the dangers of these partisan passions, he declared, are

these: "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. . . . Thus the policy and will of one country are subjected to the policy and will of another."

The other source of disorder, to which Washington alludes, is "that love of power and proneness to abuse it which predominates in the human heart. . . ." It is this power hunger which makes government dangerous, for it prompts those who govern to overstep the bounds of their authority. "The spirit of encroachment," Washington pointed out, "tends to consolidate the powers of all the departments in one, and thus to create, whatever the form of government, a real despotism."

Advice and Counsel

The body of the Farewell Address is devoted to advice and counsel about how to conduct the government so as to maintain order and preserve liberty, and to warnings about holding in check those partisan tendencies and the bent toward consolidating power which endanger them. The following were his main points: (1) Maintain the union; (2) Keep the principles of the Con-

stitution intact; (3) Preserve national independence; (4) Buttress policy and behavior with religion and morality; (5) Cherish the public credit; and (6) Follow peaceful policies toward all nations. These general principles are not nearly so revealing, however, as his particular recommendations and the arguments he used to support them.

The main device Washington employed to support his advice to maintain the union was to invoke those things the people had in common: the name American, their struggles for independence, their common beliefs, and their common interest. He surveyed the continent, from a mountaintop as it were, and ticked off how north and south, east and west, were bound together.

"The *North*," he said, "in an unrestrained intercourse with the *South*, protected by the equal laws of a common government, finds in the production of the latter great . . . resources of maritime and commercial enterprise and precious materials of manufacturing industry. The *South*, in the same intercourse . . . sees its agriculture grow and commerce expand. . . . The *East*, in a like intercourse with the *West*, already finds . . . 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." This was an economic order which

had its roots in the diversities of the regions. Washington warned against the rise of factions seeking to use political power for partisan ends that might disrupt the union and disturb the existing order.

Preserve the Constitution

Washington's concern for preserving the Constitution intact was motivated by the belief that a balance had been incorporated in it, a balance in which the national and state government checked one another, and the branches held one another in check. "The necessity of reciprocal checks in the exercise of political power," he declared, "by dividing and distributing it . . . has been evinced by experiments ancient and modern. . . ." "Liberty itself," he pointed out, "will find in such a government with powers properly distributed and adjusted, its surest guardian." He warned against two things in particular. One was the "spirit of innovation upon its principles." The other was "change by usurpation" of power. That was not to say that the Constitution was perfect as it stood in 1796. But if something needed correction, it should be "by an amendment in the way which the Constitution designates." No man or body of men should assume the power to do so, "for though this in one instance may be the instrument of good, it is the customary weapon by which free governments are destroyed."

Washington hoped that the United States would follow an independent course in world affairs, that it would lend its weight toward an order in which peace would be the norm, but that it would not become entangled with other nations in the quest for power and dominance. His distrust of government did not end at the water's edge, for he believed that foreign governments would, if they could, use the United States for their own ends. He warned "Against the insidious wiles of foreign influence", for "(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." Underlying these fears was the belief that in the nature of things, in the natural order, each nation pursues its own interests. Hence, "There can be no greater error than to expect or calculate upon real favors from nation to nation." He cautioned against constant preference for one nation and opposition to others. "It is our true policy," Washington said, "to steer clear of permanent alliances with any portion of the foreign world. . . ."

Religion and Morality

The first President had some other recommendations on foreign policy, but before discussing them, it would be best, as he did, to refer to the role

of religion and morality. The belief in a natural order, the hope that the American political system had been shaped in accord with it, was not sufficient, in Washington's opinion, to assure the working or continuation of order among men. Man is a creature of unruly passions, as already noted, and the necessary corrective to these is religion and morality.

"It is substantially true," Washington commented, "that virtue or morality is a necessary spring of popular government." And, "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. . . . A volume could not trace all their connections with private and public felicity." Moreover, "let us with caution indulge the supposition that morality can be maintained without religion."

These remarks preceded both his advice on public credit and on peaceful relations with other nations. On cherishing the public credit, he said: "One method of preserving it is to use it as sparingly as possible. . . ." Washington expected that there would be occasions for extraordinary expenses, making war came to mind, when it might be necessary for the government to borrow money.

But he warned against the "accumulation of debt," declaring that the way to avoid this was "not only by shunning occasions of expense, but by vigorous exertions in time of peace to discharge the debts which unavoidable wars have occasioned." That way, it should be possible to avoid "ungenerously throwing upon posterity the burthen which we ourselves ought to bear." Washington thought his countrymen might be the more inclined to follow these policies if they would keep 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. . . ." Not everyone may find the balanced formulations of eighteenth-century sentences pleasant, but it must be admitted that the logic in the above is impressive.

At any rate, the principles discussed in the above two paragraphs provided the framework for his recommendations for maintaining peaceful relations with other nations. To that end, Washington advised this: "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." Above all, "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."

Any extended political connections—permanent alliances, for example—could only embroil the United States in the conflicts among other nations. Otherwise, "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. . . ." That is surely the natural order for trade, and a plausible hope for peace to those who knew of, when they had not experienced, the devastating mercantile wars resulting from the use of force in national commerce.

A Farewell Message of Timeless Truths on Liberty and Order

George Washington reckoned that he had devoted the better part of forty-five years to the service of his country when he retired. He was an unabashed patriot, proud to be called an American, a sturdy friend of the union, and none knew better than he the struggles out of which the United States had been born. He was a man of his time, as are all mortal men, spoke in the phraseology of times past, yet in his Farewell Ad-

dress he touched upon and elaborated some timeless truths. Further experience has served only to confirm the validity of many of his recommendations.

His thoughts on unity, on the love of power, on the impact of partisan strife, on the importance of focusing on our common interests, on avoiding entanglements with other nations, on religion and morality, on the public credit, and on freedom of

trade have worn well when they have been observed, and have brought suffering by their neglect. The terror and tyranny of this century, the slave labor camps and barbed wired borders of nations with their fettered peoples prove once again that liberty depends upon order, and that if order is not founded upon and in accord with an underlying order it will tend to be nothing more than the will of the tyrant. ☉

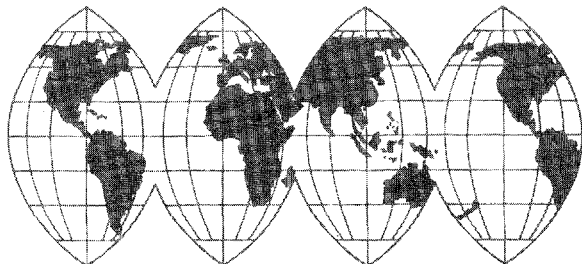
Cherish Public Credit

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.

IDEAS ON



LIBERTY



THE WORLD DEBT CRISIS

“A small debt creates a debtor, a large debt, an enemy.” If this old proverb is applied to the international situation, the United States and other industrial countries have made many new enemies in recent years. The external debt of third-world countries and communist countries to creditors in the United States and Europe has soared from less than \$100 billion in 1970 to some \$850 billion in 1982. At least 26 countries are in default and many more may fail in the coming years.

The bad debtors now are lashing at their creditors, the chief economic villains: the United States and Western Europe. “Much of Brazil’s inflation is caused by chaos in the

international economy,” says Tancredo Neves of Brazil, “and that chaos is the fault of the rich countries who are our creditors.” President López Portillo of Mexico accuses the Mexican banks in cooperation with foreign banks of “heading, advising and supporting” a capital flight from Mexico. “They have looted us. They will not loot us again.” His government then seized all private banks, including \$12 billion in dollar-denominated accounts owned by Mexican and U.S. citizens, and forcibly converted the dollar deposits into debased and depreciated pesos.

Many economists are fearful that the international debt crisis is more than the bankers can handle. They liken the global debt burden to a pyramid that is weak, getting weaker and heading for collapse. They draw ominous analogies with the finan-

Dr. Sennholz heads the Department of Economics at Grove City College in Pennsylvania. He is a noted writer and lecturer on economic, political and monetary affairs.

cial crisis of the early 1930s that greatly contributed to turning an economic slump into the Great Depression. Other economists, especially in government, reject such pessimism. They argue that the system is strong enough to weather a default of several major debtors, that the creditor banks have adequate reserves to cover any serious default, and that central banks would protect any individual bank from failing and thereby avoid a panic on the international markets. They also point to the International Monetary Fund—the lender of last resort—which can be expected to bail out countries in payment difficulties. They speak of a “safety net” that is protecting the world financial structure from falling apart.

The Safety Net

In fact, the safety net may be very comforting to overextended debtors and their lenders, but its very existence may have invited the overextension in the first place by encouraging bankers to loan more money than their foreign customers were able to repay. No matter how much money the banks would lend to “developing” countries—sometimes recklessly and foolishly—there was always the IMF to pick up the pieces. Surely, IMF and government officials are convinced that the world financial system needs more such safety nets that would prevent it from

plunging into a serious crisis. But all such devices constructed by governments merely cushion the fall, they do not prevent it.

The safety-net advocates like to point to the lack of safeguards in 1931 when, in the midst of financial disorder, Austria, then Germany, and finally Great Britain defaulted in their payment obligations. In many respects the situation then was similar to that of today. Under the impact of a great flood of bank credit generated by easy-money policies of the Federal Reserve System in 1924 and thereafter, bank credit was superabundant in New York. High-yield foreign bonds were in great demand, which led many New York banks to extend loans to foreign borrowers, especially German states and municipalities. The funds were often spent on current consumption, called social service, that permitted the people to live better today at the expense of tomorrow.

There was no safety net, no international cooperation or institution that would come to the rescue of a small Austrian bank, the Credit-Anstalt, when foreign funds were suddenly withdrawn. The panic gained strength and spread from Austria to Germany, to London, and finally New York. Surely, prompt banking cooperation might have avoided the debtor collapse, but it could not possibly correct the great harm inflicted by the credit expan-

sion. Billion-dollar loan funds had been squandered, the capital markets had been disarranged, prices and production disorganized. The seeds had been sown for a world-wide depression.

The Current Situation

What of the situation today? The credit expansion of the 1970s dwarfs that of the 1920s. It had its beginning in the United States and then spread like wildfire to all capital markets in Western Europe and Japan. It flooded the world with easy credit that amounted to hundreds of billions of dollars rather than a few as during the 1920s. It led to the default of dozens of sovereign countries, which wasted the funds on grandiose political schemes designed to glorify government and make socialism work.

But the present situation differs from the 1931 crisis in one important respect. In the 1920s and early 1930s the world money consisted of gold. The world was on a gold standard and all international payments were made in gold. Today, the world is on a U.S. dollar standard and most international payments and debts are settled in dollars. While it may be very difficult to construct a safety net of gold, it is rather simple for the U.S. government in cooperation with other governments to weave safety nets of paper money. Governments cannot manufacture gold; they can

print ever larger quantities of paper money. But how safe are such paper nets?

The International Monetary Fund

Most international bankers and government economists look upon the IMF as the primary net that was woven at Bretton Woods, New Hampshire, in 1944. Its stated objectives are to promote international monetary cooperation and currency stabilization, which means the promotion of international government cooperation in matters of money management. The amount any government can borrow from IMF is in proportion to the amount it has deposited, which in turn is determined by the country's world trade, output, and the like. Debtor governments usually favor a large "quota," which they may establish by contributing primarily their own weak currencies and then draw hard currencies, such as U.S. dollars, German marks and Japanese yen. They are pressing for significant increases of their quotas so that they can borrow more and spend more. Many want their quotas trebled; some industrial countries (e.g., West Germany and Great Britain) merely favor a 50 per cent rise. The Reagan Administration is considering a \$25 billion emergency fund, administered by the IMF, to help countries with cash crises.

For the most part, newly created

central bank funds are used in IMF transactions, which makes the Fund an exchange for self-created and deteriorating currency and an international engine of world-wide inflation and currency depreciation. It is forever pursuing the spurious notion that the policy of inflation can be made to last indefinitely through cooperation of all member governments. It acts like a governmental cooperative with 146 members that tries to coordinate the inflationary policies of its members.

Governments that inflate and depreciate their own currencies at reckless rates and, therefore, face international payment difficulties, such as Mexico in recent months, are rescued immediately with billion-dollar loans. At the same time IMF imposes "conditionalities" that are supposed to correct the causes of the payment difficulties. But the conditionalities are usually taken from the armory of government control over the people. They include such devices as restrictions of imports, promotions of exports, tax increases, and so on. Rarely, if ever, does IMF recommend a reduction in the scope and function of government.

The U.S. Dollar Standard

The U.S. dollar as the world standard currency occupies the central IMF position to which all other currencies must adjust. But this central dollar position grants an ominous

privilege to the U.S. government as the primary supplier of world currency. It permits the U.S. to inflate the dollar with a certain degree of immunity and to suffer painless balance-of-payment deficits because millions of people all over the world are eager to accept and hold U.S. dollars. The rising quantity of U.S. dollars gushing from Washington is met by a rising world demand, which keeps the dollar depreciation at a minimum.

But even this pleasant privilege that permits the American people to enjoy foreign imports without paying for them with American goods, is subject to certain limits. When, despite the privilege, the U.S. government manages to inflate the dollar at rates higher than the going world rate and thereby floods creditor countries with dollars, the dollar exchange rate tends to fall in international money markets, inflicting serious losses on countless dollar holders. Finally, when these dollar losses become unbearable, they may trigger a world-wide flight from the dollar, which would signal the end of the world dollar standard and the beginning of hyper-inflation at home. The dollar panics of 1978 and 1979, when President Carter had to raise \$30 billion of hard foreign currency in support of the sinking dollar, revealed the very limit to which the dollar inflation could be carried without upsetting the world mone-

tary order. U.S. monetary policy has been more restrained and conformable to IMF standards ever since.

The World Is Gasping for Liquidity

Third World debt has more than quintupled in a decade, half of which is owed to private banks. Repayments falling due in many cases exceed the debtor's foreign exchange earnings. In 1982 alone some \$30 billion in payments falling due had to be rescheduled, which is three times the amount that were not paid on time in 1981. Cash-flow squeezes and debtor defaults may become worse in 1983 and 1984.

The 1970s witnessed the greatest credit boom the world has ever seen. There had been some credit expansion before August 15, 1971, when President Nixon unilaterally abolished the last vestiges of the gold standard. Credit expansion accelerated dramatically thereafter when the U.S. government flooded the world with U.S. dollars. Central bank reserves now consisting primarily of paper dollars expanded from \$92 billion in 1970 to more than \$800 billion in 1981. Commercial bank credit expanded two or three times faster than before. The Eurodollar market, which recycled the flood of petrodollar deposits to debtors all over the globe, grew from some \$100 billion in 1970 to nearly \$2 trillion today. All these credits fueled an inflation the likes of which the world

has never seen before. The abundance of credit and bargain interest rates below inflation rates seduced many governments, companies and individuals to live beyond their means until they could borrow no more.

With the help of foreign loans and domestic credits many governments indulged in popular subsidy and transfer programs, consuming income and wealth at unprecedented rates. The foreign credits raised the levels of living of the debtors, especially government officials and their political beneficiaries, while they lowered those of the people of creditor countries. But the shock of default is signaling the end of the wealth transfer process from creditors to debtors, from capitalistic countries to socialistic and communistic countries. The consumption of capitalist wealth is finally drawing to a close. Consequently the levels of living in debtor countries are tumbling, transfer programs are failing, and the political forces that depend on the economic transfer are falling into disrepute. Politicians are calling it a "liquidity crisis"; in reality, it is a shock which spendthrifts usually suffer when called upon to make payment.

Seeking Security Abroad

Many debtor countries received large amounts of foreign credits that could not be invested productively

under the given conditions. Where governments control and regulate every phase of economic life there are few opportunities for individual investment. Where governments inflate and depreciate their currencies at horrendous rates, the people seek escape from destruction by hoarding foreign currencies that are likely to depreciate at lesser rates. They are hoarding U.S. dollars or investing them abroad.

Millions of Mexicans, Argentinians, Chileans, Uruguayans, and many others, found U.S. dollars and U.S. investments extremely advantageous. They rushed to their banks loaded with dollar credits and bought U.S. dollars for depreciating pesos. The banks acted as turntables, bringing dollars in and lending them to people who would take them back to the U.S. Many a Florida condo is owned by citizens of bankrupt debtor countries. Their politicians call it a "liquidity crisis"; in reality it is a flight of private capital from governments that would consume and destroy it.

The soaring inflation of the 1970s naturally raised interest rates which together with the rise in total indebtedness raised the interest burden. In the debtor countries a large portion of income now goes to pay interest on foreign debt and to roll over old debt at rising interest rates. Interest payments have doubled in recent years, which without the in-

jection of new loans are squeezing the life out of borrowers. To meet pressing payment obligations many resorted to short-term borrowing, which is squeezing the debtors harder still. Many countries are de facto bankrupt—Mexico, Argentina, Chile, Costa Rica, Bolivia, Poland, Rumania, and several African states. Others may fail to make interest payment when it falls due—Peru, Venezuela, Yugoslavia and, most important, Brazil. They all blame the liquidity crisis; they should decry their own policies that would circumvent reason and inexorable economic law.

The Call for "Reactivation"

The international banking system is under great strain. There is little hope that many foreign debtors will ever repay their debt. Creditor wealth has been wasted in public works and social service, lost on countless schemes of government welfare and development, which were to create a better world through political action or outright socialism. The experiment, which is costing the capitalist countries hundreds of billions of dollars, is failing visibly as poverty and misery are descending on the debtor countries.

But spendthrift politicians rarely learn from their own experience. One political party may replace another, one junta may overthrow another, but the economic policies may re-

main unchanged because the notions and doctrines that are breeding the policies are not changing. The bad debtors of the world now are calling for "reactivation" which is more of the same. They want "re-inflation" on a global scale, to bail out governments and companies wallowing in bad debt. Even U.S. politicians are talking about "reactivation" through legislation that would lower interest rates, create more credit, or force the Federal Reserve System to stimulate the economy through more dollar injections.

The wide road ahead leads to "activation," which in time will rekindle the economic boom and save many debtors through monetary depreciation. It is protected by many safety nets designed to cushion the fall of the most reckless debtors. But it is also a downhill road on which inflation will accelerate, the U.S. dollar will suffer worse panics and crises than in 1978 and 1979, and the world economy will slowly disintegrate and sink into permanent despair.

The road to peace and prosperity points in the opposite direction. In the words of an 18th century French philosopher, Charles de Montesquieu, "countries are well cultivated, not as they are fertile, but as they are free." On the road to freedom government powers and functions must be reduced in every sphere of individual life, and politicians be

separated from the economic activity of the people. Above all, the political apparatus must be completely segregated from money and finances; the power over money must be taken out of the hands of politicians and returned to the people.

Any Major Nation May Lead the Return to Freedom

Any one of the principal countries can lead the way. It would immediately restore the individual freedom to choose any currency and medium of exchange, and remit the freedom of contract in all monetary matters. In a country racked by chronic inflation, such as Mexico, Argentina, and other Latin American states, financial stability would soon return through the development of a parallel standard of pesos and world money, that is, U.S. dollars. If two or more currencies are freely usable and exchangeable in all transactions, at free and unhampered rates, the people will prefer the most stable and reliable currency, which in many countries would be the U.S. dollar. Thus, the legal parallel standard would probably become a de facto dollar standard in many parts of the world.

A dollar standard in Mexico, Argentina, Chile, and Bolivia, would bring immense improvements to economic life and well-being. But the dollar standard would merely be an interim step on the road of monetary

freedom. In time the dollar standard, which, too, is a political standard managed by spendthrift politicians in Washington, would be found wanting and, therefore, be replaced by the only natural standard, the gold standard. If people were free to choose they would prefer non-political money, honest money, the money of the ages, which is gold.


Monetary Stability

If the U.S. were the leader toward world peace and prosperity, it would point the way toward monetary stability through the gold standard. It would shun the temptations and privileges of a world dollar standard and lead the way by bringing its own house in order. It would restore individual freedom in money and banking by repealing the myriad of laws and regulations that engulf the financial institutions. Instead of purging gold from the financial system it would encourage the use of gold in all exchanges and clear the way for a parallel standard of dollars and gold.

If the U.S. government were a financial leader toward monetary stability and economic prosperity it would set an example to the rest of the world by balancing its budget this year and every year, and abstain from any further currency and credit expansion. And once the dollar ceases to lose any more purchasing power, not even 5 per cent, 3 per cent, or 1

per cent, it would be made redeemable in gold. In short, politicians and government officials would surrender their power over money and banking to the people who would be free to choose.

As a world leader the U.S. government would withstand the temptation to rekindle the world paper boom through more inflation and credit expansion. It would refuse to join the Third-World search for more bank credits, to build more safety nets for reckless debtors and irresponsible lenders, grant more quotas or foreign aid to socialist and communist countries, and cooperate in any international scheme that would deny monetary freedom to individuals. It would withdraw from the International Monetary Fund and the World Bank, and cease to cooperate with any government that seizes, blocks, or confiscates American property.

As true leaders of the free world Americans would have no need to lead—they would be content to set an example and point the way. 

New Revised Edition
DEATH & TAXES

by Hans F. Sennholz
109 pages \$5.95

Order from:
The Foundation for Economic
Education
Irvington-on-Hudson, N.Y. 10533

John K. Williams

The Armor



of Saul

ONE of the most dramatic stories in the Bible is the story of David and Goliath. Goliath, almost ten feet tall, was truly a fearsome figure. Every morning and every evening he, the champion of the militant Philistines, hurled his challenge at the Israelite army: Send one man out to do battle against me! If the representative of the Israelites won, the Philistines would become slaves of the Israelites. If he, Goliath, won the Israelites would become slaves of the Philistines.

David, a mere stripling of a lad, approached his king. He claimed experience in battle—had he not, when caring for his father's sheep, actually killed a lion and a bear? Was he not therefore qualified to take on the giant?

Moved, perhaps, by the simplicity

of the boy, King Saul agreed. David could fight Goliath. Indeed, David could do so wearing his, the king's armor. Yet, having put on the armor, the lad decided to remove it and return it to Saul. It was too heavy and impeded his movements. The armor of Saul would have hindered, not helped.

David's courage was exceeded only by his wisdom. If he were to have a chance of victory, he could not afford to do battle weighed down by unnecessary armor. Taking on the giant was courageous; to do so encumbered by the armor of Saul would be folly.

Many defenders of the freedom philosophy lack the wisdom of the youthful David. They do battle weighed down by the equivalent of Saul's armor. They allow themselves to be burdened by that which hinders rather than helps their cause. They clutter their case by accepting

The Reverend Dr. John K. Williams explores and explains the principles of freedom from his base in North Melbourne, Victoria, Australia.

propositions that have nothing to do with the free society or the free market.

“We should go back to the free market”

To defend the suggestion that we should *go back* to the free market is to assume a historical claim that in itself can alienate men and women. It suggests retreat. It conjures up a picture. The picture is that once upon a time economic liberty was the norm. Over the years humanity moved in new directions, initiating and bringing to birth a novel experiment in economics. Central planners would coordinate and direct what hitherto had been uncoordinated and directionless. While it may be true that a defective clock *should* have its “hands turned back” so they indicate the correct time, “turning the clock back” is an activity men and women do not warm to. They tend to side with those who valiantly push forward into new and uncharted territory. Those urging that we “go back” to the tried and the tested are perceived as cautious, indeed, perhaps somewhat nostalgic in disposition.

The truth is, of course, that those enthused by the arguing for the free market in a free society have sided with advance. The economy planned and directed by “experts” has, historically, been the norm. Monarchs knew what was best for their sub-

jects and told them what to do. Feudal lords knew what was best for their serfs and directed their activities. Aristocrats knew what was best for the masses and dictated how these lesser mortals should spend their days.

Consider the France of Louis XIV. Every person had his or her place in society and kept to that place. The economy was carefully planned. State officials decided what industries should be established and where in France or its colonies they should be located. Imports and exports were carefully regulated. Prices were set by political figures. Governmental committees prescribed what patterns were to be woven in the State-owned tapestry works at Aubusson; indeed four long years of negotiation preceded the giving of permission to introduce “backwarp” into fabrics. Some two thousand pages were required to list the rules and regulations which were passed between 1666 and 1730 controlling the textile industry. The contemporary socialist would have been perfectly at home in such an environment!

It is the socialist, not the advocate of liberty, who yearns for the past! The welfare State is fast regressing to Louis XIV’s France. In February 1982 a special report was presented to the U.K. Parliament. Entitled *Administrative Forms in Government* it documented the burgeoning of government forms and leaflets in

Great Britain. The two thousand pages of rules and regulations governing but one industry in France three centuries ago are modest in comparison! Over 2,000 million government forms and leaflets are used by the U.K. public annually—that means thirty-six forms for every man, woman, and child in the country! The forms, as befits government, are difficult to follow and fill out; “error rates of over 30%, either by [government officials] or the public, are common.” The report concludes by listing ten further “reports on forms” which people with nothing better to do can read.

Political Control the Norm

Political control of a nation's economy has been the usual state of affairs. The eighteenth century lovers of liberty were the radicals. They attacked the remnants of feudalism, fought for the abolition of caste and privilege; battled for an extension of property rights so the powerful could no longer plunder at whim; agitated against entrenched, State-granted monopolies and protective tariffs which benefited the few but impoverished the many; and dreamed of an economic order controlled not by the edicts of government but by the uncoerced endeavors of the multitudes, freely producing and exchanging whatsoever goods they chose.

And they won! A hitherto un-

known phenomenon emerged: sustained economic growth. In 1780 over 80% of French citizens spent 90% of their income on just sufficient bread to stay alive. In 1800 average life expectancy was, in France, twenty-seven for females and twenty-four for males. The vast multitudes in Europe and North America labored long and hard to survive. Recurrent famines were taken for granted. But matters changed. The working populace of England quadrupled between 1800 and 1900. Real *per capita* disposable income doubled between 1800 and 1850, and doubled again between 1850 and 1900. This 1,600% increase in available goods and services transformed the very nature of poverty, and what had once been luxuries enjoyed by the few became everyday realities possessed by nearly all.

Yet there were those who yearned for the past. There were those who wanted to turn back the clock. There were those who wanted to use the guns of government to guarantee continued possession of their wealth rather than to have that continued possession contingent upon the use of that wealth in ways which best and most efficiently satisfied the needs and desires of others. Even though they sought to lead nations back to the seventeenth and eighteenth centuries they had the impertinence to call themselves “progressives.” They spoke of a yearning

of a "new" socialist society—yet in truth their yearning was but nostalgia for the past.

The lover of liberty is not urging anyone to "go back" to ancient ways. He rather urges men and women to go forward, knowing not where the creativity unleashed by the free market in the free society will take them. To speak of "going back" to the free market is to weigh oneself down with the armor of Saul.

"While less moral than socialism, capitalism is more productive"

How frequently lovers of liberty concede that their opponents are idealists. "Yes, I admire your ideals. Yet they are impractical. The market works. We must be realists!"

What is so moral or idealistic about socialism? Even in purely material terms, what is moral about the inability of the 30% of the workforce of the U.S.S.R. involved in agriculture to feed a nation which once exported grain, whereas the mere 4% of the workforce of the U.S.A. involved in agriculture feed an entire people and a great deal of the rest of the world as well? What is so moral about the fact that the real wages of Soviet industrial workers attained the level of 1913 only in 1963? What is so moral about the fact that many African States such as Tanzania which once boasted thriving agricultural bases listened to the advice of western intellectuals consumed by

a pathological hatred of the very system that had delivered them from penury, collectivized (in the name of "agrarian reform") agriculture, and now are dependent upon foreign aid for the most basic of food stuffs? Is not the "new French" philosopher Jean François Revel correct when he suggests that these "western experts" should "contemplate the stare of dying children looking . . . out of those pictures [from the Third World]"² and commune with their consciences?

Yet the moral issues run deeper. The market economy ultimately reduces to a very simple reality. Person A is skilled at catching fish. Person B is skilled at growing bananas. Person A would prefer to surrender some of his fish and secure several bananas, and person B would prefer to surrender some of his bananas and secure several fish. So they swap! Each person surrenders what he values less and acquires what he values more. Each gains. Neither loses.

Yet suppose a third person, C, enters the picture. He uses or threatens to use force and makes A give some fish to B and to himself. B and C have gained, but poor old A has lost. *The coerced exchange does not and can not benefit all.*

When the State forgets that its task is simply to prevent people using actual or threatened force, theft, or fraud to acquire material goods,

and starts deciding who “deserves” what and uses force to impose this “deserved distribution,” there are losers. In spite of socialists’ fantasies, the “winners” are *not* usually the poor. (Even if the poor *were* the “winners” the use of violence to take goods from those who produced them would still be immoral, but maybe the socialist could quiet his conscience by seeking refuge in the principle grasped by most evil-doers: “The end justifies the means.”) Yet in truth most “transfers” of wealth, direct and indirect, tend to favor the powerful, not the poor. Tariffs, agricultural price support schemes, subsidies to health (most of which go to the medical profession), housing subsidies, subsidies to higher education—these do not benefit the poor. They hurt the poor and benefit the powerful! Then, of course, there remains the massive army of administrators, bureaucrats, and welfare workers presiding over the system: they most certainly benefit but can hardly be called “poor.”

The Welfare State

Most socialists, of course, concede that the “bureaucracy has got out of hand.” *Their* new and untried version of socialism will guard against this happening: Yet Ludwig von Mises saw, nearly four decades ago, that a burgeoning bureaucracy inevitably emerges in a welfare State.³ The reason is simple. In the market,

individuals engaging in voluntary exchanges can only promote their own interests by furthering the interests of others. In the world of politics, however, this is not true. *How can the politician further his own interests?* The answer is clear: by transferring wealth to organized special interest groups! He can concentrate benefits, but disperse costs. Ordinary citizens simply cannot afford the time to dig out information as to where their taxes go. Hence powerful groups “win” and powerless individuals “lose.” And to administer the transfers more bureaucrats are required. The class of net tax recipients keeps growing; the class of net tax payers keeps shrinking.

The “law of the jungle” emerges. The voluntary, peaceful exchanges of the market are supplanted by the struggle to get to the government trough. One special interest group turns in anger on another which received “better treatment.” Just how “moral” is this divisive exercise of power to grab a share of what was stolen in the first place?

“Ah! But we socialists dislike selfishness. The free market enshrines it!”

The word “selfishness” is a slippery word. “Self-interest” is maybe better. Best of all, perhaps, is reference to an individual’s vision of the “good life” and his attempts to real-

ize it. In a free society all are at liberty to formulate their own such visions and strive, non-coercively, to realize them. One man may desire a modest—indeed frugal—way of life with plenty of leisure to bask in the sun, gaze in delight at the beauties of the physical world, and think. Another may dream of amassing great wealth. Each is at liberty to pursue what he desires. Yet the allegedly “selfish” man—the one who seeks great wealth—can only do so by providing other people with what they desire at least cost to these people.

Adam Smith, in 1776, spoke of the “mean rapacity” of some “merchants and manufacturers” and, perhaps unkindly, claimed that such people “seldom meet together, even for merriment and diversion, but the conversation ends in conspiracy against the public.”⁴ That was precisely why he yearned for the free market in a free society. Limited by the rule of law, “mean” and “rapacious” people would have to serve the public if they were to improve their own situations. Indeed if one asks what political and economic structures are so designed that thoroughly despicable human beings, enjoying political or economic success, are least able to hurt their fellows, the answer can only be “the free society and the free market.”

Accepting the view that socialists are moral idealists, whereas those

holding to the freedom philosophy are pragmatic realists, is to go into battle weighed down by the armor of Saul.

“Really, profits are very low. Successful businesses and corporations are not too greedy!”

A major company recently ran an advertisement showing the “break down” of the “corporation dollar.” Of the total, 95¢ went in salaries, wages, the costs of raw materials, and so on. Only 5¢ represented “profits”! Of that amount, 3¢ were plowed back into the corporation to purchase the machinery and equipment to provide one new job (the cost of which was in excess of \$30,000) and 2¢ went to shareholders.

Now I sympathize with this advertisement. A recent survey revealed that most Australians believe corporations earn an after-tax profit of “about 40%.” A 1975 poll conducted by the U.S. Opinion Research Corporation revealed that most Americans estimate that manufacturers enjoy an after-tax profit of 33%. Indeed, Australian newspapers—and I would guess most U.S. and U.K. newspapers—rarely use the word “profits” without an adjective preceding it: “obscene profits,” “huge profits,” “record profits,” and so on.

Yet, while sympathetic, I reject the advertisement and what it represents. What does it “represent”? An apology! An acceptance of the view

that "profits" are somehow unpleasant or evil! Such an apology, and such an acceptance, are but part of the cumbersome armor of Saul.

Profits are good. They are "good" for shareholders, but also "good" for countless other people. How the supporter of the freedom philosophy is to explain this to his neighbors who think otherwise is difficult to determine, *but the way is most certainly not to reinforce widespread error.*

Perhaps the first point to notice is the sheer silliness of a slogan which, in Australia, adorns many a bumper bar: "People before profits!" This slogan is but a "catchy" variant of an older slogan: "Production for use, not production for profit."

The humble reality is that the person who produces goods or provides services people do not value is not going to make any profits at all! Really, that's all there is to say on this matter. After all, having pointed out that $1 + 1 = 2$, there is little point in discussing the matter further. Unless, of course, like A. N. Whitehead and Bertrand Russell who, in their *Principia Mathematica*,⁵ went to great lengths to explore the hidden logical subtleties of what, to the ordinary man, is self-evident, one wishes to do the same in economics. Indeed, Ludwig von Mises did just that in his masterpiece, *Human Action*.⁶ Yet, for ordinary purposes, it is sufficient to point out that a company producing a

commodity which people, in their fickleness or even good taste, do not wish to possess is *not* going to record massive profits!

I have no doubt that the Packard was a fine car. The American people, however, did not like it. Other companies made cars which the public preferred. Quite apart from any other consideration, the Packard was dearer than alternatives which performed just as well. So the people said "No thank you" to the manufacturers of the Packard and acquired what they wanted elsewhere. The manufacturers of the Packard did not record massive profits! The most useful products from the point of view of consumers turn out to be the most profitable. Were I to turn my clumsy hands to the making of clay models of Miss Piggy, I fear few admirers of that gracious lady would purchase my product. They want a model which looks like Miss Piggy! The needs of people dictate who does, and who does not, make a "profit."

The Customer's Choice

Yet the matter is more significant than that. Once upon a time people, getting rid of their garbage, either threw it into a garbage can or wrapped it in newspaper and put the resulting parcel into the garbage can. Then someone, somewhere, thought of plastic bags which, lining a garbage can, would make life easier and garbage cans less smelly! *What was*

the first question that person had to ask? He had to ask what people would be prepared to pay for such bags! Would they pay \$10? No—people would prefer either to keep that \$10 or procure two paperback novels than to surrender that \$10 or forego two paperback novels and own a plastic bag for the disposal of garbage. Would they pay \$1? Maybe—but most people would prefer to forego the possession of the bag and procure, say, a pack of cigarettes than to forego the pack of cigarettes and obtain the bag. Would they pay 30¢? That sounds reasonable. Now what does the maker of plastic garbage disposable bags have to do? (He could, of course, reject the free market and try to charm a politician into making the purchase and use of such bags compulsory, but that is to reject both the free society and the market. Let us, however, ignore this cheat!) What he must do is find a way of manufacturing such bags *below* the “price” set by consumers. If he works out a way to make such bags for 1¢ he stands to make a “high” profit. Sadly—at least for the manufacturer—such a high profit would signal to others that they should get into the act and reduce the price of such bags—and make more modest, yet tolerable, profits! The critical point, however, is that profits demonstrate that producers have found ways whereby they use resources to produce a product at costs *below* the

value people place upon the product. *Profits are residuals.* They represent not something wickedly “added” to a price, but the difference between a people-determined price and the costs of manufacturing some commodity.

Yet again, that is but part of the story. The time, physical labor, and resources which go into the making of plastic garbage bags *could* have been used to create some other commodity. How does one work out whether to use these resources to produce garbage bags, or some other product? *The answer lies in the magic word “profit.”* For profits simply show that people *want* disposable plastic garbage bags more than they want, say, plastic slippers! The company making large profits—in a genuinely free market—is using material resources, time, labor, and intelligence in a way satisfying what people want and need rather than using the same “ingredients” in ways which do *not* satisfy what people want and need. Limited resources are being allocated in a people-serving, responsible way.

No Apology Needed

To “apologize” for profits is to put on the heavy armor of Saul. Defenders of the philosophy of liberty *do* have a Goliath of prejudice and error to fight when it comes to “profits,” but they must not weigh themselves down by carrying an unnecessary load. Carefully, cogently,

and non-aggressively, they must explain what profits are and why they are not "evil." There is no other way.

David won. The mighty Goliath, sheathed in his bronze armor, was defeated by a youth bearing five stones, a shepherd's bag, and a conviction that he came to do battle in the name of the "Lord of hosts."

Truth is mighty, and it *will* prevail. The battle is not easy, but in truth the socialists have already lost. Their many experiments have failed. Yet their voice, like that of Goliath, resonates like thunder and brings terror to the hearts of many. There is a fight to be fought, and the defender of liberty faces difficult tasks. Hence such a defender must say "No!" to the armor of Saul. He must not wear what weighs him down. He must not carry burdens that in truth are not his to carry. His advisers, like King Saul, "mean well." But like the lithesome youth, he must be careful.

Winners All

THE nature of free enterprise is such that everybody concerned with it wins. Material suppliers, equipment dealers, money lenders, workmen, and customers, contribute what they value less and receive what they value more. There is a net gain for each person. Also, where there are several competing enterprises, each person is free to deal with the organization that returns the *most* for what he contributes. Thus there is a natural selection of those firms who are capable of operating so that each person, whether he be a material supplier, equipment dealer, a workman, a banker, professional man, or customer, receives the *most* for his contributions. Any firm that cannot compete under these conditions fails.

"Saul made David put on his own armor and put a bronze helmet on his head and gave him his own breast plate to wear, and over David's armor he buckled his own sword; but . . . David found he could not walk. 'I cannot walk with these,' he said to Saul . . . So they took them off."⁷ ☉

—FOOTNOTES—

¹J. Pavlevski, *Economies et Sociétés* (Journal of the Institute of Applied Sciences, Geneva; February, 1969).

²J. F. Revel, "The View from Paris", *Encounter* (December, 1980).

³L. von Mises, *Bureaucracy* (reprinted, Arlington House, New York, 1969).

⁴A. Smith, *An Inquiry Into the Nature and Causes of the Wealth of Nations* (Random House, Modern Library Edition, New York), p. 250.

⁵A. N. Whitehead *et al.*, *Principia Mathematica*, three volumes (Cambridge University Press, Cambridge, 1910-1913).

⁶L. von Mises, *Human Action* (third revised edition, Henry Regnery Company, Chicago, 1968).

⁷I Samuel, chapter 17, verses 38, 39.

IDEAS ON



LIBERTY

Market Prices VS. Communist Commands

A CORRESPONDENT recently asked me why it was that Soviet Russia seemed to be suffering in recent years from chronic "crop failures," and found it self forced to import increased quantities of foodstuffs from the United States and other capitalistic countries. She understood, she wrote, that the most frequent explanation offered for this was that Russia operated under "communism" and that the countries exporting food to her were "capitalistic." But she wanted to know more in detail just why these different results came about.

I started to answer on the as-

Henry Hazlitt, a frequent contributor to *The Freeman*, has a long and distinguished career as an economist, journalist, editor, and literary critic. Best known of his numerous books is *Economics in One Lesson*, originally published in 1946 and since translated into eight languages with sales of more than 700,000 copies. The recently revised edition is once more available in inexpensive paperback.

sumption that my explanation would be simple and brief, but soon found myself getting into complications.

In its simplest form, of course, the explanation *can* be brief. Under "capitalism" (Karl Marx's vocabulary)—that is to say, under a free market system—the individual farmer is rewarded by earning a profit if he grows the right things in the right amounts, and is penalized by a loss if he grows the wrong things. He is daily guided in his plans and operations by the prices of farm commodities in the "market." (Sometimes this may mean the national speculative markets on the commodity exchanges, where prices change from minute to minute, and sometimes it may mean merely the local market in his own district.)

The average farmer, of course, has little conception of how many prices

of how many commodities, and grades of commodities, this involves. We could begin by citing such leading U.S. crops as corn, oats, barley, sorghum, wheat, rye, flaxseed, cotton, cottonseed, tobacco, hay, beans, peas, peanuts, soybeans, potatoes, seed crops, sugar cane, sugar beets, pecans, almonds, walnuts, filberts, oranges, tangerines, grapefruits—but the list goes on and on.

We can get an inkling of the number of commodities from the daily newspapers. *The Wall Street Journal*, for example, daily lists "Cash Prices" of more than 90 commodities, of which the majority are farm commodities. In that paper's long list of "Futures Prices" on the commodity exchanges, there are some 350 prices listed of a single grade of about 45 different commodities with six to ten different delivery dates.

If we add to these "national" prices the prices in local markets, we get a total that can run into the millions.

How Many Prices?

How many prices of all different commodities and services are there, in fact, at any given moment in an economy like the United States? Nobody knows. But in 1943 Chester Bowles, then head of the Office of Price Administration (OPA), was asked this question by a Congressional committee. He came up with an estimate of 8 million. A few days later this answer was withdrawn as

much too low. It depended on how you defined a "commodity" and how you defined a "price." No definite answer was ever substituted.

But if, for the sake of argument, the figure were only 8 million prices, how could any bureaucracy, without previous actual market prices to guide it, go about safely fixing even one of them? For such prices, and their interrelationships—which would reach 8 million times 8 million, or 64 trillion—would reflect the past production and demand, absolute and proportional, for the 8 million commodities and services; they would embody everybody's expectations at the moment based on individual scraps of knowledge; and would largely determine the future absolute and relative supply and demand. No computer could solve this problem. Without a set of previous real and recent market prices, without informed expectations, the bureaucracy would have to make 64 trillion blind guesses.

Each farmer in planning his next year's acreage of each of the crops he plans to raise, is guided by the current or expected market price of each commodity. So thousands of different commodities and grades of commodities are planted in the proportions decided upon by each farmer on his assumptions regarding which will bring him the maximum profit (or, it may be, the minimum loss). In each case, to repeat, he is rewarded

by the success of his estimates or penalized for his mistakes. He can change his plans any day, up to the actual day of plowing or planting.

We have been talking about the workings of an ideal free market system. This unfortunately does not exist in the United States. For many years, for example, the federal government has been subsidizing the production of milk by guaranteeing minimum prices, and thereby bringing about huge wasteful surpluses paid for by the taxpayers . . . But that is another story.

Working in the Dark

Let us turn now to the problem confronting a communist nation. Such a nation, in the present world, is not totally without price guides. It is parasitic on capitalism, because it knows the prices being quoted for various commodities in capitalist countries. It can make plausible guesses (by figuring presumptive transportation costs in the same way) concerning how to convert these into equivalent prices in its own country. (Much depends on whether it allows a free exchange rate for its currency in the foreign exchange market.)

Apart from this, a communist bureaucracy is working in the dark. It must make blind guesses concerning the size and proportions it wants of the thousands of commodities to which it assigns production quotas for individual farmers. If by over-

sight or intention it omits some commodities from its production schedules, those commodities will not be produced at all.

The situation is slightly alleviated when the bureaucracy allows individual farmers to devote a certain proportion of their acreage to raising crops for their own consumption. But from the bureaucracy's standpoint, this has a disadvantage. It allows cheating on the part of individual farmers who try to get as much "free" acreage as they can in the hope of having some surplus foodstuffs to sell off on a black market. These farmers, of course, are forced to guess how much they can successfully cheat, and just what surplus production of each commodity would pay the maximum return.

But as the farmers under communism, by and large, do not individually profit from raising the "right" amount of a given crop, and are not proportionately penalized for raising the "wrong" amount, both bureaucrats and farmers are working in the dark. The individual farmers are deprived of the incentives and deterrents that would guide them in a market economy. The bureaucrats' overall plan must chronically go wrong. They do not know the absolute amount of each commodity that it would be most productive to raise nor the *relative* size of each crop. Any relative surplus in the size of one crop must—with a given working

force, acreage and capital—force a corresponding shortage in the production of another.

The communists, in short, cannot engage in what the late Ludwig von Mises labeled “economic calculation.” Their production plans, therefore, *must* be unbalanced, haphazard, and wasteful. If they put their emphasis on producing “enough” of commodities A, B, and C, for example, they will almost certainly do so only at the expense of a corresponding shortage of commodities D, E, F, and G.

The Inevitable Errors

The inevitable errors in the communists’ overall plans of production must occur as well in their methods of production. In a country operating with a free-market system, of course, individually mistaken and costly methods of production can also be pursued, but through the play of individual profit or loss the more efficient producers will be constantly increasing their share in production and the inefficient will be forced out of the field. Every year something new will be learned. In a non-inflationary free economy there will be a tendency for production methods to be constantly improved and costs to be cut.

So when we examine closely how the two systems, communism and free market economy, work in detail—the one controlled by bureau-

crats imposing by fiat a single overall production plan from the top, the other operating through the free and flexible production and consumption choices of millions of individuals, with their individual decisions constantly modified and coordinated by a system of free market prices—we can see why the capitalistic system is so enormously productive, and why the overall production plans of the communist bureaucrats must go wrong *chronically* and *necessarily*, and not merely because of bad luck or bad weather.

It remains to ask why the communist bureaucracies have not recognized this, or even, apparently, acknowledged it to themselves. The most obvious answer is that they have a vested interest in not acknowledging it: they would be overthrown. But a full answer goes much deeper. They did not originally adopt their doctrines through mere analysis and reason, but through an appeal to hatred, envy, vindictiveness, and cupidity: To quote the conclusion of the *Communist Manifesto*, (1848): “The workers have nothing to lose but their chains. They have a world to win. Workers of the world, unite!”

Wrong Theories by Marx

Das Kapital, which purports to give the economic reasoning which led to the *Manifesto*’s conclusion, did not begin to appear until a quarter cen-

tury later—1873 for the first volume, 1885 for the second, and 1894 (eleven years after Marx's death) for the third and final volume.

Capital is obscurely written and nearly unreadable. It is built on a distortion of the errors of Ricardo. It ascribes the creation of all economic goods solely to "labor," overlooking or explaining away the contribution of nature, land, capital, human intelligence, or any other factor. It tries to ignore, also, the thousands of different degrees of specialized labor skills by reducing them all to a single homogenized goo called "the [average?] socially necessary working time" required to produce different commodities and services.

It is only, Marx tells us, the number of hours of this "socially neces-

sary working time" that has gone into a commodity that determines its comparative value in the market. Any profit that goes to an employer above his payroll is in effect stolen from his "exploited" workers.

I shall not go on to explain or expose all the fallacies and contradictions embodied in Marx's theories. That was magnificently done by Eugen von Böhm-Bawerk in his book *Karl Marx and the Close of His System*, originally published in 1896. Only the emergence of "Austrian economics" (beginning about 1870) made such a conclusive refutation of Marx possible. If my reader has not yet read Böhm-Bawerk's book, I recommend that he make up his loss without socially or personally unnecessary delay. ☉

IN the last analysis, the value of all goods is bound up with man and his purposes. Now the position which man takes toward a given purpose determines whether or not in ordinary parlance he ascribes value to a particular good. And that position may be either of two kinds and on its kind is based the familiar distinction between value in its subjective sense and value in the objective sense. In its subjective sense value denotes the significance which a good or a quantity of goods possesses for the well-being of a certain subject. The word "well-being" is here to be understood in a very broad sense. It is in such a sense that I should say that a good has value for me, if I recognize that my well-being is bound up with it. By this I mean that possession of the good satisfies some want, provides some gratification, affords some pleasure or spares me some pain, which I should be forced to forgo (or suffer, in the case of pain) if I did not possess the good. In that case the presence of the good means a gain for my well-being, the loss of the good means a corresponding loss. The good has importance to me, it has value for me.

IDEAS ON



LIBERTY

UNIONS and VIOLENCE

THERE is a long and violent history of labor disputes in this country. The facts really are not in serious dispute, only their interpretation. Facts always are interpreted within the context of a general theory of human action. One view, popular among Europeans and our industrial relations community to some extent, is that labor violence is simply part of a wider tendency toward violence in the American character. A more influential view promoted by unionists and their academic defenders is that American employers were especially brutal and defiant toward their workers and toward unions, and, therefore, were at least as guilty as unionists in causing labor violence.

Moreover, goes this theory, the violence which sometimes accompan-

ies labor disputes is incidental, and surely is a small price to pay for the benefits produced by unionism. The well-known rationale is that labor must be allowed to combine for its own protection and use "labor's weapons" to offset its inherent bargaining disadvantage relative to capital. Unionism allegedly offsets the excesses of capitalism, a system supposedly stacked against labor and in favor of propertied capitalists who control the means of production. In sum, unionists argue that the benefits of unionism outweigh its modest costs in threats and actual use of violence.

In any analysis of unionism, there are two general issues to confront. The first is to discover the actual effects of unions on economic variables like the level of national output, unemployment, real wages, the rate of inflation, government spend-

Morgan O. Reynolds is Associate Professor of Economics at Texas A & M University.

ing, and so on. The second general issue is to analyze the means unions use to pursue their economic and political ends.

Union men basically argue that their objectives and their effects on the general public justify or excuse the threats and violence which often flare up in union disputes. This argument is familiar among collectivists, who usually argue that it is results that count, not the process. "You must break some eggs to get an omelette," is their contention. Coercion supposedly is all right when exercised on behalf of the good causes that unions seek to promote, or to put it in economic terms, expected benefits supposedly exceed expected costs. Many people would argue, however, that the end does not justify the means, that, indeed, use of the proper means is the real end that we seek in human affairs. Most economists would also object that unions do not, on balance, produce economic benefits.

Useful theories in the sciences and in studies of human behavior are compact yet explain and predict a rich variety of observed and yet-to-be-noticed facts. The theory of monopoly or cartels in economics passes this test because its application to unions yields a tremendous payoff based on a handful of correct statements about unions. The theory explains an impressive array of facts about what unions do. Moreover,

there is no competing theory of unionism, no other general theory of unionism available. Even though imperfect, we cling to theories which help us to understand a wide range of behavior until a superior theory comes along. And there is no new theory of union behavior on the horizon.

My purpose here is to briefly recount the theory of unionism, show why *threats and violence are an integral part of unionism*, use the theory to highlight the problem of unionism in the public sector, analyze why the theory is ignored by most of the industrial relations community, and then discuss what to do in terms of public policy.

The Basic Theory

The economist's special insight into union violence rests on the theory of monopoly, more properly, cartel theory, as well as the general notion that people respond to incentives. In economic terms, a trade union is a combination of sellers of labor services who individually have little or no control over the labor market but who seek to control the market through collective action. Unionists have never concealed their ambitions because they often have announced that their purpose was to "take competition out of wages" or to "take wages out of competition." Unionists seek higher wages, shorter hours, and more comfortable work-

ing conditions, assuming that the leaders operate in the interests of their members, which I am prepared to concede for present purposes.

There is nothing different in principle between labor unions and combinations of other producers who try to restrict supply and push up the prices of their goods or services. Unions are labor OPECs, concentrated interest groups with interests diametrically opposed to those of consumers. The term consumer is really another name for the general public. Consumers are other producers, so unions represent minority groups of workers who pursue their economic gains at the expense of the majority. In Hobbesian language, the economy would be a war of everybody against everybody else if everyone were organized into unionized blocs.

Labor services are the key input, among the many inputs, that businesses and government agencies use in the daily productive process. Owners and managers of businesses naturally attempt to purchase the inputs they desire as cheaply as possible, given the quality they wish to use. They economize on costs in order to show a profit, an essential condition for survival in the marketplace, or else stretch a given budget further. Households seek low prices too, and therefore behave much like businesses in their buying behavior.

Competition Protects Workers

In a competitive labor market, without unions, what would protect workers from exploitation from "avaricious" buyers? Competition would. The presence of alternative buyers for labor services protects people in their capacity as suppliers of labor services. This protection is one of the paradoxes of a free market. Each person in markets composed of many buyers and sellers of similar services is powerless in the special sense that the prices of services are formed in an impersonal way, beyond the manipulation of any individual. Yet each person is all-powerful, too, because of the many alternatives available and the freedom to refuse or accept various options.

The fictional Irish-American philosopher, Mr. Dooley, said, "This country is ruled by courtesy—like the longshoremen's union." This comment gets at the heart of the continuing controversy over unions, which remain the most controversial private (or quasi-private) organizations in our society. Controversy derives from the fact that unions are departures from a naturally competitive labor market and their power to extract economic concessions ultimately rests on their ability and willingness to use force. Unionists promise to deliver monopoly advantages to their members and their power to deliver on their prom-

ises rests on the ability to deny businesses and government agencies access to labor, the crucial input in the production process.

Even when all members unanimously agree to withhold their labor services from an employer in order to enforce demands for more pay and better working conditions, a union controls very little of the available labor in the economy. Simple withdrawal of labor by organized workers is rarely sufficient to enforce their demands, and therefore, they resort to violence or threat of violence to prevent other workers from entering the labor market and "undermining labor standards." Unionized labor markets, to the extent that the unions are successful in their goals, are islands of monopoly wage rates in a competitive sea. These islands can be sustained only by sea walls which keep the rest of the ocean out of their markets, thus forestalling the tendency for prices for similar skills to equalize throughout the economy.

The Power to Strike

Ordinarily, only government can enforce protectionist privileges over the long run, but unions have been granted unparalleled rights of private coercion by government. Unions are a form of restraint of trade because they deny the majority of workers an opportunity to offer their labor services at prices lower than the unionists demand. Successful

unionists use intimidation to cut off the labor supply to employers until employers submit to union demands. As Henry George, the 19th-century economic writer, put it, "Those who tell you of trades-unions bent on raising wages by moral suasion alone are like people who tell you of tigers that live on oranges."

The presence of violence in labor disputes is not entirely undesirable, however, because it shows that unions do not have overwhelming power. It takes two or more parties for violence to break out. Many workers are willing to defy strikes, picket lines, threats, and suffer violence in order to stand up for their own freedom, and to work at wages that they find to be their best available alternative. This is preferable to the situation in England, for example, where unions have such overwhelming coercive power, and more people are imbued with collectivist ideology, so that few defy union rule in strike situations.

Violence also shows the incomplete power of unions because other organized producer groups like the American Medical Association, tree-pruners, cosmeticians, and so on, do not have to rely on strikes and private intimidation. Instead, they have licensing laws. In the event of encroachments on their market, they merely telephone the government for a policeman to restrain new entrants. If unions relied more directly

on the public police force to restrain trade on behalf of worker cartels, the hoodlums and other specialists in violence would be less valuable to union officials. Unions then would look somewhat more respectable and less dependent on "undesirable" elements.

Unions in the Public Sector

Unions have grown rapidly in public sector employment since 1960 and government employees now are more highly unionized than employees in the private sector. About one of every two employees in state, local, and federal government is in a union compared to one of every six employees in the private sector. This creates special problems. Many observers have been inclined to say that unionism is permissible, even desirable in the private sector where it supposedly is a purely private matter, but not in the public sector. I do not share this sentiment, but there is a certain satisfying irony to our recent experience.

The National Labor Relations Act of 1935 specifically excluded government employees from its coverage, no doubt based on the opinion that only capitalists abused their "helpless employees," rather than government as an employer. But beginning in 1962, under President John F. Kennedy's executive order 10988 to promote unionism in the federal bureaucracy, there has been a gush

of legislation and regulation to promote unionism and collective bargaining in the public sector. Proponents of pro-union legislation claim that government employment is just another industry, and that employees should receive the same "protections" as those in the private sector.

The irony is that the coercive privileges that politicians granted in 1935 to unions in the private sector have now come home to roost and confront politicians with the same defiant, coercive opponent in public employment. Government originally sanctioned union threats and force against private enterprises and non-union workers in the private sector, and now faces unions which are prepared to do the same against government itself. Governments that submit to coercive strikes necessarily govern with the forbearance of union officials, an unhappy arrangement which cannot last in the long run, especially in a democratic society.

A Question of Sovereignty

Special features appear to distinguish government from private industry and the first is the issue of sovereignty. One definition of sovereignty is the supreme and unchallengeable right of compulsion. A genuine sovereign cannot be forced to do something by a private person or a private agency and still be called sovereign. Whoever can force gov-

ernment authorities to submit to his will *is government*.

Government officials of every political persuasion from Ronald Reagan back through our political history have denounced the use of union force against government. Franklin Delano Roosevelt, for example, said in 1937, "A strike of public employees manifests nothing less than an intention on their part to obstruct the operation of the government until their demands are satisfied. Such action looking toward the paralysis of government by those who have sworn to support it is unthinkable and intolerable." A public-sector union, on strike, announces its intention to cut off the government's supply of labor and shut down its operations until its demands are met. This can hardly meet with approval by government officials or by the general community.

A second major difference between government and the private sector is that most government services are paid for through general taxation. Taxpayers are forced to pay, whether they want the services or not. In the private sector, buyers have the option of refusing to pay for a good or service, or else buying it from someone else. No private enterprise, excepting unions, can legally extract revenues through the use of force; they must cater to buyers through voluntary exchange. Union power in the private sector also is

constrained by management's incentive to hold down costs and stay competitive in the marketplace. Governments do not face the same intense pressure for efficiency. The issue can be termed taxation without representation. Unionists, in effect, say that the government (ultimately the taxpayers) is not paying them enough and that they intend to force government to pay them more. If there is not enough money, raise taxes. If the government attempts to hire replacements to perform the services at lesser expense, organized workers use threats of force or force itself to prevent the substitution.

The Market Cannot Serve if Competition Is Forbidden

The third issue turns on the necessity of certain governmental services. The marketplace cannot protect the public very well when there are no good, legal alternatives to government-supplied services. In some cases the inherent nature of the services, arguably, can limit competing suppliers, in accord with the concept of so-called natural monopoly or pure public goods. But usually government artificially prohibits or severely handicaps private competitors. Examples are fire protection, garbage removal, schooling, hospitals, public utilities, and even prison-keeping. Private contractors can supply these services and are al-

lowed to do so in some cases. Naturally, they are more efficient than government bureaucracies, generally at 60 per cent or less of government costs. The presence of multiple producers vastly reduces the vulnerability of citizens to extortion by public employees who operate in a centralized system of government monopolies.

Most observers argue that protective services by police and courts are unique services which can only be provided by government. In fact, law and order is the basic purpose for the existence of government and only anarchists argue otherwise. If we can get along without public protection from aggression, there is no reason to have government in the first place. No mayor or governor can stand idly by during a police strike while society reverts to lawlessness. A police strike is very much like the aftermath of a natural disaster. Owners are not around to protect their property after a natural disaster and even normally law-abiding citizens find irresistible the temptation to take something. Looting and stealing rise sharply unless something is done. Citizens form vigilante committees or, more often, the National Guard is called up.

Collective bargaining by the police, or any other group of public employees, and strike threats are simply two sides of the same coin, as any realistic person must admit.

There are other differences in degree between the private and public sectors which we might discuss, but they need not detain us here.

The Industrial Relations Community

Now let us turn to the industrial relations community. The industrial relations community consists of the thousands of personnel directors, labor lawyers, and industrial relations scholars who write about unions and collective bargaining. Why does this community have so little to say about the economic theory of unions and the role of labor violence? The answer, I believe, is threefold: It consists of one part honest ignorance and confusion, one part class interest, and one part financial self-interest.

Most people in industrial relations are ignorant of the truths of economics, and economists are partially to blame because they have failed to explain things clearly, sometimes because economists have lacked the courage to point out unfashionable truths. But a very important element in accounting for the ignorance of economics on the part of the industrial relations community is willful. The intellectual community fails to look frankly at unionism and labor violence because of an emotional attachment to the view that employees are exploited under free market arrange-

ments, receiving too little of national income, while "fat investors" receive too much.

Union violence is exciting in and of itself for many intellectuals, who generally are bored by stability and gradual material progress. Labor violence also provides intellectuals with support for their view that workers are alienated from the economic system. Workers are not alienated. A minority of employees merely respond to the incentives that they face under a legal regime in which unions are tacitly allowed wide latitude to use coercion. Strikers convicted of vandalism, assault, and other crimes are routinely reinstated in their previous jobs with back pay. This is a formula for irresponsibility. These incentives and immunities account for the commonplace threatening and violent behavior of organized workers, not alienation from their work or the economic system, as the academic and intellectual left typically assert.

Even more important than romantic visions of social change and ferment in accounting for the failure of industrial relations analysts to adopt the correct theory of unionism is the fact that our system of mediating, conciliating, arbitrating, fact-finding, and the whole panoply of machinery often labeled our "system of industrial jurisprudence," provides power and income to the academic community. Industrial re-

lations types perform as expert witnesses, directly shape a turbulent hodgepodge of labor law, and derive handsome fees in the process.

A Vested Interest

Consider arbitration, for example. An arbitrator must maintain his acceptability to unionists, as well as managers, to sustain this source of income; otherwise the parties will choose other arbitrators or settle their differences directly, saving the expense of arbitration. The situation is analogous to a court system in which each judge would derive his income directly from the disputants and would thus take their reactions into account in his decisions.

Concepts like "past practice" and "common law of the shop" were introduced so that arbitrators could decide more grievances for unionists. Employers now are saddled with a kind of arbitration which they probably never expected to pay for. Although arbitrators deny that they are concerned about rendering at least 50 per cent of their decisions in favor of union grievances, it is well known that commercial organizations issue ratings on arbitrators and prospective arbitrators, basically in terms of "pro" or "anti" union. The incentives for arbitration and other consulting income help to explain the bland nature of the academic literature in industrial relations, where no scholars are known as "anti-

union." It simply pays to be confused. Or, as Thomas Sowell has remarked, "The advantage of intellectuals is that they are not perceived as interested parties." The hard truths of economics are inconvenient in such an environment.

Conclusions

Labor violence is an inevitable side-effect of government-supported worker cartels in an economy that has large numbers of managers and workers who refuse to cooperate with strikes and union coercion. So what can we do about this unsatisfactory state of affairs? There are a variety of competing proposals, many of them excellent, but I want to remind us of what our long-run objective ought to be. Our aim should be to restore the rule of law by repealing the entire muddle of labor laws and regulations which have effectively exempted unions from the rules which apply to everyone else. We should repeal all the laws, statutes, rulings, and regulations which exempt unions from the peaceable behavior expected of everyone else. Unions essentially are immune from contract and tort law and they should be brought back under it. Justice should no longer peek and ask whether or not a union man com-

mitted a violent act in pursuit of union purposes. A violent, illegitimate attack is an act of aggression which ought to be punished regardless of its announced purpose.

We cannot declare that this is a free society until everyone is free to accept the best available offer for his or her labor, best in that person's own opinion, free from threat, regardless of how much these decisions supposedly harm the higher-income-people represented by union officials. The benefits of unionism do not outweigh the costs of union violence. There are no benefits from unionism for the great mass of working people, only costs. Unions are not public servants that offset the excesses of capitalism, but sectional interest groups with coercive privileges. Peter Wiles' indictment, written in 1955, says it well:

It is truly amazing that anyone should suppose this crude, selfish, violent and piecemeal process to contribute to social justice. It is, when we come to think of it, incredible that the building up by some salary and wage earners of monopoly power, in greater degree here and lesser degree there, should improve the distribution of income among them all; so incredible that the supposition has only to be directly given utterance to be dismissed. (8)



The Price of Education

IF someone stopped you on the street and told you that the primary reason for the poor quality of education in America is its *low* price, you'd probably laugh in his face.

You would consider his contention ludicrous.

After all, everyone knows that education is more expensive than ever. Everyone knows that the costs of education go up with virtually each semester. Everyone knows that costs for teachers, administrators, tuition, books, supplies, and maintenance are at all-time highs.

Yet, with all the money thrown at education, from kindergarten to graduate schools, the quality is not

up—but down. So it seems that if there were a statement to be made about the relationship of costs to quality, it would be that the *higher* price of education is somehow eroding its quality.

But that really doesn't make sense, either.

After all, it is well-known in economics that higher prices tend to reflect increased demand. The increased demand brings more producers into the field who must work to *improve* the quality of their product in order to compete, in order to retain and attract new customers. Producers also attempt to improve their efficiency, which can often lead to competitive price reductions. So it would seem that our increasingly high prices for education should have spurred more competition in the field

Mr. Ross is an Oregon commentator and writer especially concerned with new developments in human freedom. He has been a teacher in both the public schools and in the private sector.

and resulted in a raising of educational quality, and perhaps even to reduced costs.

As we all know, that has not happened. Why not? And why would anyone want to suggest that the present price of education is too *low*?

The clue to the answers lies in the fact that there is a great difference between *governments'* paying for education and private *individuals'* paying for it; there is a vast difference between prices in a free market for education and prices in our modern public educational system.

Taxpayer's Cost

Almost all education in the U.S. is publicly funded (there are only five million students in private schools¹). The taxpayers' cost of public education is over \$100 billion a year.² This government funding is a crucial intrusion into the market price of education. It is an intrusion which steadily raises the price to taxpayers (now put at at least \$2200 per student per year³), but *reduces the perceived price* of education to the educational establishment.

There is no mystery about the first point: Every taxpayer in the nation understands that education has taken a bigger bite out of his paycheck almost every year. It is rare when a state government or local school district cuts the taxes needed for education. Federal funding of education has a comparable record of

escalated costs, especially since the Great Society days when Congress passed the Elementary and Secondary Education Act of 1965 and instituted massive student loan programs which eventually, because it was so easy *not* to repay loans, became the equivalent of a billion-dollar student welfare program.⁴

As to the second point, the educators' lower perceived price of education, that is not obvious. In fact, if you asked anyone in the educational system, he would undoubtedly be quite shocked at the idea. He would also be insulted that you would suggest he was unaware of rising educational costs.

But the economic reality is that public educators *do* look at costs in the system very differently. Here's why.

Friedrich A. Hayek, the great Austrian economist, pointed out that only under a free market will the price of a product or service function to "automatically record all the relevant effects of individual actions" and thus serve as "the guide for all the individual decisions." Further, "The important point here is that the price system will fulfill this function only if competition prevails, *that is, if the individual producer has to adapt himself to price changes and cannot control them.*"⁵ (Emphasis added.)

But what if there is no truly free market in education? What if the

educational establishment has a way of circumventing prices and eliminating any need to adapt to them?

If that is true, then the price system would not fulfill its function and would not automatically record the effects of the actions of the individuals responsible for education.

Unfortunately, this is exactly the case. The educational establishment has a mechanism for evading prices: the power of taxation.

Prices Distorted

The power to tax (whether directly, as with local school districts, or indirectly through the state or other branches of government) guarantees public educators a refuge from the market. The power to tax in order to support teachers, schools, and dozens of attendant costs, permits public educators to *misperceive* prices because prices are subsidized.

In the minds of people subsidized, the subsidized prices are regarded as equivalent to *lower* prices. This is so because a subsidized price bears the same, light burden as a lower price. In other words, those subsidized must pay attention only to that portion of costs which are *not* subsidized. And in the case of most public education today, almost *everything* is subsidized. Not teachers, not administrators, not even students must directly shoulder what would be true market costs.

It is worth noting that there would be little *economic* difference to the educator between prices which he could artificially hold down by price controls, on the one hand, and, on the other hand, subsidized prices. He would see both as *lower* prices—lower than what he would experience directly in the free market. Interestingly, this would be true even if in the free market the *total* price of educating a student were less than it is now. Because educators actually feel only a fraction of the effects of prices (since almost *all* education is subsidized), the free market price of education would have to be *near zero* for the educator to experience the same, ridiculously low price which he now does!

The only other way educators could achieve this artificial price effect would be if they could dictate educational costs—say, for example, by having the power to require utility companies, textbook publishers, lab equipment manufacturers, and so on to *give* educators what they needed. But then the question would arise, if we are not to drive those suppliers into bankruptcy, who would compensate them? Probably it would be the taxpayers. So, in such a situation, we would come full circle. While there would be no apparent subsidy to the educators, at least not in terms of hard cash, it would exist, one step off stage.

Under our present subsidy sys-

tem, educators have opted for the "backdoor" method of controlling prices—controlling the *effects* of prices rather than prices themselves. But the result is exactly the same: to eliminate direct accounting to the market, which free prices reflect.

In one sense, any coercive interference in the natural functioning of the price system can be regarded as a form of price control inasmuch as the essence of a price control is an effort to *mask market prices*. In the sense that subsidies achieve this masking, they are as much price controls as are prices by edict.

The subsidy-masked "low" price of education has remarkably negative effects.

1. There is little incentive to control costs. When costs are already perceived as low, it is natural not to worry about them. Why sweat and toil to reduce the costs of education when one feels he will not substantially suffer by leaving things as they are? Even the threat of a taxpayer revolt is not all that frightening; after all, taxpayer revolts have a history of fleeting success; the attitude is to "wait out" the revolt and things will return to normality!

Even where communities and school districts have made efforts to cut costs, it must be remembered that the efforts remain rooted in a basically noncompetitive, subsidized system. Only where pricing has been

partially freed of the system, as with "performance contracting" (where some services are competitively contracted out to private firms), have lasting savings been achieved. Despite these successes, they are necessarily stunted; the partially free never grows as well as the fully free.

2. There is little incentive to promote innovations in education. Since educators do not have to bear the true price of education on their shoulders, they feel that innovations are not worth the price. This is not exclusive to educators; it is a generally applicable economic fact. People innovate much more readily when they feel the necessity of giving people "their money's worth"—the worth which higher prices demand if the potential innovator is to keep his customers. If he does *not* innovate, in a free market the higher prices he's receiving will eventually go to someone else who *will* innovate.

3. There is little incentive to provide quality in education, to match results (performance) with intentions (educational goals). The principle is the same as in point number two above. If educators do not experience the prod of true market prices, if they don't have to *answer* to the things prices say about how well they are doing their jobs, if they can coast on the feeling that they will get paid unless they are grossly incompetent rather than competitively compe-

tent, they will not feel impelled to give students their money's worth in quality.

4. There is little incentive to respect the student. The student is the "customer" of education. In a free market, when educators must always perceive the full cost of education, there is strong reason to treat the customer well. If educators do not treat a customer with respect, the customer is apt to shop elsewhere for his education (or in the case of young students, the parents are apt to shop elsewhere). This impetus simply does not exist when the price of education is misperceived to be lower than it really is. The attitude becomes, "Why should I respect this customer when he's paying so little anyway?" By analogy, a storekeeper will put out *much* more effort to keep the purchaser of a television or other expensive items happy than he will to keep a nickel-and-dime customer happy. Greater effort to please and show respect for a customer follows a perceived higher price from the customer; a perceived lower price generates less effort in that direction.

This last point is particularly important because it is a psychological orientation which feeds back, strongly affecting the other three points. Lowered respect for the student-customer means that *at the outset* of its relationship with students (and their parents), the edu-

cational establishment has what one might call a bad attitude, an attitude which says, "Don't worry too much what all this costs; don't worry too much about doing anything new; don't worry too much about quality—because the customer isn't really worth it!" In other words, a misperception of lower prices paid by the student *economically* translates into a lower estimate of the worth of the student and consequently to a lower desire to cater to the student's needs.

In a subsidized system, students and parents *also* tend to misperceive prices. When they do not have to directly bear education costs ("Education? It's *free!*"), they will see the price as very low—even though they consciously know that it all comes out of their pockets in taxes. This misperception is a natural reaction and leads to lowered respect for the educational system. Human beings just never muster the same respect for things they perceive as cheap, i.e., very low priced—because a perceived low price carries the implication that the good or service is *easily replaced*. We do not value easily replaced items as much as we do hard to replace items. Value is what prices in a free market accurately reflect. Under our tax-subsidy system, the reflection is badly distorted.

Do we hear teachers today complaining that students and parents "don't care enough," don't respect the education system enough? Of course!

It's merely the other side of the coin from the complaints of students and parents that teachers "don't care enough" about doing a good job. The coin of this educational realm is: subsidies discourage *anyone* from giving proper care and respect!

Market Principles Apply

Let me emphasize that the principles of pricing as applied to education are principles of economics which apply to *all* fields of production and services equally. There is a tendency, for various reasons, for educators to believe the market does not (or should not) provide *their* professions with price incentives. All one can say to that is that it is the same argument every monopoly in history has used (most recently heard from utility industries). But there is no special reason why education should be immune from the market—unless, as Robert Ringer so aptly put it in his book, *Restoring the American Dream*, one believes the primary purpose of a government education is to make sure a child "will grow up learning . . . from the government's point of view."⁶

And let me emphasize also that, yes, there *are* many good, conscientious people in our educational establishment. This paper has not been meant as an attack on them. But from an economic viewpoint, the result of a wrongly viewed estimate of the price of education will, in the long

run, tend to result in all of the profoundly negative effects mentioned. And it is the conscientious educators, the most competent in the field, who suffer the most. It is they who must carry more and more students on their backs through the deepening swamp of a publicly-subsidized system. It is they who must increasingly feel the weight of trying to provide a good education to students while surrounded by a tenured, bureaucratized establishment which feels less and less incentive to improve or maintain educational standards of excellence. It is for the educators of ability who are not afraid to let their merits speak for them—and for the students—that we must return educational pricing to the free market. It is for the best *in* education, and the best that can *be* in education, that we must end the subsidies which eventually encourage the worst in education. ☉

—FOOTNOTES—

¹John Chamberlain, "The Public School Monopoly," *The Freeman*, September 1982, p. 573.

²Samuel Blumenfeld, "The Victims of 'Dick and Jane,'" *Reason*, October 1982, p. 22.

³Roger Freeman, "Education Tax Credits," cited by Chamberlain, *op. cit.*, p. 575.

⁴Thanks to President Reagan, thousands of student loan defaulters are finally being made to pay back their loans—though the administration admits millions of dollars will never be recovered.

⁵Friedrich A. Hayek, *The Road to Serfdom*, University of Chicago Press, 1944, p. 49.

⁶Harper and Row, New York, 1979, p. 179.

Robert LeFevre

THINKING ABOUT FREEDOM



HUMAN BEINGS, in their present societies, are like groups of children, playing with their toys in the sand. They shout and scream a good deal about favorite notions and invariably confer upon their playthings, such as dolls, tin soldiers and building blocks, certain human attributes.

On occasion, some child manages to win the cooperation of a number of his playmates and for a brief season, his view of the desirable game plan is acted out by most. At such times, the childish uproar is muted to occasional shrill accusations and hoarse denials.

Sooner or later, the arrogance or

Mr. LeFevre founded and for years presided over the Freedom School in Colorado and has lectured and written extensively in behalf of freedom and the market.

dominance of the leader or just the plain boredom of doing as one is told, mars the apparent harmony. On these occasions there is often a complete revolution; the game plan is thrown out; the dictates of the leader are rejected and the human attributes assigned to the inanimate playthings are cancelled in favor of an entirely new set of rules and suppositions.

Sandbox organizations for those ranging from four to six years can hardly be viewed as dangerous or threatening. But it is sobering to note that adults have failed to progress much beyond the kindergarten stage in seeking to organize their own societies.

Much the same kind of boisterous

posturing and shoving takes place in the adult world. Leaders strive to attract support by ascribing to the electorate attributes of helplessness and poverty of such magnitude as to shatter hearts of stone. Then rules of behavior are marshaled, enacted and enforced by huge armies of regulators. The real nature of human beings is laid flat on the anvil of political ambition and hammered into a shape deemed compatible with the current leader's "grand design."

In the adult world, tragically, these game plans do not vanish in the evening mist when supper-time arrives. They endure into the next day, week or year and sometimes persist for centuries.

Social Needs

Societies are essential. We must have them because no single human being has enough wisdom, strength or time at his disposal to do all that needs doing if he is going to survive even marginally. Our difficulty, as human beings, is that while we can readily admit to our own frailty, each of us seems to cherish a plan, more or less secret and unique, by means of which (if only others would follow) we could create a paradise for everyone else.

We might even say that our difficulty as human beings is that we are human.

It is human to err. We grow up with a marvelous sense of uneasi-

ness. We have made mistakes and are aware that we could make more of them. Curiously, we also appear to be endowed in a parallel manner with confidence. While we are uncertain as to the best way to manage our own affairs, most of us are locked in concrete when it comes to how others should behave. It is astonishing that so many who are willing to admit to uncertainty concerning themselves are so rigidly certain of how the affairs of others should proceed.

This inconsistency is both persistent and profound. The questions raised come to the fore immediately, yet the most tenacious inquiries arch all that is generally understood, into a world not clearly seen or comprehended.

What is a human being capable of doing? This obvious query, however answered, is followed by: What *should* a human being do? A hundred thousand experiences and twice that number of attempted answers have done more to confuse than to resolve.

Reduced to simplicity to the degree possible it comes down to this: Each human being has been endowed at birth with the ability to think his own thoughts and to act them out. Even though his birth entailed obstacles too many to overcome in what we like to think of as a "normal delivery," to the degree that the human individual lives, to

that degree does he think his own thoughts and act them out.

His thinking apparatus, the brain, may be damaged or impaired one way or another, but the fact holds. No one but he who has it can make use of it. His ability to act may be hampered by lack of limbs, distorted arms or legs, grotesqueries and malformations of any and every kind. The truth still holds. To the degree that his physical person can act at all, it acts under the impulses of his own purpose and intent.

Self-Control

However well or badly we may function, every human being individually controls his own thinking and muscular energies from within himself. If he seeks to impose controls on other human beings, he is compelled by his own nature to reach out beyond himself. Nature has endowed each of us with self-control. Nature has not endowed us with control of others.

It is reasonable to assert that man's inhumanity to man arises from this fact.

Could I control others by a simple exercise of my own will I would have no reason to inflict control, punishment or death upon another of my kind. Since my wishes would control others, each and every person would gladly do my bidding. Unhappily, for me, this isn't true.

Every other person has the same

kind of control I have and is as eager for me to act as he wishes, as I am to have him act as I wish.

The result is conflict. And from the days of Plato to Marx, stretching backward and forward from those polarities, the pages of the human record run red with blood and echo with the cries of anguish emitted by those who, at the moment, found themselves under the sway of some human being not content with self-management; seeking always to manage others in a way nature has not bargained for.

What *can* a human being do; what *should* he do? The questions beg consideration of an abstract idea called *freedom*.

Freedom Is a Concept

There is no such *thing* as freedom. Freedom is not an object, it is a concept. No one is compelled by nature to accept any other person's concepts. Since the days of Lagash in Mesopotamia and the emergence of Urukāgina, humans have been conceptualizing about freedom and as yet have reached no general conclusion as to what it means!

Franklin Roosevelt and Winston Churchill met at sea during the era containing World War II and pronounced what they termed the *Four Freedoms*. Freedom from want and fear; freedom of speech and of religion. The proclamation apparently triggered some semantic games and

savants became enraptured with the differences between freedom *from* and freedom *to*. To have neither want nor fear was freedom *from*. To speak and worship as one pleased was freedom *to*.

With pedantry ablaze the hair-splitters went to work to further fog an issue already cloaked in mist. If every human being on earth had a right to be free *from* want, did any human being have the countervailing right of keeping what was his when another claimed he *needed* it to escape want? And if freedom from fear was to become world-wide in scope, what of the fear engendered by the decree that the claim of the needy had a higher priority than the claim of the owner? Was grand theft, on behalf of the poor, to become the order of the day?

As for the freedom to speak and to worship as one pleased, was there also freedom from speaking and from worshipping? Few assailed the principle, the still unspoken issue: What is freedom in itself? What concept does the word invoke?

Human Energy Motivated

Rose Wilder Lane was one of the few who glimpsed the target. She recognized that the question had to relate to the employment of energy. Who, in fact, *controlled* how much of what? Who, assuming a free society, *should* control how much of what?

She sought to divide energy into

two broad categories: human energy and non-human energy. She saw that human energy always operates under the control of each living individual. In that sense, each human being is born free. He may not control his energy wisely. But he controls it, even should he run amok. Thus, even the infant, almost wholly dependent upon the adult world for his survival is still free, to the degree that he functions at all. His will is supreme over himself. If an infant decides to cry and you, his parent, decide that he will remain quiet, whose will controls what the infant does? You have the ability to gag the child, to scare the child, to punish the child and even to kill the child. But unless you back up your wish for silence with force of some kind, the determined child will not be still. He rules himself.

This clearly establishes that each human being is free by his nature. To alter that basic, natural condition, you must reach out beyond yourself and physically cancel the control the child naturally has. It also establishes that humans are both frail and vulnerable to outside forces. Each of us has the *ability* to inflict cruelty, and even death upon others. These are things we *can* do. But, *should* they be done? Reason bids us be patient. The answer to *should* is much farther down the road than the answer to *can*.

Seen in the light of energy control

and management, the semantic dispute as to freedom *from* and freedom *to* including freedom *of* is swept aside. Whether one is free to speak or free from the necessity of speaking, the preposition becomes no more than a direction indicator and we may ask whose energy is involved? If I may speak or not as I please, then it is clear that I am as free as when I was born in respect to speech. The question of my ability to speak does not arise. Nor does the wisdom of my thoughts once uttered.

A human societal condition in which each person is at liberty to express himself or to refrain from expressing himself is within the natural order. Why? Because that is his natural condition due to circumstances arranged by the forces of nature (non-human energy) rather than by the forces of humanity (human energy).

But what if I find myself within a societal framework in which I will be punished if I express myself as I might desire? Then it cannot be said that I have freedom *of* speech or freedom *to* speak . . . or freedom *from* imposed controls on my speech. Instead, I have freedom to speak only in certain ways, at certain times, avoiding certain words and in support of certain ideas exclusively.

This condition, in which I may speak only in specified ways and about specified subjects at specified times, is contrary to nature. Such a

condition can only appear because human beings have reached out beyond themselves (physically) and proclaim that they will impose pain, distress and sometimes even worse punishment not excluding the death penalty, if anyone defies their dicta.

Freedom of Speech

Freedom of speech is natural, the product of non-human reality. Restraints and controls imposed upon any person's natural ability to express his ideas is the product of humanly manufactured and supported *human* intervention.

The difficulty in defining freedom now appears. Is it desirable for everyone to say whatever he pleases, in any manner that pleases him, at any time whatsoever? The time-worn example of someone shouting *fire* in a crowded theater which is not burning provides a classic example. Clearly, such an expletive at such a time is not desirable.

Then, let us forthwith proclaim an edict and agree to punish those who may commit a trespass with what they say or how they say it! Very well. But, as we do so, freedom of speech is cancelled to some degree.

This is the difficulty. Because freedom to speak is a natural condition, it appears to be desirable. Therefore, most persons proclaim their support. But at the same time, if we are to be at the mercy of those thoughtless, reckless or even stupid

members of society who may abuse their natural birthright, we also see restraint of speech as a desirable objective.

This is scarcely definitive. In seeking to define the true nature of anything we must not let our wishes intrude. Whether free speech is desirable or undesirable does not define it; it merely conveys our personal and subjective viewpoint concerning it. And our difficulty is that in this case, as *in most other cases*, we are ambivalent. We favor free speech, except in those cases where we don't.

We end by defining free speech as freedom to speak within societally imposed limits. Even the Russian Constitution sets forth the identical proposition. Under it, citizens of the Soviet Union are free to speak in support of socialism and the government will even furnish the paper if the statement is to be committed to writing.

But we are not ready to take a position as to what people *ought* to do. What we are prepared to see is that the questions of *to*, *from* or *of* are digressions which take us away from the real question; that of the expenditure of human energy. To discover whether or not a human being is free, we must ask whose energy is at work. If the individual is using his own mind and employing his own energies—singly or in concert with others who likewise are doing the

same—then he is free. If he is following the dictates of other human beings, not because he wishes to do so, but because he is restrained by threats and force capable of being applied, then he is not free.

Free or Slave?

It follows that if you think and act as you please and thus practice the self-control with which nature has endowed you, you are free. If, on the contrary, your thinking is directed by my edicts and you do as I command because anguish and travail will be your lot if you disobey, then you are not free.

While it could be true that you will benefit more by obedience to me than by following your own bent does not teach us the nature of freedom; it teaches us the nature of opting in one's own favor. Thus, freedom means self-control; a loss of freedom emerges because control is imposed on you by a person other than you.

Freedom has nothing whatever to do with benefits to be gained. Freedom is a human condition that exists only in the abstract.

Can a free person do anything he wishes? Obviously not. If a person climbs a cliff, spreads his arms and leaps into space, will he fly like a bird? No. He will crash at the base of the cliff. Doesn't this prove that the abstraction of human freedom has little merit? If a person is really free, why can't he fly?

Leaping from a cliff does not mean that a person isn't free; indeed, it demonstrates that he is free to leap or not to leap as he pleases. The fact that he can't fly proves that he is not a bird.

The concept of freedom is valid only within the natural limits which have been imposed upon man by nature. Loss of freedom arises if and when additional limits are imposed by others of his own kind.

Thus, many years ago, and well aware that leaping from a cliff could bring disaster even to Icarus, men began to "think the unthinkable," reasoning that if they created the appropriate device, they might yet fly. The result is aviation. Today, because men were free to leap from cliffs and to think what they pleased, they now fly farther and faster than any bird. They studied the natural order and learned that gravity could be harnessed. So, today, they climb up cliffs and gripping a hang-glider they soar like eagles. In a jet aircraft, in a matter of moments they can fly higher than Mount Everest in air-conditioned comfort.

This means that freedom, although an abstraction, is meaningful. Because we had the example of many an Icarus, we were free enough to think and act, to run risks, and sometimes to fail. But, finally, we flew. In the end, we did it right.

If a person walks into a forest and lightning strikes a tree which falls

on him, pinning him to the ground, has he lost his freedom? No, he has lost his mobility. He is still free in the sense that his plight arises between himself and the laws of nature.

If a man is cornered in the African bush by a hungry lion, has he lost his freedom? No. He is merely confronting a hostile manifestation of nature. His battlefield is one ordained by nature, not by intruding humans.

If a man is felled by a virus and ends flat on his back in bed, has he lost his freedom? No, his health is imperiled, but he is still free. Again, the arena is a natural one.

Working with Nature

In this sense, survival on this planet is a struggle *against* the forces of nature. There are many natural things that could injure, impair or kill us. What experience and reason have taught us is that nature is neither kindly nor malevolent. It simply is. The more we can learn about the nature of things as they are, the more we learn how to harness and work with nature, rather than simply opposing it. It is because we are naturally free to think and act as we please that we are capable of learning these lessons.

Imagine, if you will, a single human being living on a deserted island. You will have to imagine it. Human beings are endowed with

gender, either male or female. For a human being to arrive on this troubled sphere, we can reasonably conclude that he had *two* parents. Further, in view of the relative helplessness of the infant, we can conclude that his parents (or some other adults) did a great many things to and for the infant as he was growing to maturity. Lacking such attention, nature would probably have finished him off.

But let us imagine a mature Crusoe, shipwrecked on a fertile but deserted island. There are no other human beings present. And in this imaginary example, none will ever come.

The concept of freedom, as I am seeking to define it, would probably never come to our Crusoe's mind. He might dream of escaping his island but there would be no likelihood of thought concerning escape from the presence of other humans. Indeed, he might view freedom as escape from his island so he could be in the company of others. He might view escape from rain, escape from wild animals, escape from famine and so on as a kind of freedom. Indeed, in this case, the question of freedom could be answered by *from*. A synonym for this kind of freedom could be: rid of.

By learning about and working with nature, our solitary inhabitant might *rid* himself of a number of unwelcome effects nature might inflict

on him. But his relationship with others of his kind is non-existent and always will be.

A Societal Context

This means that the particular context in which I use the word freedom, is a *societal* context. No single human being ever has need of it. No more than a single human being has need for the word theft, or murder, or war, or ownership, or profit. Lacking the presence of other humans there can be no theft nor murder nor ownership nor profit nor freedom. Nothing can be stolen if there is no person from whom to steal. Nothing can be owned if there is no one else who might own the same item. No one can have his natural ability to think and to act impaired by other persons, if no other persons are or ever will be present.

This is the crucial, critical area. By his nature, each individual has the natural ability to think and act as he pleases. But man's life span is short, his wants almost endless. To survive, not only in the cradle, but as an adult, depends upon the efforts others will make, as well as upon his own. Even the thief, who is totally non-productive, cannot be a thief if others do not produce what he can steal.

Freedom is a natural condition; each individual controls himself.


It is also a condition of total risk. Each individual has the ability to

impose cruelty and even death upon his fellows. This ability conceals a two-way street. Each individual is vulnerable to the thoughts and actions of others of his own kind. A free society is a society in which anyone could do as he pleases with himself or *with others*. Given a "society" of only one person, risk between all persons disappears. In such a society, the word freedom could not possibly have a social context.

But now we imagine a society in which total freedom reigns yet there are many persons in it. Each individual can think and act as he

pleases; at the same time, any other person has the ability to impose upon him by a little or a lot.

Take one further step. Imagine a free society in which the capacity for man's inhumanity to man is *not* impeded by any human organization . . . but yet the violation of one's person or property *does not occur*.

Such would be a free society, and only such. A society in which free men interact, retaining all their natural capacity to be free, and yet do nothing to limit the freedom of their fellows, ah, that is the goal yet to be achieved. 

Government's Limited Role

TRUE liberty lies in recognizing that each man's vital force is his own, that it may not be impinged upon by any other man or any government. His volition, his awareness, his conscience are areas of personality where the individual must fight his own battles, where he becomes master through discipline or slave to primitive impulse. It follows that the whole chore of government is to protect the human personality, not to control it or to coerce it against its nature, to protect it from all sources of physical violence, to insure the execution of serious agreements, to adjudicate wrongs, and to provide a mechanism for its own limitation. Men may yet generate profound, hitherto unknown, enjoyments and satisfactions. If they do, they will do so in and of themselves, under the protection of government conceived and administered in harmony with biological and spiritual requirements.

The conservative desires to preserve the possibilities and the enjoyments of life. Volition, choice, awareness, conscience—these are the sweetest, most promising attributes the conservative knows. If their promise is to be fulfilled, government must be protective and subservient to them. Expansion of government beyond these limits literally renders the life stream noxious and unhealthy.

IDEAS ON



LIBERTY



THE STATE AGAINST BLACKS

WALTER E. WILLIAMS, a good economist who happens to be black, is not one to call names or to impugn motives. So, when he entitles an excellent book *The State Against Blacks* (New York: New Press, McGraw-Hill Book Company, 183 pp., \$14.95), he does not mean to imply that conscious racial discrimination is being practiced. The big point that he makes, with specific chapter and verse, is that most of our government economic policies hurt the poor in general by depriving them of the opportunity of hooking in to what Isabel Paterson called the "long circuit of energy." Insofar as blacks are more heavily represented than whites on the lower income brackets, they suffer more proportionately.

Williams does not deny there is such a thing as racial discrimination. He merely thinks it plays very little part in most economic decisions. Banks don't "red line" certain inner city residential areas because they are heavily populated by blacks and Hispanics. They do so because mortgage foreclosures are a big statistical threat. Merchants in ghetto areas charge their customers higher prices not as a way of acting out their prejudices. They have to charge more because losses from business-related crime are greater in ghetto environments. Insurance premiums for fire and theft are a heavy cost of doing business.

The very fact that there is "block busting" by blacks in neighborhoods once exclusively inhabited by whites

has less relation to color than to economics. What happens is that property owners, regardless of their race, find that they can get more in total rental volume if they split their space into smaller units for disposal to poorer people who will put up with being crowded. The displaced whites move to suburbs where zoning, a political phenomenon, keeps poor people from buying property no matter what percentage of melanin they may have in their skins.

The Impact of Minimum Wages

In a beautifully persuasive chapter called "Minimum Wage, Maximum Folly," Williams demonstrates that minimum wage laws hit inevitably at marginal workers who cannot in the circumstances do enough work in a given hour to make a profit for their employers. The consequence of the minimum wage is that nobody will hire people who haven't yet learned certain skills or absorbed certain disciplinary lessons. It is purely accidental that the worst negative effects of the compulsory minimum wage are borne by non-white teenagers, followed by non-white males in their twenties.

White youths do better than blacks because they happen to be more highly qualified for jobs for reasons that go deep in history. In coming north to unfamiliar surroundings in ghetto districts, black kids may lose two or three years of schooling. The

taxes in inner cities are not sufficient to build the best schools or hire good teachers capable of keeping kids off the streets. Busing doesn't help, for it creates strains that affect classroom discipline and attention.

Good teachers won't put up with "blackboard jungle" conditions. Forced to the streets, black youths discover it is easier to steal or sell drugs than it is to crack the minimum wage barrier. It is as simple as that, but our politicians can't see it. The state, in passing minimum wage legislation, has tried to be "compassionate," but it has only succeeded in forcing the poor of whatever color to seek relief by way of "entitlements" that drain the economic system of savings that might otherwise have been productively employed.

Occupational and business licensing, which raises the cost of entry into a business or profession, is color blind even where its hidden intention may be to exclude blacks from certain fields such as plumbing and work on the railroads. The justification for government regulation is usually stated as a desire to protect the public safety or morals and to keep out unscrupulous practitioners. But the effect of regulation, as something that is often distinct from its intention, is to limit job opportunities.

The poor, who can't raise the money to pass licensing exams or to fight their way into exclusive unions,

are hurt no matter what their ethnic backgrounds may be. If more blacks are affected than whites, it is once again due to the fact that they are more numerous in a low income class category whose ethnic components have been changing ever since the Irish, the Jews and the Italians were complaining about discrimination.

Taxicab Medallions

The taxicab industry gets special attention from Williams as something that, with bank finance, ought to be open to anybody, white or black, who can raise \$5,000 to cover the operation of a single vehicle. Personal business skills needed to become a taxicab owner-operator are minimal. But in many communities the number of cabs that are allowed to operate is severely limited. In New York City a cab driver must have a medallion before he can legally take to the streets. There were 13,566 medallions issued in 1937, sold at \$10 a throw to all drivers operating in the city at the time. During the war 1,794 medallions were returned to the city by owners going into the army or navy. These have never been reissued. So the licensed city cab fleet stands at 11,772.


The number of officially permitted New York taxis may have been right for 1937, but for 1983 it is another story. A cab medallion in New York now commands a market price of \$60,000. New York banks will lend

John Chamberlain's book reviews have been a regular feature of *The Freeman* since 1950. We are doubly grateful to John and to Henry Regnery for now making available John's autobiography, *A Life with the Printed Word*. Copies of this remarkable account of a man and his times—our times—are available at \$12.95 from The Foundation for Economic Education, Irvington-on-Hudson, New York 10533.

up to \$25,000 for a taxi medallion. With their monopoly position the legitimate cab drivers can afford to turn down trips to ghetto areas. So a gypsy cab industry has grown up to service the poorer districts of Harlem, Bedford-Stuyvesant, Brownsville and the South Bronx. The gypsy cabs are tolerated, and they make money despite the menace of crime in dark streets. But officially prescribed rates, despite the gypsy competition, remain unconscionably high for most cab riders in the greater city.

It follows from their economic circumstances that few blacks can afford \$60,000 for a New York medallion. In Washington, D.C., it is different. There a poor black can set up in business with his own cab if he raises \$25 for a license and \$5,000

for the cab and insurance. Black ownership of cabs in the District of Columbia comes to some 70 per cent. This figure, though it is a rough estimate, is enough to make Williams's point about the need for open entry. Williams applies the same reasoning to his discussion of the trucking industry and to his chapters on plumbers and electricians.

Altogether this is a first-rate book of sound economics that transcends the racial aspects, which are incidental. 

CONCENTRATION, MERGERS, AND PUBLIC POLICY

by Yale Brozen

(Macmillan Publishing Co., Inc., 866 Third Avenue New York, N.Y. 10022), 1982
456 pages ■ \$29.95 cloth

Reviewed by William H. Peterson

"THE Darwinian jungle is not guaranteed to produce a happy ending. Influencing and corrupting governments may be the only thing conglomerates are better at—as is suggested by the IT&T scandals during the Allende Chile takeover and the Nixon Administration The Sherman and Clayton Acts, and most of the antitrust laws have contributed enormously toward improving the degree of competition in our sys-

tem. All who value social reliance on decentralized markets and economic efficiency should applaud this kind of public intervention, which helps to lessen the imperfections of competition."

So writes Nobel Laureate Paul A. Samuelson in his 10th edition of *Economics*, a widely translated college textbook which since 1948 has molded the thinking of literally millions of students, many of them now in high places, around the globe.

The Samuelson evaluation of antitrust is, sadly, conventional wisdom. And with America much in need of guidance and fundamental public policy reform to lead us out of the morass of interventionism, it is refreshing to welcome Yale Brozen's *Concentration, Mergers, and Public Policy*, a carefully researched, even-handed book which deals a body blow to antitrust theory and practice.

One pet antitrust dogma, for example, is concentration. Concentration, also known as oligopoly, reflects fewness of sellers. It also reflects bigness. Fewness and bigness, however, supposedly represent "restraint of trade" and "predatory power," against which government agencies, chiefly the Federal Trade Commission and the Antitrust Division of the Justice Department, have spent a lot of money and energy. And these antitrusters have much to show for it: They have won a host of major antitrust suits, club-

bing down bigness again and again.

The question is: Who won what? Certainly not the American consumer who's seen competition not thus enhanced but, rather, set back. The Brozen work raises more interesting questions: Do large firms in a concentrated industry (frequently defined as four or fewer firms having 50% or more of the market share) really have the market power attributed to them? Are big corporations—the *Fortune* 500—less competitive and productive than smaller firms? Is the long-held animus of American government toward Big Business compatible with the optimum choices confronting the nation in the 1980's? In particular, does antitrust really aid the search for solutions to the problems of growth, productivity, the efficient utilization of resources—of getting the country moving again? Answers, as clearly implied in this volume: No.

Brozen's evidence is overwhelming. And notwithstanding scores if not hundreds of muckrakers like Ida Tarbell and Lincoln Steffens and innumerable economist-disciples of Joan Robinson (*The Economics of Imperfect Competition*) and Edward Chamberlain (*The Theory of Monopolistic Competition*), the evidence goes all the way back to the time of the passage of the Sherman Antitrust Act in 1890.

For example, that evil trust, Standard Oil, had an 88% market share

in 1899 but this share was whittled down by competition to 67% in 1909, two years before the Supreme Court dismembered John D. Rockefeller's giant. Again, American Sugar Refining's 95% market share in 1892 was down to 49% in 1907 and to 28% in 1917. International Paper's 66% share in 1898 slipped to 30% in 1911 and 24% in 1928. And U. S. Steel's 66% share in 1901 fell to 33% in 1934 to 24% in 1968 and is down to around 19% today.

The steel market—once considered the exclusive province of steel giants—is itself a lesson in the undoing of antitrust mythology. Today the steel market, which is of course a far larger market than it was in 1901, is besieged by small streamlined "minimills" such as Nucor in Charlotte, North Carolina and Florida Steel in Tampa, by Japanese, Korean and European steel producers, and by, perhaps most interesting of all, producers of substitute materials such as aluminum, copper, magnesium, glass, plastics, concrete (reinforced and prestressed), plywood and even impregnated cardboard.

Fortunately the lessons of multifaceted competition are beginning to sink in here and there. In early 1982, for example, Assistant Attorney General for Antitrust William Baxter withdrew the Justice Department's case against IBM. The lawsuit, which had dragged through the

courts for more than a decade, has cost the taxpayers millions of dollars and untold headaches for IBM, whose only crime was, apparently, bigness.

Concludes Yale Brozen in this perceptive work:

"To attack any firm at any time for expanding capacity stands anti-trust on its head. To attack proposed conglomerate mergers on the ground that the capacity of the acquisition will be expanded by the acquiring firm is to attack the essence of what makes some conglomerate mergers desirable. Such attacks restrain trade. They are, themselves, a violation of the spirit of the antitrust laws. It is entry that destroys undetected collusion and polices entrepreneurial or managerial sloth. Entry barriers are the appropriate arena for antitrust action. The antitrust agencies are to be commended for beginning action in this arena in the last decade. Again, however, there is much confusion in the agencies and in the courts (and among economists) as to what constitutes a barrier. The only significant barriers are those administered by regulatory agencies and licensing authorities. Praise is due the antitrust agencies for beginning to move on these." ④

Dr. Peterson is the director of the Center for Economic Education and the Scott L. Probasco Jr. Professor of Free Enterprise at the University of Tennessee at Chattanooga.

GOVERNMENT'S MONEY MONOPOLY

Henry Mark Holzer, Editor

(Books in Focus, P. O. Box 3481, Grand Central Station, New York, N.Y. 10163)

227 Pages ■ \$19.95

Reviewed by John A. Sparks

EDITOR HOLZER has assembled several of the most interesting articles, cases and statements to be found on law and money and woven them together in a new book that should be in any library which has an economics or constitutional history collection.

The book begins by including parts of a law journal article written by P. J. Eder on monetary debasements in early times starting with Solon's devaluation of 594 B.C. Eder moves forward quickly to English-medieval law where he emphasizes that the sovereign's prerogatives over money were limited to coinage, seigniorage (minting fee), and the fixing of denominations of English and foreign coin according to the value of the money metal contained in them. Eder emphasizes that no *general* power of debasement existed in the sovereign, although one case, the *Case of Mixed Moneys*, seems to have allowed the sovereign to devalue the currency. However, Eder points out that the forced use of base coins

(mixed monies) referred to by this one case was a temporary war measure used against Ireland by Elizabeth.

Government's Money Monopoly next turns to the thirteen colonies and provides a good introduction to commodity money, foreign (Spanish or Mexican) metallic coins, and paper money. Then another short but insightful chapter appears on the subject of the intention of the Constitutional Convention regarding the emission of bills of credit. The author concludes, from Madison's notes, that while there was grave fear of a paper money issuance with a legal tender requirement, nevertheless there was also a reluctance to completely prohibit the federal government from issuing paper money. Later, this ambiguity plus a broad interpretation of the coinage powers, and an expansive view of what was "necessary and proper" allowed Congress to take and keep nearly plenary monetary powers.

It is to the matter of a central bank that editor Holzer now directs the reader. He properly includes both Jefferson's opinion against the First Bank of the U.S. and Hamilton's defense of it. Their views are well worth reading. Unfortunately, John Mar-

shall and the Supreme Court later followed the reasoning of Hamilton in upholding the chartering of the Second Bank of the U.S. in *McCulloch v. Maryland*.

The important cases of the Civil War era, the *Legal Tender Cases* are included and discussed. By reproducing the text of these decisions, Holzer performs a valuable service. Most constitutional law students find that their law casebooks refer to these critical cases by a mere passing note. They are usually regarded as cases showing the laudable rush toward plenary governmental power over money. The first Legal Tender Case, *Hepburn vs. Griswold*, still contains some of the best constitutional analysis and common sense about sound money ever found in a Supreme Court opinion. Ironically, the opinion repudiating the legal tender notes was written by Salmon P. Chase the very man, who as Secretary of the Treasury, oversaw the issuance of the notes.

Other materials are included which will help the defender of sound money obtain a better understanding of the politics behind the gradual creation of fiat money issues by a central bank. Holzer's collection and notes tell the story clearly. ☉

the Freeman

VOL. 33, NO. 3

MARCH 1983

- Illegal Aliens** **Hans F. Sennholz** 131
Blaming illegal aliens for unemployment is to ignore the real causes.
- A Legal System for a Free Society** **Bertel M. Sparks** 135
The limits and functions of government to enhance freedom.
- Where Figures Fail: Measuring
the Growth of Big Government** **Robert Higgs** 151
The creation and extension of governmental authority must be re-
strained at its source.
- Free Enterprise in Space** **Gary McGath** 157
Exciting prospects, despite obstacles thrown in the way by
governments.
- A Distant Voice Speaks to
Us Today** **John K. Williams** 162
Pericles' message to the people of Athens speaks of the problems
plaguing us today.
- Democratic Freedoms vs.
Collectivist Newspeak** **Jack D. Douglas** 169
One aspect of a moral strategy for achieving peace.
- Capital, Deficits and Full
Employment** **William R. Hawkins** 175
How faulty theories warp political and economic conditions.
- Maritime Subsidies:
Overregulation** **Michael B. Cohn** 182
A brief history of the American Merchant Marine.
- Book Reviews:** 185
"The Businessman in American Literature" by Emily Stipes Watts
"The Case for Gold: A Minority Report of the U.S. Gold Commission"
by Ron Paul and Lewis Lehrman
"Introduction to the Study of the Law of the Constitution" by A.V.
Dicey
"The Portable Conservative Reader" edited by Russell Kirk

Anyone wishing to communicate with authors may send
first-class mail in care of THE FREEMAN for forwarding.



the Freeman

A MONTHLY JOURNAL OF IDEAS ON LIBERTY

FOUNDATION FOR ECONOMIC EDUCATION

Irvington-on-Hudson, N.Y. 10533

Tel: (914) 591-7230

Leonard E. Read, *President*

Managing Editor: Paul L. Poirot
Production Editor: Beth A. Hoffman
Contributing Editors: Robert G. Anderson
Bettina Bien Greaves
Edmund A. Opitz (Book Reviews)
Brian Summers

THE FREEMAN is published monthly by the Foundation for Economic Education, Inc., a nonpolitical, nonprofit, educational champion of private property, the free market, the profit and loss system, and limited government.

The costs of Foundation projects and services are met through donations. Total expenses average \$18.00 a year per person on the mailing list. Donations are invited in any amount. THE FREEMAN is available to any interested person in the United States for the asking. For foreign delivery, a donation is required sufficient to cover direct mailing cost of \$5.00 a year.

Copyright, 1983. The Foundation for Economic Education, Inc. Printed in U.S.A. Additional copies, postpaid: 3 for \$1.00; 10 or more, 25 cents each.

THE FREEMAN is available on microfilm from University Microfilms International, 300 North Zeeb Road, Ann Arbor, Mich. 48106.

Some articles available as reprints at cost; state quantity desired. Permission granted to reprint any article from this issue, with appropriate credit, except "Democratic Freedoms vs. Collectivist Newspeak."

ILLEGAL ALIENS



WITH unemployment at chronically high rates in nearly all countries, it is not surprising that the number of explanations and interpretations is on the rise. In less developed countries, we are told, the high birth rates and population growth rates exceed the ability of agriculture and industry to absorb the new population, with the result of increasing unemployment. In the industrial countries, where the rates of growth of population are much lower, the explanations cover a wide spectrum from the Marxian exploitation doctrine to the Keynesian inadequate-spending theory. In the United States, the oldest explanation of them

all is coming to the fore. Rooted in the fear and resentment of foreigners, many of whom are illiterate and poor, more and more Americans are pointing at the newcomers as the cause of their difficulties. Labor leaders, especially, are quick to vilify "the illegal aliens" for the chronic unemployment that is plaguing organized labor.

Their explanation is almost 300 years old. The descendants of the original English settlers used it, viewing with alarm the influx of Germans and Scotch-Irish. And they in turn later protested the arrival of southern and eastern Europeans.

Their intellectual descendants now are pointing at millions of "illegal aliens" from Latin America who are blamed for our high unemployment rates, for lowering our enviable wage

Dr. Sennholz heads the Department of Economics at Grove City College in Pennsylvania. He is a noted writer and lecturer on economic, political and monetary affairs.

rates, for corrupting our political and social institutions, and their reluctance to conform and "Americanize."

The estimate of some 8 million illegal aliens in the United States suggests a simple solution to our unemployment problem. Let us expel the 8 million aliens after we have inflicted appropriate punishment for illegal entry, and our chronic unemployment will cease to exist. Now every native American will cheerfully find his job.

In reality, unemployment is a cost phenomenon. There is always employment for anyone whose productivity exceeds his employment costs. And unemployment is awaiting anyone whose costs exceed his usefulness. This is true whether or not he is a citizen.

Rendering Useful Service

No one can possibly know how many illegal aliens actually have entered the United States. But we do know that they are earning a living through rendering services in agriculture, commerce and industry. You may find them in the fruit orchards of California, Oregon and Washington, on the farms and ranches of Arizona, Texas, Louisiana, and Mississippi, in the hotels and motels in our cities, and in other service industries from coast to coast. They are working because their services are useful and economical.

Eight million Americans are un-

employed because their employment costs consisting of wages and social benefits exceed their usefulness. How would they become more productive and economical through expulsion of foreigners? Would a black teenager in New York City whose employment costs exceed \$5 an hour (minimum wage \$3.35 plus fringe benefits) and whose labor may be worth only \$1, find employment more easily after a Latin chambermaid at the Park Hotel had been arrested and deported? The expulsion of eight million foreigners would not vacate eight million jobs for deserving Americans. In fact, it is likely to create even more unemployment.

Productive alien employees cannot forcibly be replaced by native labor that inflicts losses on employers. They can be removed and deported, which would withdraw useful labor, restrict service and production, inflict losses on employers, and thus cause a contraction of economic activity. The hotel and motel industry, for instance, would be severely hampered in service and capacity. The fruit orchards would harvest less fruit, which would cause prices to rise and the industry to contract. And the American people would suffer a significant reduction of living standards through the loss of wholesome fruit in their diets.

Economists readily admit that in a stagnant economy the influx of new labor, native or foreign, tends to re-

duce wage rates. The given amount of capital is distributed over a greater number of workers, which reduces individual labor productivity and wage rates. But this admission does not apply to labor markets in which generous unemployment compensation, multiple benefits, and liberal foodstamps keep millions of workers from seeking employment. The institutional benefits that are creating the unemployment are not reduced when aliens illegally enter the United States.

Not Welfare Recipients

In constant fear of detection and deportation, few illegal aliens, if any, are seeking the social benefits that induce so many natives to prefer unemployment. There are no jobless benefits, no foodstamps, not even public assistance for illegal aliens. They live, and in many respects are like those old-fashioned Americans before the dawn of the New Deal and its redistribution programs.

While the fear of detection may prevent illegal aliens from collecting transfer benefits, it is more difficult to escape the taxes that are levied on labor. Surely, there are many who by arrangement with their employers pay neither income nor social security taxes. But this makes employers accomplices to illegal employment and tax evasion, which is a risk no large employer can possibly take. Therefore, it is likely that

most illegal aliens suffer tax withholdings like anyone else. They are probably paying "their share" in the expenses of our social institutions.

And yet, illegal aliens stand accused of corrupting our political and social institutions, favoring political and social radicalism, agitating for more transfer programs, and so on. All of this may be true. But we wonder about the political and ideological dangers of a California fruit-picker or an Atlanta chambermaid who, in constant fear of detection and deportation, timidly inquires about membership in a labor union. Surely, every native newspaper publisher, editor, commentator, writer, or professor can be, and probably is, immeasurably more effective in propagating radical ideas than is an illiterate alien.

The illegal alien stands accused of refusing to conform and "Americanize." But he may be at a loss about the standard to which he is to conform and about the meaning of "Americanization." As there is no standard, and cannot be one in this nation of refugees from all corners of the world, he, the illegal alien from Latin America, must be acquitted of this charge. It must suffice that he conforms to the only standard of a civilized society, that he is a human being who was born with inalienable human rights.

The festering problem of illegal entry to the United States and the

social agitation that is besieging an estimated 8 million illegal aliens concern us all. We must therefore reject old fallacies and seek amiable solutions. But such resolutions may be beyond the bounds of possibility in the present institutional setting.

It is futile to stem the human flood of immigrants with dikes of laws and regulations from the armory of the police state. If the causes that are generating the migration continue to be active, no fine or imprisonment of "illegals" or their American employers, no government-issued identification card or work permit can arrest it.

To confer citizenship to all illegal aliens may promptly add several million workers to the unemployment and public assistance rolls. To make the aliens legal is to subject them to the minimum wage law, the wage and hours legislation, and countless fringe regulations that boost labor costs and cause chronic unemployment. To make them legal, therefore, is to sever their productive employments and send them to their ethnic welfare centers, the metropolitan areas. Like many thousands of Puerto Ricans before them, many legal aliens would discover that, after all, there was no job for them in the country of opportunity. A few who would survive the purge following the bestowal of citizenship would be tempted by their newly acquired welfare eligibility to

join their idle brethren in the cities. And once again, the farms and ranches, hotels and motels, and many other service industries would have to curtail their production because of lack of labor.

Nothing but the right can ever be expedient. In the cause of individual freedom, we must defend the rights of all people, including illegal aliens. But if the political rights of American citizenship entail the denial of the human right to work diligently for one's economic existence, and if we are forced to choose between the two, we must opt for the latter. The right to sustain one's life through personal effort and industry is a basic human right that precedes and exceeds all political rights. It is an inalienable right of all people, including illegal aliens.

For millions of European immigrants who reached our shores, the Statue of Liberty signaled the promise of personal liberty. As long as its torch is still burning we have no choice but to live by its light. ☉

New Revised Edition
DEATH & TAXES

by Hans F. Sennholz
109 pages \$5.95

Order from:
The Foundation for Economic
Education
Irvington-on-Hudson, NY 10533



A LEGAL SYSTEM FOR A FREE SOCIETY

THE IDEA of a legal system for a free society might appear to be a contradiction of terms. The existence of a legal system implies that there are laws; there are rules of conduct; there is authority; there are penalties for disobedience. Law necessarily involves the application of some kind of force to some fellow human beings. That is the law's method of enforcing its rules, and without enforcement there is no law.

On the other hand, a free society tends to suggest an atmosphere of freedom, a freedom to follow one's own inclinations, a freedom to pursue one's own happiness without taking thought of the happiness of others, a freedom to act upon one's own desires regardless of what those desires might be, an absence of restraints.

The apparent contrast thus presented is a contrast between freedom and authority. And when presented in that form, not only do the two concepts appear to be mutually exclusive, but the free society appears more attractive than law. This even suggests the conclusion that the enhancement of freedom depends upon the curtailment of law, and that total freedom requires the total absence of law.

In spite of any apparent attractiveness the absence of law might have, it is doubtful if it offers a satisfactory route to a free society. If individuals are to be free there must be a system of law with power to prevent the violation of that freedom. From this it follows that if either freedom or law is absolute the other cannot exist. If the two are to be brought into harmony in order that both may survive, both must be

Bertel M. Sparks is Professor of Law at Duke University School of Law, Durham, North Carolina.

clearly defined and the limitations on each must be clearly understood.

There are almost as many definitions of law as there are lawyers. But when all these definitions are distilled and reduced to their most elementary forms, they all involve the application of force to fellow human beings. The method of the law is to place the power to use force in the hands of certain human beings in order that it may be used to prohibit, punish, or restrain certain kinds of action by other human beings. But a statement of that process fails to explain how the application of force by some human beings against other human beings can enhance the freedom of all, including even the persons being restrained. But unless that is its result, there is something wrong with the assertion that law is a preserver of freedom.

In Case of Conflict

A free society is sometimes defined as a society where individuals are free to act according to their own wishes. But that state of affairs cannot exist unless there are no conflicting wishes. And it is highly unlikely, as well as less than desirable, that the total absence of conflicting wishes could ever exist among humankind. If John wishes to kill Sam and Sam wishes to stay alive, it is impossible to carry out both of their wishes. In like manner, if both John and Sam wish to occupy exactly the

same space as a home, either one or the other of them will be frustrated in his purpose.

Neither John nor Sam can enjoy any freedom that is not available to the other. If Sam's life is to be preserved, John's desire to kill Sam must be restrained. If Sam is to have any absolute right that his life will not be molested by John, it is necessary that he submit himself to an absolute guarantee that John's life will not be molested by Sam. If even minimum freedom is to be accorded to any individual, some system of restraint must be applied to those who are inclined to interfere with that freedom. No one can be free unless there is law and a government with power to enforce that law.

It should come as no surprise that the most frequently offered justification for the use of force by one human being against another is that it is necessary to the protection of freedom. It is a means of restraining one individual from interfering with the freedom of another. Probably the most frequently expressed fear of the use of force is that it might be used to enslave rather than to protect. And the experience of humankind is that it will be used to enslave unless the area for its permitted use is clearly understood and rigidly observed.

Since the method of the law is to employ a kind of organized force to prohibit, punish, or restrain certain kinds of human action, the problem

is one of developing a clear understanding of what human action must be prohibited, punished, or restrained and what human action must be protected. Just as the citizen must not be permitted to murder, steal, or perform other antisocial acts under the pretext of exercising his freedom, so must a government be restrained from enslaving its citizens under the pretext of exercising some proper governmental function. The solution of the problem lies in finding a workable concept of limited government. Almost everyone is willing to declare a belief in limited government, but very few are prepared to define limited government or to explain what limits should be employed.

The Limits of Government

Too often it is assumed that a government whose officials are chosen by the governed is a limited government, and that one whose officials are determined by heredity or other means where the citizens have less participation in the choice is not a limited government. Such a distinction is spurious at best and has very little, if anything, to do with the presence or absence of freedom. Systems of comparative freedom as well as systems of extreme tyranny have existed in monarchies, republics, democracies, and every other form of government the human mind has thus far been able to design.

The form doesn't seem to control the rules that are enforced. The significant limits that go into the making of a "limited government" are limits upon what the rulers may do rather than upon how they get their jobs. Too much emphasis upon how the rulers are chosen might even have a tendency to mislead the citizenry into a readiness to accept absolute tyranny so long as they are permitted to vote for the tyrant.

If the term "limited government" has any meaning at all, it must mean that there are limits upon the rules, restrictions, or restraints that may be enforced against individual human beings regardless of the form of the enforcing power. But that leaves open the question as to what those limits are. What standard should be applied to determine whether a particular restraint upon individual human action is within the limits permitted in a free society?

Approval of a proposed restraint by the ruling monarch, the elected officials, or even a majority of the citizens in a popular plebiscite is not necessarily sufficient justification for its application. There must be some external standard, some recognizable guide, by which a particular restraint might conceivably be found unacceptable in a free society regardless of the universality of its approval. Unless such a standard does exist, there is no freedom for the individual whose thoughts are not in

harmony with the thoughts of the majority. Such a predicament can hardly be described as the hallmark of a free society.

Since law is a form of organized force applied by one individual to restrain or control the conduct of another individual, its every action should be exposed to the most careful scrutiny of which the human mind is capable. There must be an answer to the question, "From whence comes the authority of one individual to use force to restrict or control the conduct of another and for what purpose may that force be applied?"

A Society Without Laws

The inquiry might begin with an examination of the possibility of a society without a legal system, a society where everyone is free to do his own thing. That would mean taking a look at what is sometimes portrayed as the romantic view that human life on earth began with a population of autonomous individuals freely roaming the countryside with each one gathering his fruits and capturing his game wherever and whenever he could find them. But on the doubtful assumption that such a period did in fact exist, its romantic aspect tends to fade when it is remembered how little it must have offered in the way of either material well-being or personal freedom.

There is little freedom for the in-

dividual when he is surrounded by other individuals who might take his life at any moment. Once primitive man had gathered his fruit or captured his game under these conditions, he had no assurance that he could eat his newly acquired provisions before they were snatched from him by an intruder. Whatever freedom he had, he was not free from attack. The defense of his person, like the defense of the possessions which he claimed as his own by virtue of his having taken possession of them, required that he be constantly on the alert. His freedom was limited by the dangers that were always around him and always ready to close in upon him if he allowed his attention to drift.

In such a society there was little inclination to gather more food than could be consumed on the spot. But in light of the existing conditions, that might not have been a particularly severe restriction. Primitive man was faced with more immediate problems. His primary concern was for survival, and his struggle for survival took most of his time. He was in a hostile world where almost everything he needed was in short supply. The food was there but it was not often in a form to be taken and eaten without effort. He obtained his bread by the sweat of his brow. Appropriate materials for clothing and housing were also present, but work was required to reduce them to pos-

session and put them into usable form. Being without tools and compelled to rely upon the cunning and skill of his own body for defending his own life, capturing his food, and defending his food after it was captured, he had difficulty finding time for gathering more than the necessities of the day. The division of labor had not been discovered; the friendly neighborhood policeman had not arrived.

The Practice of Self-Defense

Even before primitive man had articulated any theory concerning his existence or his right to the earth's resources, his actions laid the foundation for a theory that has not been improved upon to this day. Long before he was able to formulate any justification for his action, the aboriginal was ready to fight back when he was pushed to the wall. He was ready to defend his own existence, his life. Without offering any definition of self-defense, he practiced self-defense. In like manner, once he had reduced the wild game, fruits, or other natural resources to possession, he didn't hesitate to defend his possession. He claimed the captured product as his own.

Future philosophers might explain that he had a right to defend his life simply because he was alive; he had a right to defend his prey because it was the product of his own labor. But primitive man offered no

explanation, at least none that could be passed on to future generations. Whether it was a problem of defending his life or his property he didn't philosophize about his right to use force against his fellow creatures; he used force. He was in a harsh world and he acted accordingly. But there were limits.

As soon as he extended his use of force beyond the defense of his person and the defense of the goods he possessed as the fruit of his own labor, he found himself encroaching upon the person or the goods of some fellow creature. He met resistance. He learned that his fellow creatures claimed the same right to self-defense that he claimed for himself. And both he and they learned that if they were to improve their material well-being, or even survive, they had to find some way of defending their lives and their property.

The Division of Labor

In such a world the day must have arrived when, instead of being content with either climbing a tree in pursuit of his fruit or taking only what he could reach from the ground, somebody somewhere picked up a long pole, made a sweeping strike at the branches, and brought down a whole shower of fruit. That strike was more than a significant technological step forward in the use of tools. It brought with it a complex economic problem and an even more

complex legal problem. Here was a man with more food than he could possibly consume at one sitting. What could he do with it? Maybe he could trade it to someone else for skins he could use for clothing. But then there was the problem of protecting the goods while the lucky entrepreneur looked for customers. He needed some rules that could be enforced against intruders. Could he signal to other members of the family and begin the assignment of jobs? Maybe someone would guard the store while others continued to use the newly discovered club to gather more fruit with increased efficiency and still others would search for customers. The division of labor had been launched; the seeds of government were being sown.

As to whether a development ever took place in the precise manner just described, we can only guess. What we do know is that either it or some similar transaction did take place. There was a transition from an individualistic to a shared system for the acquisition of the necessities of life. A division of tasks and an elementary form of trade or barter did develop.

Private Property and Trade

A serious problem remained. A surplus of food in the hands of a producer, any producer, was a fortunate development. But the thought of using that surplus in trade was both

revolutionary and dangerous. A search for customers meant revealing the existence of the surplus to an uncertain number of prospects. It was just possible that any one of these prospects might choose to get the merchandise by deception or force rather than by honest trade. A means of self-defense was still necessary. That defense had to extend to one's property as well as his person.

As long as each individual was compelled to look out for his own defense of both his person and his goods even while he continued his search for food, the time available for the search remained quite limited. And there was almost no time at all left for the development of improved methods of production, the designing and making of tools, or the doing of other things essential to the accumulation of another surplus.

Some advantage was gained when the head of the family assumed authority over the entire family group and began the assignment of duties and responsibilities within that group. A rudimentary form of organized self-defense was being born. What had been each individual's right *and responsibility* to provide for his own self-defense became an organized self-defense under the direction of the head of the family.

But this was a family of farmers. Their specialty was raising fruits and vegetables. Their limited practice of the division of labor within the fam-

ily group had taught them the advantages to be gained from such an arrangement. In order to develop their specialty more fully, they desired and needed a broader base of operations. They began a search for trade with other families specializing in the hunting of game, the making of clothes, or the supplying of other goods and services the farmers could use. But if such trade and such a division of labor was to succeed, each producer needed some assurance that his store of goods would be protected while he was waiting for buyers. He also needed some assurance that his contracts would be carried out and that both he and his family would be protected from violence. A need for someone who could be made responsible for the maintenance of order throughout the whole community became apparent.

An Organized Defense Mechanism

To meet that need, the social unit was extended beyond the family group to include the tribe or other intermediate organization and eventually the national state. Governments evolved and systems of law were established. Even that development occurred at such an early date that history is unable to record when or how it happened. Maybe it began with a group of individuals coming together to employ a guard, or a policeman if you like, for their mutual protection. Maybe it began

when a particularly strong man with a unique skill for swinging a club offered to protect anyone who would submit himself to the strong man's control. The strong man provided protection while the person making the commitment gave services. The arrangement was beneficial to both parties.

As the strong man became more powerful, it is quite likely that there were times when he used force to enlarge his dominion to include even those who were unwilling to come in voluntarily. These and other theories have been put forward on many occasions and need not be restated here. Whatever the process by which the transition took place, and whether it occurred by voluntary or involuntary means, the significant thing is that a time did arrive when individuals and families gave up their responsibilities for their own self-defense and depended upon the organized defense mechanism of the appropriate social unit.

The individual still fought back to defend himself when set upon by intruders at a time when no policeman was available. But this was only in case of emergencies. Otherwise the exclusive right to use force upon other human beings was placed in the hands of government; and therein were planted the seeds of conflict, tyranny, and deprivation, as well as the seeds of peace, prosperity, and freedom. It all depended upon

whether the right to use force could be held within proper bounds.

Clothed with the exclusive right to use force, governments had the power to prevent murder, stealing, and other forms of violence, as well as to restrain deceit, perjury, the breaking of contracts, and other forms of antisocial behavior. An organized self-defense was substituted for what had been an individual, or at most a family, self-defense. With the protection afforded by this arrangement, the farmer, the hunter, the shoemaker, and other entrepreneurs were free to enter into trade with each other in comparative safety. Their contractual arrangements would be carried out and their stocks of goods would be protected. Specialties were developed, tools were improved, and the material well-being of all concerned was elevated.

Government as Plunderer

But what about the dangers? A government clothed with the exclusive right to use force against its citizens had power to use that force for the benefit of those in control of the government and to the detriment of those out of control. It could be used to enslave as well as to protect. And all this could arise from apparently good intentions.

The advantages of organized self-defense were so obvious that other temptations soon presented them-

selves. Why not use this organized force for humanitarian purposes? When fires, floods, droughts, and other fortuitous disasters struck one segment of the population, there was a tendency for those in power and possessing the exclusive right to use force for one purpose to use that force to seize the produce of the more fortunate citizens for the benefit of the less fortunate. It seemed the humane thing to do.

The apparent worthiness of purpose tended to obscure the fact that organized force was being used to seize the fruit of one person's labor for the benefit of another. The person whose goods were seized was having his substance plundered by the very government that was organized for his protection. If that process has the appearance of slavery, it should be remembered that slavery usually begins as a humanitarian enterprise. It is not often revealed for what it is, even to its own perpetrators, until its chains are securely fastened.

Distributing the Wealth

As the power of organized force began to be used as a means of redistributing the fruits of human labor, acts which would have been thievery and robbery if performed by individuals appeared to be humanitarian when done by an organized group of individuals. As soon as the product was routed through the

hands of government, all parties concerned began to lose sight of nature's balance which from the beginning dictated that any time anyone received a benefit he did not earn someone else was deprived of a benefit he did earn. There could be no deviation from that principle; and when the transfer was effected by force, it made little difference to the victim whether the act of force was performed by an individual or by a group of individuals who were organized into a government. In either event the producer was deprived of the product of his labor without compensation.

What was even worse, when the crisis that produced the excuse for a government's engaging in such organized plunder had passed, there was little inclination on the part of those in control to relinquish their new-found power. Instead of surrendering the power to plunder, they tended to search for new ways to use the plunder. The most common approach was to enter upon a scheme for seizing the products of some of the more efficient producers for the benefit of the less efficient.

A program for the promotion of enforced equality was embarked upon without remembering that the only means of achieving that end was to use force to push everyone toward the standard of the most inefficient producer in the market place. That was always undertaken in the name

of charity and good will. The fact was that such acts were the antitheses of both charity and good will. The bounty offered to the needy was being forcibly taken from persons who had earned it. For a time the citizenry, whether producers or non-producers, tended to believe the falsehood that was being perpetrated upon them. Eventually the more efficient producers began to wonder why they should continue their efforts if the product they produced was going to be seized for the benefit of those who failed to produce.

From Whence the Authority?

At that point there arose an inquiry into the source of the government's power. The more thoughtful citizens began to ask where the government got its power to enact laws designed to take property from the producer in order to reward the non-producer. Any serious consideration of that question led to a deeper question concerning the source of any power in any government to do anything.

When primitive man surrendered to his government the exclusive right to use force, what limits did he place upon the manner in which that force could be used? So far as anyone has yet discovered, there were no express limits whatever. However that may be, the haunting, or even frightening, question remained: Was the power surrendered to govern-

ment indeed without limits? If not, has it become so in practice? If there are limits, what are they? How can the limits be defined? What is limited government anyway? These are questions the advocates of freedom must answer. Furthermore, the answers must be clear and unequivocal.

The limits defining the extent to which organized force may be used by a government against its citizens are to be found through an examination of the self-enforcing limits upon the individual's use of force in defending himself prior to the existence of government. Primitive man's practice of self-defense had become commonplace long before any thought of a "right" of self-defense had entered his vocabulary. For him it was enough to know that a self-defense of some kind was essential to his survival. He had to defend both his person and his acquired possessions against hostile attack whether that attack came from the forces of nature or from fellow human beings. But it was left to John Locke and several centuries later for humanity to be offered a well-articulated philosophical basis for what had long been true in practice. Locke was not the first to give expression to the idea nor was he the last. But it was his *Two Treatises of Civil Government*, published in 1690, that provided one of the clearest statements of individual human rights and the function of civil government in the protection

of those rights that has ever been written.

Life, Liberty and Property

Locke saw human life as a gift from the creator. From that he concluded that the giver of life gave a right to defend it. He also regarded the wealth of the world as being the bounty of all humankind in common. But since every individual had a right to the integrity of his own body, everyone had a right to the product of his body, the product of his own labor. Therefore, the individual could by his own labor, by exercising his own liberty, remove a thing from its state of nature and place it within his private domain. Once that was accomplished, he had a right to defend his possession just as he had a right to defend his life and his liberty to use his life in a manner pleasing to him, that is to say, he had a right to be let alone.

Although Locke stated his thesis in several different forms, it is often summarized as a declaration that every individual has a right to life, liberty, and property. The same doctrine is expressed in the American Declaration of Independence where it is expressly declared that all individuals have been endowed by their creator with the rights to "life, liberty, and the pursuit of happiness," and that these rights are "unalienable" (sic).

While expressed in different words,

the statement from Locke and the one from the Declaration of Independence appear to be identical in their meaning. Each of them means that every human being is entitled to life, a freedom to use that life as he wishes, and possession and enjoyment of all things acquired through the legitimate use of that life in the performance of his own work and labor. An analysis of these basic principles provides an incontrovertible definition of limited government.

Government Empowered to Defend

Locke used the Judaeo-Christian religious tradition, which was his religious background, as the reference point for his reasoning, but that tradition is not essential to the validity of his thesis. The thesis itself concerns the inherent right of every human being to defend his own life. That concept is applicable to every religious tradition or even the absence of any tradition at all.

Since the law is a form of organized force and since government is the instrumentality through which the law operates, the problem is one of defining the limits to the force that may rightfully be applied to individual human beings. It is a matter of identifying the boundaries within which organized force may be used to compel human action in a free society. Government is a human institution and possesses only such powers as it has received from individual

human beings. It has no other source of power, and it cannot receive from individuals any right or power which the individuals did not have.

Primitive man used force against his fellow creatures when force was necessary to provide his own self-defense. When he surrendered to government the right to use the force in his behalf, he surrendered to government the right to use that same force to provide an organized self-defense. Organized self-defense was substituted for individual self-defense. The individual did not confer upon government any right to use the force for any other purpose. He did not because he could not; he could not because he didn't have that right in the first place.

The Use and Abuse of Force

As a human being the individual had a right to life. That included a right to defend that life, a right of self-defense. Such a right could not exist in any one person unless it existed in all persons. If any one individual used force against another human being for any purpose other than self-defense, he would be infringing upon that other person's right to life, liberty, or property. It would be an attempt to take from that other person an inalienable right.

This is not to say that primitive man never used force and violence against his fellow creatures in a

wrongful manner. So far as is known, a tendency toward excessive use of force for all kinds of purposes, both worthy and unworthy, were there from the beginning of human existence. At least the tendency was there from the time a certain crop farmer named Cain murdered a meat farmer named Abel as a means of settling a trade war between crop farmers and meat farmers. But any such excessive use of force was a wrongful act, not an act that could be exercised as a matter of right. And to characterize it as a wrongful act is far more than a value judgment arrived at by modern humanity. It was always wrong; and, in the nature of things, it can be demonstrated as being wrong.

Rights of Universal Applicability

In order for anything to be right as a matter of principle it has to be capable of universal application. It has to work. If Cain had an unqualified right to slay Abel without cause, it must be equally correct to say that Abel had an unqualified right to slay Cain without cause. To state such a proposition is to illustrate its self-contradictory aspect. The sound conclusion has to be that neither Cain nor Abel had any arbitrary right to slay the other, but that each of them had a right to life which entitled each of them to defend his own existence.

Abel's right to his own life entitled him to fight back against Cain's

unprovoked attack if he had chosen to do so. Abel had a right to defend himself. Why he did not exercise that right is not known. The circumstances seem to indicate the likelihood that the attack came so quickly and with such finality that there was no opportunity for its exercise. In any event, the right itself was there; otherwise, there could be no right to life.

The individual's right to life included a right to use that life as he saw fit. He could work or play; travel or remain at home; study, learn, and improve his intellect or loaf and remain dull. This right to use one's life in a manner most pleasing to himself was identified by Locke as a right to liberty. Since every individual had a right to liberty, no individual could have a right to interfere with the liberty of another. Such interference provoked in the individual whose liberty was being curtailed a right of self-defense. The aggrieved party could fight back in defense of his own liberty. He had a right to liberty as well as a right to life in its more narrow or restricted sense.

The individual might use his liberty, his right to use his life in a manner pleasing to him, to capture game, gather fruits and berries, or otherwise extend his dominion over the available goods of the earth. When he did so, he removed the goods from the common storehouse and reduced them to his private owner-

ship. It was his right to life, his own person, his own labor, that gave him a right to claim that particular portion of the earth's bounty as his own. It was his because it was the product of his labor. No other person had a right to interfere with his ownership. His right to life plus his right to liberty in the use of that life combined to give him a right to the product of his own body. He had a right to defend that product of his life just as he had a right to defend life itself. He had a right to life, liberty, and property, thus completing the trilogy made famous by Locke long after it came into operation as a fact of common experience. The individual's right to self-defense was a right to defend and protect his life, his liberty, and his property.

A Self-Limiting Right

The exercise of the right of self-defense is the only circumstance in which any individual is entitled to use force against another individual. The right itself is a negative right, a right to fight back when one's life, liberty, or property is being molested or threatened. It does not include any right to take affirmative action against one's fellow creatures except when the action taken is in defense of these basic rights.

When Cain launched his physical attack upon Abel, he was in direct conflict with Abel's right to life. A similar right of self-defense would

have been encountered if the attack had been upon Abel's liberty or his property. Thus it is that the right to use force in one's own defense is a self-limiting right. It is made self-limiting by its universal quality.

Since everyone has a right of self-defense, no one can have a right to play the role of an aggressor. The very law that gives everyone a right to use force in his own defense prohibits everyone from using force for any other purpose. Anyone who attempts to do so infringes upon the right of self-defense in someone else. The law of self-defense says thus far and no farther. And in making that assertion, it sets forth the boundaries of limited government.

Hiring a Policeman

If government exists for people, not people for government, then government can have only those powers it receives from the people. And people cannot confer upon or surrender to government any power which they do not have. As a primitive, uncivilized man, a fellow named Johnny might have stood alone in his struggle to defend and protect his life, his liberty, and his property. In doing so, Johnny was fighting for his own protection, his own freedom. The task was a difficult one. It consumed a major portion of Johnny's time and attention. It restricted the amount of time Johnny could devote to his search for food, clothing, shelter, or

other comforts of life. What is worse, anything Johnny acquired increased his burden of protecting and defending his possessions.

Under these circumstances, Johnny found it advantageous to join with all other Johnnys who were similarly situated in the organization of a protective agency of some sort to provide for their common defense. They were searching for ways to increase their freedom, their freedom to pursue their occupations rather than having to devote so much time to their defense. They established a system of organized force, that is to say, they hired a policeman. They surrendered to their newly created organization a right to use force for the protection of the whole community. Whether or not there were any express limitations upon the extent to which that organized force could be used against individual citizens is unimportant. The limits were set by the nature of the rights held by the individuals who surrendered them to the government in the first place. The only rights the individuals had to use force upon their fellow creatures were rights of self-defense.

The Uses of Government

The legal system appropriate for a free society would appear to be a system where the only laws are those designed to provide an organized self-defense for all citizens within its ju-

risdiction. Since the only purpose for which the individual had a right to use force against his fellow creatures was in the defense of his rights to life, liberty, and property, his government could not receive from him any right to use force for any wider purpose.

Any attempt by government to use force against a citizen for any purpose other than the defense of other citizens is a usurpation of power to perpetrate the very thing government was established to prevent. It is an invasion of the citizen's inalienable right to be let alone. Furthermore, it is incumbent upon any individual who claims any greater right for his government to set forth the source of the authority for the right claimed.

There might be situations where it is difficult to decide whether a particular law is in the interest of self-defense. A law denying carriers of communicable diseases access to public places might present such an example. So might a law prohibiting the building of houses in a manner to constitute fire hazards to neighboring structures. No doubt many other such examples can be expected to arise from time to time. But if there is agreement upon the meaning of limited government, ways can be found to solve these particular problems as they arise. That is the function of the courts.

The important thing is to main-

tain a known and workable standard. The law of organized self-defense founded upon the inherent right of individuals to defend their lives, their liberties, and their property provides that standard. It includes the right of society to restrain or prevent antisocial conduct, antisocial conduct being defined as any conduct that infringes upon the life, liberty, or property of any other person. These are defensive acts employed to prevent human behavior that is inconsistent with the freedom of others. They had their origin in the individual's right to self-defense. They are designed to preserve freedom. They derive their validity from their having been surrendered to government by individuals who claimed them as part of their inherent rights to life.

A More Efficient Procedure

The economic advantages of organized self-defense over individual self-defense were readily apparent as soon as the organized type was put to use. A comparatively few people armed with the exclusive right to use force could maintain the peace throughout an entire city, county, state, or other geographic area. Other citizens could devote their full time to the production of goods and services they could use in trading with each other to the mutual benefit of all concerned.

A division of labor where every-

one tended to devote his best efforts to his chosen specialty began to develop. It did not arise from any planning committee, government agency, or any other group effort. It was the natural consequence of each individual doing what was in his own best interest within the confines of his not interfering with the life, liberty, or property of another. And the only thing that was in any individual's best interest within that restriction was to produce something or provide some service that someone else wanted at a price such other person was willing and able to pay.

So long as all trading was entirely voluntary, that is to say without government intervention by force, every trade was advantageous to both parties to the trade. Each party received something he wanted more than he wanted the thing he gave up; otherwise, there would be no trade. The skilled shoemaker could devote his time to the making of shoes without worrying about the prospect of having his goods plundered by an intruder before they were used. The neighbor next door might have been a farmer who was growing wheat. Surplus wheat could be traded for shoes to the mutual advantage of both parties. In such a society a skilled builder was likely to emerge who could offer to build houses for both the shoemaker and the farmer as a means of obtaining both his shoes and his bread. Other


specialties were developed and the division of labor became a way of life.

Progress through Freedom

The more complex and the more diversified the economic affairs of the society became, the more destructive were any efforts toward control or central planning. The key to continued improvement in the individual citizen's economic well-being was always and at every stage of development a freedom to make one's own choices. Where that freedom has been preserved, the standard of living for those at the lowest level of the economic scale has tended to increase at an accelerating rate.

But even if the economic advantages of organized self-defense did not exist, the continued importance of the doctrine could still be justified. It is the most effective instrument yet discovered for the protection of individual human rights. It recognizes law as being a system of organized force. In doing so it limits the use of that force to the protection of the individual's rights to life, liberty, and

property. By prescribing these basic rights to be inviolate, it encompasses all those other concepts popularly referred to as "civil rights" but which tend to get lost when they are discussed without reference to the foundation upon which they all rest.

The boundary placed upon the use of force not only supplies a concrete and clearly understood definition of limited government; it also defines the function of government, a concept too often ignored! It prescribes that government exists for only one purpose. That purpose is to protect individuals in the exercise of their rights to life, liberty, and property. It demands that otherwise all people be let alone; or as Jefferson put it in his first inaugural address in 1801, "... a wise and frugal Government, which shall restrain men from injuring one another, shall leave them otherwise free to regulate their own pursuits of industry and improvement, and shall not take from the mouth of labor the bread it has earned. This is the sum of good government." 

Economic Reasoning

IDEAS ON



LIBERTY

PROGRESS in economic reasoning largely consists in picking our way through a mine field of possible errors. In economics, as Ludwig von Mises once said to me in conversation, the truth lies along a knife-edge.

HENRY HAZLITT

WHERE FIGURES FAIL: *Measuring the Growth of Big Government*

EVERYONE knows that government has grown, but no one knows exactly how much. Government has many dimensions, some of which defy precise measurement. Unfortunately, the most readily quantified dimensions are not necessarily the most important. One who restricted himself to an examination of the available quantitative measures, as most economists working in this area do, could easily reach spurious conclusions. Nevertheless, some attention must be given to such measures. Employed with caution, they can provide valuable information.

How Much Has Government Grown?

One widely used measure is government spending (federal, state, and local) for final goods and services relative to the gross national product (GNP). In the early twentieth

century, this share stood at 6–7 percent and fluctuated little from year to year. During World War I, the federal government's procurement and mobilization efforts drove up government's share to over 21 percent of GNP. After the war it descended as rapidly as it had ascended, stabilizing during the 1920s at a level only slightly higher than that of the prewar era.

With the onset of the Great Depression, government's share increased from about 8 percent in the late twenties to a plateau of 14–15 percent during the New Deal era. Notably, the initial rise in 1930–32 occurred because GNP fell precipitously while government spending for currently produced goods and services remained roughly the same. After 1933, government spending increased but GNP rose at about the same percentage rate; hence government's share stabilized again. The level of 1932–40 was roughly twice that of the pre-Depression era, which testifies both to the vitality of the New Deal spending programs and to the absence of complete economic

Robert Higgs is Professor of Economics at the University of Washington. He is popular as a lecturer on economic and monetary affairs. His writings include numerous articles as well as books on *The Transformation of the American Economy, 1865–1914*, and *Competition and Coercion*.

recovery prior to the defense build-up.

The massive mobilization of the early forties produced by far the greatest government share ever attained. At the peak, in 1943–44, government spending for currently produced goods and services commanded over 46 percent of GNP. Of this, defense-related purchases accounted for nine-tenths. Rapid demobilization dropped government's share during the period 1946–50 to the range of 11–15 percent, slightly below the prewar level.

The outbreak of the Korean War led to another steep increase of government's share, from about 13 percent in 1950 to 22.5 percent in 1953. Although some retrenchment followed cessation of the fighting in Korea, government's share has remained at a high level, about one-fifth of GNP, ever since. Notably, this postwar plateau of the past three decades holds government's share of GNP at approximately three times the level sustained before World War I. By this measure, then, government during the twentieth century has become three times as important in relation to the economy.

Looking at *all* government expenditures, not just those for currently produced goods and services, relative to GNP reveals a different temporal pattern. This broader measure, which includes the various governmental transfer payments,

shows that government did occupy a somewhat higher level after World War I: 10–12 percent in the postwar period as opposed to 6–7 percent before the war. It shows also the familiar leap in the early thirties and a plateau at about 18–21 percent in the late thirties; the huge increase during World War II followed by a complete reversal by 1948; a sharp rise between 1950 and 1953; and, unlike the index discussed above, an upward trend from the mid-1950s to the early 1980s that lifts the government's budget outlays from about 26 percent to 36 percent of GNP.

This upward tendency during the 1960s and 1970s occurred entirely because government transfer payments, mainly within the social security system, increased faster than GNP. By this measure, government has grown about five to six times larger relative to the economy during the twentieth century. By including government transfer payments as well as purchases of currently produced goods and services, one obtains a measure better calculated to reveal the emergence of the modern welfare state. Not surprisingly, this emergence appears fairly sustained over the past seventy years, especially during the post-1956 era.

Another commonly employed index of the size of government is its employment share. The temporal pattern revealed here differs from

that shown by either of the expenditure indexes. Government employees increased slightly faster than the labor force even before World War I, reaching a share of almost 5 percent on the eve of the war. This share jumped to over 6 percent during the war, fell back slightly in 1920–21, then drifted slowly upward during the twenties, reaching 6.5 percent in 1930.

How Measure Employment?

The history of government employment during the 1930s raises unusual, indeed unique, complications. To tell this tale, one must decide what to do about the “emergency workers.” These people worked on programs administered by such “emergency” work-relief agencies as the Civilian Conservation Corps, the National Youth Administration, the Federal Emergency Relief Administration (under which a state relief agency operated in each of the states), the Civil Works Administration, and the Works Progress Administration. At the time they were not considered “regular” government employees. Subsequently, economic statisticians counted them as unemployed members of the labor force, a procedure that has created confusion and controversy among economists in their description and analysis of the labor market during the Great Depression.

If one follows the conventional

practice, counting the emergency workers as unemployed, then the government’s share of the civilian labor force appears to have remained almost constant during the 1930s, falling slightly between 1931 and 1933 before rising slowly to 7.2 percent in 1939. This measure indicates that government’s share jumped much higher between 1939 and 1944, when it reached an unprecedented 11.1 percent. Thus, World War II seems to have stimulated a huge expansion of government’s direct importance in the civilian labor market.

If, however, one treats the emergency workers as government employees—and it is hard to see why they should not be so treated—the course of history looks completely different. Now the jump in government’s employment share is seen to have occurred between 1930 and 1936, with especially large increases in 1933 and 1934. At the peak in 1936, government workers of all kinds constituted 14 percent of the civilian labor force, more than twice their share in 1930. After 1938, as the ranks of the emergency workers thinned, government’s share diminished; and by 1943, when only a handful of these peculiar workers remained, government employed only about 11 percent of all civilian workers, its share having dropped three full percentage points from the earlier peak. According to this more

defensible index, government's enhanced role in the labor market grew out of the Great Depression. Not until 1966, after two decades of steady postwar growth, did government's employment share exceed the level it had reached in 1936.

Immediately after World War II, government's employment share fell almost to 9 percent before starting a long-term march upward. Since the late 1960s it has stabilized in the neighborhood of 15 percent—only slightly above the peak attained in the 1930s. Notably, during this postwar period, the lion's share of the increased government employment has taken place at the state and local levels. Between 1947 and 1981, federal employment rose by less than a million workers, while state and local government employees added almost 10 million to their ranks. Comparing the most recent share to that at the turn of the century, one finds that government's relative weight in the labor market has become almost four times greater.

The Essence of Big Government

We could continue to examine quantitative measures of the growth of government (e.g., tax revenue, funds borrowed, loans made) but little would be gained by doing so. Though each such index throws some light on the question at issue, each in a fundamental sense does not tell

us what we really want to know. The basic difficulty arises because the quantitative measures of the size of government do not correspond closely—sometimes not at all—with the underlying essence of government, which is coercive power.

Government can grow bigger, much bigger in terms of its expenditure or employment share, and still not become Big Government. What distinguishes that capitalized leviathan is the *scope of its effective authority* over economic decision-making. Under certain easily imagined circumstances, government could be very big yet rigidly limited. It might be necessary, for example, for government to spend and employ at high rates merely to deter external aggression, maintain domestic order, and enforce private property rights. Such a government would severely confine the scope of its activities, yet its performance within its own limited sphere would require a large share of the economy's resources. Individual citizens would remain free to decide for themselves all the basic economic questions about what and how to produce, determining in this ongoing market process the distribution of income and wealth. Undeniably, government's command over resources by means of taxation and expenditure would diminish the aggregate of options available to citizens. But within the constraints set by their after-tax incomes, citizens

would remain free to determine among themselves the allocation of the economy's resources. The heavy tax burden would indicate nothing more than the true cost of preserving an orderly and free society.

Differences Not Measured

All quantitative indexes of the size of government share a common defect: their changes may indicate *either* changes in the scope of effective governmental authority or merely alterations in the level at which government operates within a constant sphere of authority. On the one hand, for example, government may increase its expenditure and employment to extend its regulatory powers over previously unregulated dimensions of private economic decision-making. On the other hand, it may increase its expenditure and employment to enlarge or improve the judicial system in order to provide quicker and more accurate enforcement of existing private property rights. The two cases differ completely in their implications for the nature and workings of the political economy, yet the standard quantitative measures cannot distinguish them.

Further, quantitative indexes may register little or no change even when the substance of governmental power changes enormously. For example, it takes the same resources to operate the Supreme Court no matter

whether that high tribunal's decisions give the owners of private property much or little protection from the intrusions of government and other citizens. Many regulatory agencies operate on tiny budgets, yet they exert far-reaching effects on the allocation of resources.

American government in the twentieth century has been loath to nationalize industry outright; regulation of privately owned industry has been the preferred means of governmental control over resource use. In its most important economic effects, this continued toleration of nominal private ownership may matter little. But the accounts look different.

When the owners of industrial properties spend billions of dollars at the behest of the Environmental Protection Agency or the Occupational Safety and Health Administration, these expenditures are recorded as "private." The usual interpretation, that private expenditure signifies *voluntary choice*, is wholly unwarranted under such conditions. And the commonly cited quantitative indexes of the size of government completely fail to capture this critical feature of our modern Big Government.

Governmental expenditure and employment are *derivative manifestations* of the power of government. Before it can spend or employ, government must obtain the authority

to promote a specified public purpose. If such authority cannot be obtained (a legislative question) and sustained (a judicial question), then the matter is settled: no authority, no program. If expanded authority is obtained and sustained, government may exercise its newly acquired power at various levels. Exercising this authority at higher levels of resource cost does not imply a wider scope of governmental authority.

During the past three decades, for example, Social Security outlays for old-age pensions have mushroomed by billions upon billions of dollars. Yet the upward trend of these expenditures does not signify any new accretions of Big Government *during that period*. Government has possessed the authority to make these payments ever since the Social Security Act was passed by the Congress and upheld by the Supreme Court in the 1930s. The events of the thirties created new potential for governmental activity of this kind; subsequent events have determined only the degree to which that potential would be utilized. Like a limited government, Big Government may operate over a wide range of societal resource absorption.

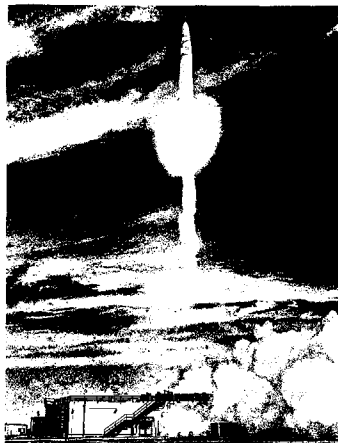
In Sum

Quantitative measures of the growth of government are certainly convenient; the newspapers report

them daily, and everyday discussions make constant reference to them. Used with caution, they can convey valuable information. Yet we must not forget that these indexes describe only derivative manifestations and not the essence of Big Government.

That essence is coercive power. Its extent cannot be accurately measured by indexes of government expenditure, taxation, or employment. The coercive power of government has its source in the actions of legislatures, regulatory agencies, and courts. These governmental bodies can, and often do, extend their sway without expending a single additional dollar or hiring a single additional employee. Of course, additional expenditure, taxation, and government employment frequently follow sooner or later. By the time they do, however, the citizen who opposes the growth of government discovers that the horse has long since escaped the barn: entrenched bureaucrats and program beneficiaries make it virtually impossible to undo what has been done.

Limiting the scope of modern Big Government requires more than containing its expenditure, taxation, and employment. It is essential that the creation and extension of governmental authority be restrained at its sources. Here as elsewhere, an ounce of prevention works more effectively than a pound of cure.



Free Enterprise in Space

WILL the day come when the cost of sending rockets into space will begin to provide profits to those who engage in the venture, rather than just being a sink into which millions of dollars are poured without hope of returning the investment? The answer to this question is no; the day has already come!

Today satellite communication, which allows television, radio, and telephone messages to be sent from continent to continent without expensive cables, is a profitable, multi-million-dollar business. Tomorrow, other industries will be making profitable use of space. Certain alloys can only be made in space, because their components will stay mixed only in the absence of gravity. Zero gravity would also facilitate the manufac-

turing of the tiny semiconductor "chips" which are vital to the electronics industry; a zero-gravity process would allow higher yields of usable chips while permitting larger and more complex chips to be produced.

These examples are not a matter of mere speculation; the space shuttles are already carrying equipment to test ideas such as these, and companies are preparing to invest large amounts of money in their implementation. Certainly these investments involve more than the usual financial risk; if a satellite doesn't work after it's put into orbit, it isn't very practical (yet) to send out a repairman. But insurance companies have been ready and willing to take on such risks; some insurance brokers have even conducted major advertising campaigns specifically to

Mr. McGath is a computer programmer and free-lance writer in Hollis, New Hampshire.

attract customers for space-venture insurance.

It is true that all private satellites to date (as of this writing) have been launched by government bodies; but private enterprise is beginning to get into the business of space rocketry as well. A German group, OTRAG, made two successful suborbital launches in the 1970s before losing the use of its African launching facility; in 1982, an American corporation, Space Services, Inc., made its first successful suborbital launch in preparation for establishing a satellite launching capability.¹

New Uses as Costs Decline

Further off into the future may be such ventures as solar power satellites and asteroid mining operations. The cost for efforts such as these seem horrendous now; but technology always grows cheaper when it can be produced in quantity. Could anyone have expected, when the Wright Brothers flew their first plane in 1903, that within a few decades regularly scheduled transatlantic flights would be cost-effective? The cost of the initial development of space industry will be high; but when spaceships become a proven industrial product, and when space stations are built to allow launching from low orbits to higher orbits or to outer space, the cost will certainly come down.

There are, nonetheless, a number

of obstacles to space development besides the initial cost barrier. One of these is the American public's image of space programs as spectacular, costly wastes of money. The source of this image, more than anything else, was our country's crash program to land a man on the moon. This program succeeded spectacularly—but it was a dead end. As G. Harry Stine, one of the most vocal advocates of space development, put it: "We *had* to beat the Soviets to the Moon . . . and we did. Once we'd done so, the whole space program was wound down because its function as an instrument of national prestige—not of scientific exploration and *not* as the exploitation of a new frontier—had been completed."²

The Moon program, seen in contrast with the profit-making space ventures which are beginning today, points out the difference between governmental activity and private economic activity. Both types of activity must show a return on investment; but in governmental activity, the return on investment is measured in votes, not profits.

A politician must make the choices that will gain him the most votes, or he will be out of a job after the next election. Monetary cost matters to him to some extent, since anything that makes taxes go up will turn voters against him. But what is more important is that the result of his actions be something obvious to vot-

ers. Something more practical but less spectacular, such as a small manned space station, is not "cost-effective" in the currency of politics. And anything whose results will not be visible until after the next election is out of the question.

Barriers to Private Development

The history of the United States' space program naturally suggests to many people that sending rockets into space is merely a very expensive kind of fireworks show. But there are tremendously practical uses for space; and if people are spending their own money and looking to gain more money in return from these uses, there is every reason to believe that at least some of them will find cost-effective ways to get above the atmosphere.

The idea that space development must be so large and expensive a task that only the government can accomplish it has even confused many people who remain advocates of space industrialization. These people have, for the most part, spent their efforts lobbying for more funding for governmental space programs, rather than looking for ways to direct private capital toward the achievement of their goals. This lobbying will be self-defeating in the long run even if it achieves its immediate purpose; by keeping space development in the government's hands, it will perpetuate the inefficiencies, high costs, and

unimaginative methodology that are inherent in any governmental operation.

But the false impressions created by the government's space program are merely a psychological barrier, and one that should not take long to be overcome once the commercial successes begin. There are, on the other hand, more tangible difficulties that the government has put in the way of the private exploitation of space.

One of the worst of these difficulties is that America's antitrust laws make the amassing of capital and expertise for a huge project, such as space development, very difficult. One of the most effective ways for businesses to go into space industrialization in a major way would be to form a consortium in order to combine technological know-how and to keep the level of financial risk for each company down to an acceptable level. But consortiums of this sort are illegal under antitrust law.

Even a single company that succeeded in a space venture could easily run into trouble with antitrust law. Space is a new field for industrialization; the first company to succeed in it would have a "monopoly" in space until the second company came along. While it is impossible to say with certainty what may be considered legal or illegal under antitrust law, the history of antitrust shows that a corporation can

be found in violation of the law, or at least forced to spend huge amounts of money defending itself in interminable court cases, simply because it has been successful; Alcoa and IBM are notable examples. There is little reason why any company would want to risk a large amount of money on space industrialization, when an antitrust suit is the "reward" that awaits it for succeeding.

Such difficulties caused by antitrust law are by no means unique to space ventures. As Presidential adviser Alan Greenspan has noted, antitrust law is "so vague that businessmen have no way of knowing whether specific actions will be declared illegal until they hear the judge's verdict—after the fact."³

Antitrust is not, as many people suppose, a body of law forbidding specific "predatory" practices (whatever such practices might be); it is a collection of legislation without intelligible standards of legality and illegality, in which the mere fact of success in business puts one in danger of prosecution, and in which the only guideline to what business activities are (probably) legal is precedents set by the courts. But while traditional businesses can look at precedents that may apply to their own situations to achieve a measure of safety, businesses entering new fields lack this recourse. There are few precedents for business in space, so the risk which antitrust law adds

to the naturally occurring risks of investing in space is tremendous.

Yet another barrier to space development is the result not so much of governmental action as of governmental inaction: the lack of any definition of property rights in space. This deficiency is not solely the fault of our government, since other spacegoing governments will also want to have their say. But what the United States has accepted as the "law of space" is quite inimical to property rights.

The 1967 Space Treaty

The principal document establishing international law in space is the 1967 Space Treaty. Under this treaty, liability for damage done by private spacecraft belongs not to the craft's owner, but to the nation under whose jurisdiction it was launched. This might seem very convenient for the owner, but it also means that the government has an excuse (in fact, a need) to keep strict control over the company's activities. Whoever bears responsibility for the consequences must decide on the actions. The treaty specifically affirms this requirement, stating that private activity in space may only be initiated with the express authorization and continuing supervision of the national government in question. Moreover, all vehicles and facilities in space are subject to inspection by any nation that can get to them,

provided notice is first given. Private property can hardly be considered "private" under such circumstances.

What would the status be of a privately established settlement on the moon? The 1978 US Civil Space Policy does not allow any such settlement. And under the 1979 Moon Treaty (which US negotiators at the UN approved, but which President Carter fortunately decided not to sign), property rights on the moon would be effectively abolished, and any installation there would be subject to entry by any nation's inspectors, just as facilities in space are.⁴

Going into space is a risky enough venture at best. But if space investors can't even be sure of establishing their right to the bases and installations they build, and if any nation is legally entitled to spy upon their industrial operations, they can hardly be expected to be anxious to risk their money there. The situation would be similar to that which

exists in international waters today, where there are no internationally recognized property rights, except that the investments to be lost would be greater.

If our government would remove the barriers it has created to private space development, and if it would take the lead in insisting that property rights be recognized in space by all nations, there could soon be a tremendously exciting future for industry in space. Perhaps people will have the ingenuity to attain such a future even with all the legal obstacles that have been thrown in their way; but it will be much harder. ☺

—FOOTNOTES—

¹Stewart Cobb, "Private Rocket Launched Successfully," *Ergo*, 9/15/82

²G. Harry Stine, *Space Power*, Ace, 1981.

³Alan Greenspan, "Antitrust," in Ayn Rand, *Capitalism: the Unknown Ideal*, Signet, 1967.

⁴H. Keith Henson and Arel Lucas, "Star Laws," *Reason*, August 1982; also see Stine, *op. cit.*

The Wrong Approach

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.

IDEAS ON



LIBERTY

John K. Williams

A Distant Voice Speaks to Us Today



ONE of the most frequently quoted utterances of Henry Ford is his assertion, "History is bunk!" His sentiment was shared by the infamous Ambrose Bierce, who defined history as "an account, mostly false, of events, mostly unimportant, which are brought about by rulers, mostly knaves, and soldiers, mostly fools."

In recent decades an examination of school curricula might suggest that educationalists agree with Ford and Bierce. The study of history has been edged to a less significant place in the school day than it once enjoyed. In many Australian schools it has become but part of a wider study known either as "social studies" or "general studies." The pupil might, in learning about the workings of present-day local government, note how different nations in the past enjoyed forms of "local government," or in studying people's eating habits in contemporary Australia, compare these with those obtaining in Elizabethan England.

The Reverend Doctor John K. Williams has been a teacher and currently does free-lance writing and lecturing from his base in North Melbourne, Victoria, Australia.

When history *is* taught, the cry is that it be "relevant." Precisely to *what* it is to be relevant is rarely specified, although the presumption would seem to be that history should be "related-to-contemporary-issues-making-the-headlines-and-constituting-the-feature-story-on-the-television-news." Since a vexed and vexing question as to the "land rights" of the aboriginal people of Australia has become a source of continuing controversy, the history of white settlement of Australia, the early settlers' treatment of aborigines, is, apparently, "relevant."

What is supremely *irrelevant* is what used to be called "Graeco-Roman" history. Few Australian schools would waste time which could be spent in "relevant" pursuits by "irrelevantly" informing students that, in the fifth century B.C., a protracted war occurred between the Greek city-States of Sparta and Athens. Certainly few, if any, young Australians would have read a speech delivered by the leading figure of Athens, Pericles, during the first year of that war, the year 431 B.C. Yet the sentiments expressed

in that speech are supremely "relevant" not simply to the world of the 1980s, a world within which liberty is threatened and the slogan "Freedom is Slavery!" of George Orwell's *1984* is echoed by the rhetoric of politicians who proffer a life of plenty provided by an ever more powerful, intrusive State, but to all lovers of liberty of all times.

Slavery in Athens

Athens of the fifth century B.C. was not, in truth, a citadel of liberty. Slavery was a reality. Women could not vote. Yet the spark of freedom glowed in that remarkable civilization. It was to that spark Pericles appealed when, on a winter's day in 431 B.C. he delivered an oration at a solemn, annual festival during which the citizens of Athens honored those who had fallen defending their city-State. This year, given the war with Sparta, the number who had fallen was great indeed.

Pericles did not speak of the valor of those who had died. He did not refer to the noble qualities of those whom an entire people sought to honor. He spoke rather of the reality they, the dead, had fought for and died for. That reality was not a place, a territory, or a city named "Athens." It was rather an entire way of life, a way of life embodying the spark of liberty.

He began by reminding his audience that this way of life had been

secured by the "blood and toil" of their ancestors. It had been born of struggle, of battle, of trial, of hardship. Men and women of the distant past had dreamed a dream, and then, by great effort and sacrifice, had made that dream come true. That dream was, according to Pericles, embodied in the "constitution and way of life" that, in truth, made Athens the city-State it was.

"Our constitution is called a democracy because power is in the hands not of a minority, but of the whole people." Strictly speaking one might challenge that assertion: as noted, women could not vote and Athens numbered slaves among its populace. Yet what was true is that Athens was not ruled by a monarch's whim or an aristocracy's fancies. Indeed, Pericles immediately explained the critical factor in this form of rule: "When it is a question of settling private disputes, *everyone is equal before the law*; when it is a question of putting one person before another in positions of public authority, what counts is not membership of a particular class, but the actual ability which the man possesses."

It was not until some twenty-one centuries had passed that these words again captured the thinking and imagination of philosophers and ordinary men and women alike. In the seventeenth century feudalism was, in Europe, the norm. Monarchs

and their favorites, and feudal lords and their families, ruled. What was legally permissible for them was forbidden for those of lesser breed. The liberty of some to practice their religion was denied to others. In the eighteenth century this system began to change, but "equality before the law" did not obtain. Only a privileged few could import goods from other nations. Those who "ruled" decreed what goods the masses should purchase by controlling prices. Wages paid varied from industry to industry, but were determined by government. Children of the poorest were required, by law, to become skilled in specified occupations.

A Society of Contract, Not a Society of Status

Yet the vision of a "society of contract" rather than a "society of status" lured both great minds and simple people. Might not a person produce goods simply because of "the actual ability which the man possesses," not because of birth or special privilege? Might not any person be at liberty to negotiate with another and agree upon what wages were acceptable to both employer and employee? Thinkers such as John Locke began to write of individual "rights," common to all, which governments must respect. That one system of laws should apply to all—rulers and ruled alike—became a cause for which people fought. That

rulers should be elected by and accountable to the ruled became an idea warming the hearts as well as engaging the minds of countless thousands.

Indeed, in the eighteenth century three utterly remarkable documents were penned in a new nation to which numerous people seeking religious liberty for themselves (but not, unfortunately, always for others) had fled: The United States of America. On June 12, 1776, "representatives of the good people of Virginia" solemnly affirmed a Declaration of Rights which asserted that "all men are by nature equally free and independent," enjoying "certain inherent rights" no government could flout: "the enjoyment of life and liberty, with the means of acquiring and possessing property, and pursuing and obtaining happiness and safety." "No man, or set of men, are entitled to exclusive or separate emoluments or privileges from the community, but in consideration of public services; which, not being descendible, neither ought the offices of magistrate, legislator, or judge to be hereditary."

Better known, perhaps, is the unanimously accepted by the then thirteen United States of the Declaration of Independence on July 4 of the same year. "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." Then, in 1787 came the Constitution of the United States (followed, in 1791, by the first ten amendments.) All three documents echoed the sentiments of Pericles: equality before the law; an absence of caste; the bestowing of positions of public authority on the basis of ability, not birth.

Equality of Opportunity

That disparities between rich and poor existed in Athens was not denied by Pericles. "We regard wealth as something to be properly used, rather than as something to boast about. As for poverty, no one need be ashamed to admit it: the real shame is in not taking practical measures to escape from it." The "equality" he lauded as marking the Athenian way of life lay not in an alleged possession of "equal skills"—indeed, in asserting that positions of public authority went to those best suited to those positions, he assumed that different people enjoyed different skills and abilities. Similarly, it lay not in "equality of possessions." It lay simply in the equal rights of people to behave as they chose in attempts to attain the goals they themselves set, and protection,

by law, from individuals or minorities denying the rights of others to live as they chose.

Law, for Pericles, mattered. Only rule by general principles of just conduct could "protect the oppressed"—that is, secure the liberties of the weak and curb actual or threatened violence of the strong. Indeed, behind such formal laws lay another law: "those unwritten laws which it is an acknowledged shame to break." The precise content of these "unwritten laws" is not clear: clearly, however, reverence for the gods of others, and respect for the dead were included. In contemporary language, Pericles perceived that the Athenian way of liberty involved reverence for the reverences of others, and a respect for one's fellows—a respect which expressed itself even when, being dead, people could no longer cooperate with or assist one.

Turning from political life and the rule of law, Pericles spoke of the "day-to-day" life of Athenians. "We do not get into a state with our next-door neighbor if he enjoys himself in his own way, nor do we give him the kind of black looks which, though they do no real harm, still do hurt people's feelings. We are free and tolerant in our private lives; but in public affairs we keep to the law."

A clearer or simpler statement of the philosophy of liberty has, perhaps, yet to be penned. There is Her-

bert Spencer's "law of equal liberty": "Every man has freedom to do all he wills, provided he infringes not the equal freedom of any other man."¹ There is John Stuart Mill's "law of liberty": "The sole end for which mankind are warranted, individually or collectively, in interfering with the liberty of action of any of their number is self-protection . . . The only purpose for which power can be rightfully exercised over any member of a civilized community, against his will, is to prevent harm to others. His own good, either physical or moral, is not a sufficient warrant."² These and the three fundamental documents, referred to above, which encapsulate the "American way," are intellectually more rigorous and more easily related to the tasks of governments and courts, but Pericles' words say all that has to be said. "We are free and tolerant in our private lives; but in public affairs we keep to the law."

Pericles' oration goes on to note other aspects of the Athenian way of life. He notes that Athens is "open to the world," having no secrets to hide; that there is no conscription for war and preparation for war, military danger being met "with natural rather than with State-induced courage"; and that Athenians, even "those who are mostly occupied with their own business, are extremely well-informed on general politics."

Describing an Ideal

How accurate a description of the Athenian way of life Pericles paints is open to debate. Many scholars perceive it more as pointing to an ideal than documenting the real. Be that as it may, his words ring down through millennia and our children deserve to hear them. The spirit informing his words is the same spirit that conquered, in some places on this planet, rule by tyranny and privilege, the imposition by the powerful of their beliefs and values on the weak, and economic systems dictated by the few rather than emerging from the choices and actions of the many.

Yet there is a further reason why lovers of liberty and the inheritors of liberty should know about Pericles and hear his words. The record of his words came from the pen of a great historian, Thucydides, who courageously—perhaps presumptuously—asserted that, in recording the events of the terrible war between Athens and Sparta, he was writing a work "not . . . designed to meet the tastes of an immediate public, but . . . to last for ever."³

Athens lost the war. Thucydides hints why. He refers, of course, to particular military mistakes made and ill-advised strategies adopted. Yet the ultimate cause of Athens' fall lay in a disregard for "those unwritten laws which it is an acknowledged shame to break."

Unwritten Laws

Essentially, as noted above, those "unwritten laws" involve a reverence for what is "holy." The importance of honoring what human beings perceive as possessing supreme worth, even when one's own vision of "the gods" or of God is at variance with the visions of others, and a deep respect for one's neighbor in his or her uniqueness as a human being: this Athens forgot.

Thucydides hints at a sequence. Manners decay: the simple code of rules, enforced by no court, which make harmonious life possible. Then morals break down. Finally, the "rule of law" is disregarded.

Even language undergoes changes. Describing the breakdown of the rule of law in one Greek city-State, Corcyra, Thucydides writes: "To fit in with the change of events, words, too, had to change their usual meanings. What used to be described as a thoughtless act of aggression was now regarded as the courage one would expect to find in a party-member; to think of the future and wait was merely another way of saying one was a coward; any idea of moderation was just an attempt to disguise one's unmanly character; ability to understand a question from all sides meant that one was totally unfitted for action. Fanatical enthusiasm was the mark of a real man . . . [and] anyone who held violent opinions could always be trusted

[whereas] anyone who objected to them became a suspect."

Loyalties collapse. "Family relations were a weaker tie than party memberships . . ." "If pacts of mutual security were made, they were entered into by the two parties only in order to meet some temporary difficulty, and remained in force only so long as there was no other weapon available . . . In political leaders' struggles for ascendancy nothing was barred . . .; they were deterred neither by the claims of justice nor by the interests of other people: their one standard was the pleasure of their own party at that particular moment."

Chaos reigns. And, in desperation, the people welcome any person or group promising the restoration of order and some semblance of security. There is a price to be paid, but people, declares Thucydides, pay that price. It is liberty.

The Price We Pay

It is not alarmist to ponder whether, today, we are witnessing the same sequence: the forgetting of the "unwritten laws," and the consequent decay of manners and morals; defiance of written laws; the use of political power to further special interests rather than to protect the liberty of all; the shattering of those bonds of mutual respect which make for community, and the emergence of powerful pressure groups compet-

ing for power and gain through coercion; then, finally, a collapse of order, the rule of chaos, and the cry for someone, somewhere, to restore some form of control. The price the tyrant exacts—liberty—is paid.

Henry Ford and Ambrose Bierce spoke slightly and amusingly of history. Yet the ancient Roman, Marcus Tullius Cicero, and the North American, Oliver Wendell Holmes, Jr., spoke otherwise. Wrote Cicero: "Not to know the events which happened before one was born, that is to always remain a boy." States Holmes: "When I want to understand what is happening today or try to decide what will happen tomorrow, I look back."

Karl Marx was in error when he spoke of the immutable laws of history. Human beings are not the passive instruments of a mysterious process working its way to an inevitable destiny. Yet, just as human beings are subject to the laws of nature but, in understanding them, can build ships and sail over vast oceans, create airplanes and fly in the air, and design rockets that soar into the once unexplored recesses of space, so human beings, in their attempts to live in harmony, liberty, and peace, must acknowledge the reality of, and seek to understand, some very simple but easily forgotten truths.

Thucydides never completed his history. He described a disease that brought an end to a way of life enshrining freedom but he prescribed

no remedy—just as, very early in his narrative, he described the symptoms of a mysterious plague that no one seemed able to cure and from which many thousands of people perished.

The Unfinished Task

It is the lovers of liberty who will finish Thucydides' history. Witnessing in their own day the symptoms Thucydides so painstakingly described, and knowing that, ignored, such symptoms lead to destruction, those holding to the freedom philosophy will, themselves, live as free people, honoring the law, and respecting their neighbor's worth. They will strive, by word and argument, to recommend to others what they so cherish themselves. And, whatever their specific creed, they will know that, in the last analysis, what they believe "should be" is rooted and grounded in "what is," and put their ultimate trust in the Source of those "unwritten laws" investing individuals with dignity and a nation with greatness. ☉

—FOOTNOTES—

¹H. Spencer, *Social Statics* (first published 1850, reprinted Schalkenbach Foundation, New York, 1970), p. 95.

²J. S. Mill, *On Liberty* (first published 1859, republished E. P. Dutton, New York, Everyman's Library, 1957), p. 73.

³All quotations from Thucydides' *The Peloponnesian War*, translated Rex Warner (Penguin Books, London, 1954).

Democratic Freedoms vs. Collectivist Newspeak



“The System of Liberty” which formed the fundamental ideas of the American constitution and government was built on one idea above all others: *Freedom works!* Individual freedom does more than anything else can ever do to advance the interests and happiness of all individuals, including producing as much equality and security as is possible for human beings. Any abridgment of individual liberty intended to produce greater collective welfare (the “common welfare”) inevitably winds up producing less. That is the one great message American libertarians and others in Britain and

Jack Douglas is Professor of Sociology at the University of California in San Diego. He has written and edited twenty-five books and numerous articles on various aspects of the social sciences.

This article is excerpted by permission from a longer essay to be published by The Reason Foundation as part of a collection, *Defending a Free Society*.

Europe created and announced to the world.

Individual liberty and constitutional democracy, the institutional expression and guarantee of individual liberty, are the most sacred social values and institution of the vast majority of people throughout the world today, both where they exist and where they are only dreams of the repressed peoples of the collectivist societies. Individual liberty and democracy are the sacred founts of all political legitimacy today. The voice of the individual and of the people have now replaced the word of God and the sacred rights he supposedly granted as the foundations for all rulers. So powerful is the appeal of liberty and constitutional democracy everywhere that no government leader anywhere dares to oppose them.

In our free Western societies in which these hallowed and ancient ideals were given rebirth they have now been so completely dominant for so long that they are taken for granted by almost everyone and, thus, only rarely do we consciously consider what a treasure they are. Just as a healthy young person takes the delights of life for granted, and focuses his attention on its inevitable minor pains, so do we too easily take the delights of liberty and democracy for granted and focus our attention on our inevitable failures to live up to their ideals completely. And in this way we blind ourselves both to the threats to our sacred ideals and to our greatest potential source of strength in defeating those threats.

Sons of Liberty

The Revolution of Liberty and Democracy was launched by the American sons of liberty in 1776. The success of the great American experiment in liberty inspired vast hope everywhere and ignited *The Age of the Democratic Revolution*, as R. R. Palmer has called it. In the succeeding twenty-five years democratic revolutions erupted across Europe. Some succeeded; more were put down by aristocratic reactions. A few, most notably the vast explosion against the corrupt, repressive collectivism of the French monarchy, were quickly seduced by even more repressive forms of collectivism. After

his defeat, Napoleon revealed his own total cynicism about liberty and the Revolution when he said, "Vanity made the revolution, liberty was merely a pretext." But during his reign he used the powerful rhetoric of liberty to inspire democrats throughout Europe to embrace what they only later discovered to be a new tyranny complete with a new and generally more repressive monarchy and aristocracy.

But the seeds of hope for a new and better world of individual liberty had been loosed upon the world. These hopes have since been increasingly inflamed by the vast and totally unprecedented growth of science, technology and wealth created by the individual enterprise and creativity unleashed by individual liberty. These values of liberty and democracy and the hopes they inspire have now spread to the entire world and become more powerful—more sacred—than ever. The Age of the Democratic Revolution sweeps on, overturning one collectivist tyranny after another in the sacred name of liberty.

It is a terrible tragedy of our age that almost all of these revolutions inspired by the hope for liberty and its fruits are now either launched by cynical Bonapartists manipulating these sacred symbols to win totalitarian power or soon fall victims to totalitarians out of self-deception. All of the most terrible totalitarian col-

lectivists of our age are completely aware of the power of the sacred symbols of liberty and constitutional democracy. Today, the more totalitarian a regime is, or intends to become, the more its leaders brandish the sacred symbols of liberty and democracy. The totalitarians use these sacred symbols as myths to mystify the people and thereby try to hide the brutal realities of their regimes. As Friedrich Hayek noted forty years ago, "... wherever liberty as we understand it has been destroyed, this has almost always been done in the name of some new freedom promised to the people."

Totalitarian Tactics

In the nations where the mass of people are ignorant of the ancient meanings of our Western ideas of liberty and democracy the totalitarians merely superimpose the sacred symbols on their brand of collectivism and then use massive censorship and propaganda to try to prevent the people from ever learning the difference. But the more knowledgeable the people are about our ancient ideals, the more mythical deceit the totalitarians must use in their desperate efforts to maintain some shreds of legitimacy to cover their use of police terror to build their power. They do this by using all the forms of Hitler's Big Lie and all the powers of statist mass education and

the mass media. Above all, they must fabricate plausible rationalizations to present the foundations of their totalitarian collectivism—government planning, regulation, and control of everything from money to literature and science—as the one and only true "new freedom."

As Peter Drucker has said, "... the less freedom there is, the more there is talk of the 'new freedom.' Yet this new freedom is a mere word which covers the exact contradiction of all that Europe ever understood by freedom. . ." This New Think and New Talk about liberty and democracy have obviously been most necessary in the West itself, especially among our intellectuals, to seduce people into abandoning the very foundations of all they have held sacred. But everywhere that educated people have been important these new forms of double-talk have been vital in legitimizing the new and ancient forms of totalitarianism.

Since most totalitarians today have come to power where most of the people were largely ignorant of Western civilization, but where the educated people have known the rudiments of our liberty and democracy and have been too important to neglect, the traditional names and outer forms of liberty and democracy have been retained for the masses and have been combined with "new freedoms" rhetoric aimed especially at intellectuals.

While our Western leaders today rarely even mention liberty or democracy, and almost as rarely name the new forms of totalitarian slavery what they are, all totalitarians freely brandish these sacred symbols as the shibboleths of their regimes and *never* name themselves what they are. Every dictator is a self-proclaimed "President" or "Premier" of "The People's Republic"; every modern Genghis Khan flies the bright banners of "wars of liberation" and denounces true liberators as "Imperialists"; every imperialistic Russian totalitarian who has murdered soviets and other socialists proudly declares himself the humble servant of "The Union of Soviet Socialist Republics."

The Deceit of Tyrants

The deceit of tyrants and totalitarians has always had great seductive powers. That is a basic reason why liberty and democracy have been so rare. But rarely have they been as successful as our modern totalitarians in carrying out their counter-revolutions in the very name of liberty and democracy. It is absolutely vital that all free people—and aspirants of freedom—today understand how they have deceived people, why they have so often succeeded, what their moral weaknesses are and how this tide of reactionary rhetoric can be turned back on its propagators.

The first crucial thing that must

be done about this drift into the absurdities of collectivist Newspeak is for people everywhere to speak the truth in truthful language. The Russian rulers, the Chinese rulers, the Castros, and all totalitarian collectivists are the tyrants of Terrorist Slave States. This is a precise, technical historical usage of the terms.

The slaves of Russia, Cuba, China and many other nations have far fewer freedoms than the slaves of Ancient Rome or the ante-bellum South. Earlier slaves could generally be freed within the state and by law. Only desperately dangerous flight can free the slaves of Russia, China, Cuba and so on. Earlier slaves were normally encouraged to mate, but in China today the Party decides who can marry and who can have a child (rarely more than one). The Romans crucified thousands of slaves who revolted, but Russian communists have murdered tens of millions, routinely brutalize many thousands in the living-crucifixion of the Gulags, and systematically terrorize the entire nation for merely saying—or potentially saying—things against the regime.

Our leaders must speak the obvious about these Terrorist Slave States. Even more importantly, intellectuals, especially journalists, must end their Great Betrayal and proclaim the truth. Out of blindness and their own envious lust for power, the intellectuals of Russia, China,

Eastern Europe, Cuba and all the other tortured lands led their deceived people into the death camps and torture chambers of the Terrorist Slave States.

Afraid to Speak Out

The intellectuals and journalists are the Judases leading the people into slavery. Some do so knowingly. Far more do so because they refuse to look into the bright glare of truth streaming from every nation that has followed this Marxist path. Many more "go along" with, or merely remain silent when their colleagues preach the Marxist faith from our campus pulpits, our church pulpits and our media pulpits. They know the lies, misinformation and agitprop when they see it, but prefer ease and repose rather than face the wrath of the activists. They are terrorized by the mere thought of being branded "Right Wing Extremists"—or even "Conservative." It is almost unseen by those outside, but there is a continuing Marxist revolution going on in our humanities, social sciences, churches and journalism throughout the Western world. The intellectuals are building the "Road to Serfdom."

No freedom-loving person can ever invoke official controls or censorship against these lies and this far more ominous silence. We can only assert our own freedom of speech. But that is all we need. Freedom and truth

work. They need only to be exercised—strenuously, consistently, courageously.

But this truth and freedom of speech against the Terrorist Slave States is needed even more in entertainment and the daily news media than in our college classrooms and intellectual forums. One gripping movie like "Missing" can insinuate more doubts about American businessmen and political leaders than dozens of intellectual journals or hundreds of lectures can undo by the most meticulous analysis of facts. Our news media are awash with the best of intentions, but the most extreme ignorance and prejudice about simple economic matters. This ignorant and prejudicial economic moralism of the journalists is a powerful wedge which opens the way for the more openly Marxist phalanx.

The Need for Privately Financed Educational Institutions

We do not need—and must sternly oppose—any forms of censorship or agitprop. Nor do we need any form of government interference in behalf of truth and freedom. Our government obviously has enough problems trying to be truthful about itself and to get that truth across. What is needed is that these threats be recognized by our intellectuals and other influential people. Here I believe William Simon's proposals in *A Time For Truth* are the most effective.

What we need is *privately* financed organizations for ferreting out and spreading the truth. CIA-type clandestine purveyors of the supposed truth will always be suspect—or worse—of political self-seeking even by us. Even openly government financed institutions are not very effective or needed.

American businesses, foundations and individuals committed to the system of liberty give billions every year to colleges and groups which gladly, if generally unknowingly, disburse much of that money to collectivist sympathizers. They would do much better for their own cause by financing gripping movies about the decent and loving heroes who fight against slavery in Siberian Gulags, broadcasts to Cuba from Miami's Cuban exiles, free market newspapers that compete effectively against *The Washington Post* and *The New York Times*, and maga-

zines that expose the effects of massive government powers.

Detailed tactics are not my concern here, but just consider what an impact war films from the peasants of Afghanistan could have in exposing the Russian pose as the Land of the "New Freedom." Since our journalists find the task too daunting (and it certainly would not be like living at the Saigon Hilton and sallying forth for a few rice paddy shots before cocktails), why not finance the training of a few dozen bright Afghan correspondents and arm them with super-8 cameras? That is precisely the sort of thing the real practitioners of freedom can do far more effectively than any government. Self-reliance—individual initiative—in truth seeking and truth broadcasting is the most effective weapon in all strategies for exposing and counterattacking Collectivist Newspeak. ⊕

Leo N. Tolstoy

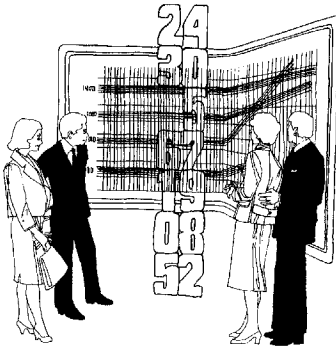
No feats of heroism are needed to achieve the greatest and most important changes in the existence of humanity . . . a change in public opinion.

And to accomplish this change no exertions of the mind are needed, nor the refutation of anything in existence, nor the invention of any extraordinary novelty; it is only needful that we should not succumb to the erroneous, already defunct, public opinion of the past, which governments have induced artificially; it is only needful that each individual should say what he really feels or thinks, or at least that he should not say what he does not think.

IDEAS ON



LIBERTY



Capital, Deficits and Full Employment

IN the Fall of 1982, as inflation rates continued to drop, the public shifted its concern from rising prices to rising unemployment. The concern was real, as unemployment reached levels unequaled since the Great Depression of the 1930s. Of course the media overplayed the comparison with the 1930s. Nearly half of those unemployed were from households which had more than one income earner prior to the recession and which still had at least one breadwinner working. The unemployment figures were also overstated because of the sociological shift of more women who were listed as "looking for work." The increased labor force participation rate of women makes comparison of current unemployment figures with past years suspect. The increased use of unemployment benefits also soft-

ened the impact of job loss and may have contributed to the unemployment figures by allowing those out of work to pursue new job opportunities with less vigor. In any event, the recession of 1980-82 did not see a return of breadlines and tent cities.

Yet, unemployment is still a tragedy in both economic and human terms. In economic terms, unemployment means lost production and a lower material standard of living. In human terms it means not just lost income but the severance of a social bond forged in the workplace community and the loss of self-esteem. Those who are forced to live on charity or see their dreams of advancement destroyed by lack of opportunity suffer a loss to the spirit. A worker who loses his job for no direct fault of his own is fundamentally different from the idler who out of laziness or other defect becomes a permanent member of the welfare

William R. Hawkins is Assistant Professor of Economics, Radford University, Radford, Virginia.

underclass. A society which values the work ethic needs to be concerned with unemployment.

There are two components of the high jobless rate. First is the cyclical unemployment resulting from the recession. When the unemployment rate reached 10.4 per cent in October 1982, about three per cent was due to the recession, amounting to approximately 3.4 million workers. The second cause is the secular decline of key sectors of the American industrial base such as autos, steel, shipbuilding, and textiles. This contributed about 2.5 per cent to the rate or about 2.7 million jobs. Thus, solving the unemployment problem will take more than just recovering from the recession.¹

Keynesian Philosophy

The dominant economic philosophy for the last 45 years has been Keynesianism. It won its claim to the position of "orthodoxy" because it professed to have the answer to unemployment. It was born in 1936 when J.M. Keynes published *The General Theory of Employment, Interest and Money*. The United States was in the midst of the Great Depression and it was thought that older theories of the economy had failed. Keynes' timing was perfect to fill the perceived intellectual vacuum.

Keynesian theory has long held sway among liberals, however, not

because of any inherent truth in the Keynesian model but because it appeared to give objective "scientific" support to redistribution schemes originally favored for ideological reasons. One of the central tenets of Keynes was that depressions are caused by too much saving relative to planned investment. Though he felt that investment was the key to prosperity and growth, in the black mood of the 1930s he felt that investment opportunities in the private sector were played out. Therefore, saving no longer served a useful economic function. In fact, saving was now a detriment, a drag on the economy because it would not be converted into investment spending. Saving should therefore be converted into spending by the government either by taxing it away from private hands or by borrowing it away to finance budget deficits. Public works and welfare could be promoted on the grounds that the entire economy benefited, a campaign that was calculated to entice far more support than a direct appeal to redistribution or socialism. That there was a wider political consequence to his theory than pure economics was not lost on Keynes. At the end of *The General Theory* he wrote:

Thus our argument leads towards the conclusion that in contemporary conditions the growth of wealth so far from being dependent on abstinence of the rich,

as is commonly supposed, is more likely to be impeded by it. One of the chief social justifications of great inequality of wealth is, therefore, removed.²

However, it became clear by the dawn of the 1970s that the Keynesian description of the economy did not fit reality. The United States economy was not being dragged into stagnation because it was generating too much capital. Just the opposite. Americans were saving a smaller percentage of their incomes than were the populations of any other industrial country and even a smaller share than many nations of the Third World. Capital shortages, rising interest rates and lagging productivity became major concerns.

Liberals quickly disparaged such concerns as "trickle-down" economics. Yet, the so-called "trickle-down" system is the very foundation of all modern economic systems. And the results have not been a trickle but a raging flood that has given even those at the very bottom of the economic ladder access to luxuries denied to even the most powerful aristocrats of the past.

The Industrial Revolution

Perhaps when the leaders of the seven largest industrial democracies met at Louis XIV's palace at Versailles last summer, it occurred to at least some of them that when the Sun King resided at Versailles, he had no electricity, central heat-

ing or air conditioning, no flush toilets, telephones or television. And they might have contrasted their arrival by airliner and limousine with Louis' long and painful trips by horse-drawn carriage over dirt roads.

The reign of Louis XIV occurred near the end of the pre-industrial era. Only 61 years after Louis' death in 1715, Adam Smith published *The Wealth of Nations*. In fact, the death of the French Monarch and the birth of the Scottish philosopher were separated by only eight years. In the classical tradition which Smith began, capital played the central role:

Wherever capital predominates, industry prevails. . . . Every increase or diminution of capital, therefore, naturally tends to increase or diminish the real quantity of industry, the number of productive hands, and, consequently . . . the real wealth and revenue of all its inhabitants.

Capitals are increased by parsimony, and diminished by prodigality and misconduct.³

Keynes may have temporarily vanquished this idea in academic circles but he could not vanquish the chain of cause and effect which it stated. Smith was not forming abstract theory, but observing human actions.

It offends the egalitarian notions of many to accept that economies always advance from the top down, yet it defies logic to believe that growth can be based solely on poverty and consumption. A natural hierarchy

develops, where it can, of those who can invent and apply new devices and those whose talents lie in business, efficiently allocating resources (wealth/capital) in ways which enrich society as well as themselves. This hierarchy is not the static, class-bound structure of the feudal aristocracy, but one in which a broad spectrum of the population can take part. As Ludwig von Mises argued:

One further observation must still be made about this matter of savings 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.⁴

The development of capital markets, joint-stock companies and corporations, banks and other financial intermediaries provided the institutional framework for mobilizing the savings of the masses for productive use.

Prior to the wedding of capital and technology which spawned the Industrial Revolution, even the rich were limited by the fact that their wealth could only purchase the services of human or animal labor. Labor is a vital factor of production, but for the thousands of years when labor was essentially all mankind had to work with, it was not enough to raise the general standard of liv-

ing much above subsistence. It was only with the rise of capitalism, both in the sense of physical capital in machinery, factories and power-plants and also in financial capital to support the implementation of technology, that modern industry was possible and men were able to raise their sights so that no goal has seemed beyond reach.

Yet capital, like all economic resources, is finite. Though it may be increased over time, at any particular point in time it is scarce relative to all the possible uses for it. What makes Keynesianism so heretical to sound economics is its denial of capital as a scarce resource and its unconcern for capital development and its productive allocation. And the principal offender in the Keynesian doctrine is the budget deficit.

When the government at any level runs a budget deficit, it must go into the capital market to finance it. This is the same capital market representing the same pool of savings that business and consumers depend on to finance their activities. The increase in demand for funds emanating from the government pushes up the price of capital, that is, interest rates. Some private borrowers find these higher rates a deterrent to borrowing. For business, some investment projects no longer yield a return high enough to cover the increased interest rates. These projects are canceled. For consumers,

buying a new house or even an automobile is no longer feasible. Private economic activity thus slows down, production declines and some workers lose their jobs.

Years of Malinvestment

Over time, the diversion of capital from productive private use to non-productive government programs results in deterioration of the very structure of the economy. The federal government has run a deficit every year since 1969, which means capital withdrawn from the private sector is never replaced by repayment of the debt. In 1969, Federal debt held by private investors in the United States was \$222.8 billion. At the end of the second quarter of 1982 this figure had grown to \$736.9 billion, indicating that the government had absorbed \$514.1 billion in capital during the intervening years.⁵ The sum would have been even higher had not foreign investors purchased \$129.5 billion in United States Federal debt during the same period. But since some of this foreign capital would have been invested in industry in the United States had it not gone into government debt, this is also a loss to the economy.

With future budget deficits expected to run over \$100 billion per year, the fear is that the government will divert between one-third and one-half of all the available cap-

ital to the national debt between 1982 and 1985 unless major changes in government expenditure policy are undertaken. However, as important as it is to balance the budget, it is also important that the deficit be eliminated in the right way. Raising taxes will do as much harm as good.

Postponing the third installment of the tax cuts voted in 1981 and scheduled for 1983 will close off a potential increase in capital formation just as it is about to produce results. The first two installments of the tax cuts, with their reduction in taxation and their increased incentives for saving, have produced real, though modest, results. In 1980, Americans were saving only 5.5 per cent of their incomes, but by the end of the third quarter of 1982 this had increased to 8.8 per cent. The completion of the program might just be enough to boost the United States savings rate into the lower end of the rates enjoyed by the rest of the industrial countries (which range from 10 per cent for Canada to 30 per cent for Japan on average.)

Attempts to raise taxes in other areas will also be counterproductive. The impact of taxes on business earnings or returns from investment are obviously harmful. Increasing taxes to bail out the nearly insolvent Social Security system would also syphon funds out of the private sector. The Social Security system, unlike private pension plans,

does not convert premiums into investments. Instead the system pays out its benefits from current revenue. This simply makes Social Security another mechanism for converting capital into consumption.

Cut Spending

The only method of reducing the deficit which will yield the benefits of economic growth and job creation is to cut spending. How much should be cut? An estimated budget deficit of \$115 billion for fiscal 1983 does not require a spending cut of that same magnitude. An economic recovery will close much of the deficit automatically by expanding the tax base. What is needed is a spending cut to reduce that part of the deficit in excess of this amount so that recovery can proceed in a timely fashion. Cutting \$30 billion from currently planned expenditures should be sufficient, though additional cuts in 1984 might be necessary if the deficit fails to close fast enough during the recovery to prevent another spiral upward in interest rates.

Interest rates will be an indicator during the recovery of the balance between private and public demand for borrowed funds. As the recovery progresses, private borrowing, particularly by business will increase. If government borrowing does not decline at the same pace or faster, interest rates will move upward and could choke off the recovery.

Balancing the budget during the economic recovery will eliminate that part of unemployment which is due to the recession. That part of unemployment which is due to the decline of American industry will take longer to correct. American industry did not deteriorate overnight and it will not be rebuilt overnight. The economy is faced with a productivity crisis of the first magnitude. This is most apparent in those sectors where foreign competition has advanced into formerly American markets displacing not only American-made products but also the workers who manufacture them. However, the decline of productivity is an economy-wide phenomenon. The consequence may not always show up in lay-offs, it may work in ways which are "invisible" such as fewer new jobs created or lower real wages for those who hold jobs. Whichever way the results are felt, it is the workers who suffer.

We know from the research of growth specialists like Frederick W. Taylor and Simon Kuznets and from observing contemporary systems like that of Japan, that productivity can be multiplied, perhaps indefinitely. But the method for achieving this is not to make workers work "harder" as some would have it, but to enable workers to work "smarter" by providing them better tools and organization. As Peter F. Drucker has argued, it is not the individual worker who is productive in the


modern economy, it is the industrial system which is productive. It is by combining labor and capital in harmony that productivity is found. When unemployment exists it means that this harmony has been disrupted. Labor is available, but its partner capital is not.

Capital is the future. It is the provision for the risks, the uncertainties, the changes and the jobs of tomorrow. . . . An economy that does not form enough capital to cover its future costs is an economy that condemns itself to decline and continuing crisis, the crisis of stagflation.⁶

If this long-term problem of productivity and jobs is to be solved, there must be a long-run commitment to limiting the adverse effects of government spending on the economy. Fiscal policy must not only encourage capital formation (primarily by ceasing to place obstacles in its path) but must cease to divert the capital so formed into nonproductive programs. For if the capital is available and the tax and regulatory environments are conducive to entrepreneurial activity, then the process of reindustrialization will bear fruit. In fact, entire new industries based on computer and other high technology processes are in the offing provided that American business is in a position to act. It would be a tragedy of the first order if these new opportunities are missed because reforms in government policy were not implemented.

A Time for Change

The advent of massive deficits in the 1970s followed by economic stagnation and persistent high unemployment have created the conditions for both intellectual and policy changes. The advocates of fiscal responsibility, limited government and capital formation have made headway but have not yet fully seized the moment.

As the November elections revealed, the unemployed are still the prey of those who champion larger government expenditures and debt. This must change. As the chief beneficiaries of expanded capital investment, the unemployed should become the natural allies of the movement to balance the Federal budget. 

—FOOTNOTES—

¹Even when the economy is operating at what is considered to be full employment, the unemployment rate is about five percent due to people being temporarily, and voluntarily, between jobs.

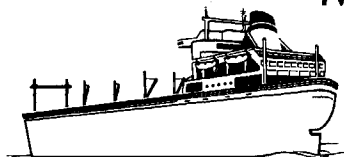
²John Maynard Keynes, *The General Theory of Employment, Interest and Money* (Harcourt, Brace & Co., 1936) p. 373.

³Adam Smith, *The Wealth of Nations* (Modern Library, 1937) pp. 320–21.

⁴Ludwig von Mises, "Wages, Unemployment and Inflation," *Planning for Freedom* (Libertarian Press, 1974) p. 160.

⁵*Monetary Trends* (Federal Reserve Bank of St. Louis) September 23, 1982, p. 13.

⁶Peter F. Drucker, "Towards the Next Economics," *The Crisis in Economic Theory*, Daniel Bell and Irving Kristol, editors (Basic Books, 1981) p. 11.



MARITIME SUBSIDIES: OVERREGULATION

THREE TRUISMS characterize a free market. First, production for the profit motive is production that is best. No one works harder or more efficiently to produce a good or service than one desiring to further his economic standing. Second, money spent by one who earns it is money spent best. Third, the free market allocates resources best. The most efficient way for buyers and sellers to meet for business is in a free market. The negative consequences of overriding these truisms may be evidenced in the history of the American Merchant Marine.

In the United States, preoccupation with our Merchant Marine dates back to 1789 when the very first act of the first Congress imposed a protective tariff on imported goods and allowed a ten percent reduction on goods imported on U.S. vessels. A heavier port tonnage tax was also

levied on foreign built and owned vessels. Further, only vessels built in the United States could be registered under the American flag and this stipulation was to have serious consequences.

In those early days the maritime industry prospered. The availability of craftsmen and abundance of wood supplies made American ships less expensive and some of the best in the world market. Prior to the Civil War, American shipping reached its golden age, providing capital and income for the young nation. However, when metal vessels replaced wooden ones and steam-powered vessels replaced sailing ones, American shipbuilders were faced with higher construction costs.¹ These expenditures and the restrictive legislation of 1789, which prohibited the registration of foreign ships under the American flag, contributed to the decline of American trade on American vessels. From 1846 to 1914 the share of American trade carried on

Dr. Cohn is Assistant Professor of Economics at the United States Merchant Marine Academy, Kings Point, New York.

U.S. vessels by weight, dropped from more than 80 percent to about 10 percent.

A severe shortage of ships occurred during World War I as a result of both the Act of 1789 and the conditions imposed by the war. President Woodrow Wilson had sought legislation for government ownership and operation of fifty merchant vessels. This led to the Shipping Act of 1916, which was a first attempt to impose economic regulations on the maritime industry and also established the U.S. Shipping Board that was authorized to spend \$50 million to buy or lease 50 vessels.

The government's efforts at ship ownership proved very wasteful, costing \$3.3 billion, as opposed to the \$50 million which was initially planned. Although a wartime project, the Board continued the building of vessels even after the armistice, and was left with a huge fleet to dispose of. The Merchant Marine Act of 1920 set a national policy that the U.S. should have an American-owned merchant marine to carry the majority of its commerce and authorized the disposal of the wartime fleet. But the collapse of the shipping boom in 1922 left the nation with a supply of vessels in excess of demand. Some of the ships costing the government \$200–250 a ton were sold for as little as \$8 a ton.²

The disposal of the war-built fleet

also caused a cessation in the construction of ocean-going vessels from 1922–1928. The Merchant Marine Act of 1928 provided subsidies to the industry under the guise of ocean-mail contracts and established a construction loan fund. Both these projects failed. Scandals accompanied payment of the subsidies and the need for ocean-going vessels dropped dramatically when the depression came: another failure of government intervention.

Merchant Marine Act of 1936

To remedy this situation, the Merchant Marine Act of 1936 provided direct subsidies to the industry and established The U.S. Maritime Commission, whose authority included distribution of these subsidies. Due to the wartime conditions, the 1936 act was not tested until the end of the 1940s. In 1950 the Maritime Commission was abolished, but eventually its functions were passed on to the Maritime Administration.

The rationale behind the subsidies was that they would allow American builders and operators to reach parity with foreign competitors offering lower prices because of lower wage payments and subsidies they received from their governments. Since it is felt that a Merchant Marine is essential to the nation in case of war or other emergency, American subsidies are given, in the form of construction

differential subsidies and operating differential subsidies. The huge sum of \$9,161,838,288 was paid out from 1936–1980. The percentage of subsidies to total receipts of international ocean transportation has been declining, from 17.3 percent in 1965, to 11.9 percent in 1975, then to 7.83 percent in 1980.³ But despite their relative decline, their success has been slight indeed. For the same years mentioned, the share of U.S. oceanborne trade, by value, aboard U.S. flag ships, has fallen from 21 percent to 18 percent and then to 14 percent respectively.⁴

Further Subsidies?

In the post World War II period there has been a constant decline in the U.S. share of oceanborne trade. To stem this decline, Congress passed the Merchant Marine Act of 1970. This new act set policy goals and dealt with the entire fleet, but it was merely an update of the act of 1936. The frustration of Congress can be seen in this latest legislation. The Merchant Marine Act of 1970 established a seven-member commission, known as the Commission of American Shipbuilding, to study the American shipbuilding industry's productivity and cost-cutting measures and then to make recommendations to the President and to Congress.⁵

It is not necessary to seek artificial means to improve productivity.

The dynamics of a free market always hold true. Remove subsidies and restrictions from the industry. Allow shipping firms to pool their cargoes and share their profits as foreign companies do. In short, allow the American companies to compete with the same freedom that foreign governments allow their shipping companies.

The American worker has been the highest paid and most productive historically, and will increase his productivity if his wages depend on it. Shipping companies will always spend their own money more economically than government subsidies. If American companies are given the liberty that foreign companies enjoy, they would best utilize the resources at their disposal to compete in the international market. It is not necessary for a commission to tell us how to be more productive, we need only turn to basic economic principles. ☉

—FOOTNOTES—

¹Clinton Whitehurst, Jr., "A Maritime Policy and Program for the Eighties and Beyond," *Defense Transportation Journal* (February, 1982) 76–82.

²Paul Zeis, *American Shipping Policy* (Princeton, N.J.: Princeton University Press, 1938), pp. 95–98, 125–141, 154–165.

³Maritime Administration, *Annual Report, 1980*.

⁴*Statistical Abstracts of the United States 1981*, Section 23, Transportation—Air and Water.

⁵Vol. 84, *Statutes at Large*, Public Law 91–469.

The Businessman in American Literature

WE do make some progress. Just when TV is being charged with perpetuating the ancient stereotype of the businessman as Con Man and Scrooge, Emily Stipes Watts, a professor of English at the University of Illinois, has discovered a new attitude toward business among American novelists. Her evidence, presented in considerable detail in her *The Businessman in American Literature* (Athens, GA, The University of Georgia Press, 183 pp., \$16.00), depends on a corporal's guard of novelists—Stanley Elkin, James Dickey, Ken Kesey—who are hardly household names; and “corporate capitalism,” as something distinct from small business, gets few plus marks even from a new breed of writer that has turned against the socialists. But the air, in Emily Watts' pages, is cleared of a lot of cant as she moves toward her conclusion that “private capitalism provides the framework for a pluralistic society in which the individual and the *civitas* are suspended in a paradoxical but healthy relationship.”

To be sure, American writers for long periods of time have not been concerned with business as such. Herman Melville's *Moby Dick* describes the whaling ship as a factory for killing and processing whales, and greed is undeniably a motive in financing the whale-catching voyage of the Pequod. But Melville was only incidentally concerned with the utilitarian worries of whale ship proprietors. What really interested him was the metaphysical monomania of his Captain Ahab. Melville, along with Thoreau and Emerson and the Transcendentalists of the pre-Civil War Golden Day, was troubled with larger questions of Good and Evil in a world in which Sam Slick, Johnson Hooper's rascally character, could anticipate pragmatism with his “It's good to be shifty in a new country.”

Authorship, in pre-industrial times, had been bound up with aristocratic patronage, and the writer in America was faced with a make-do situation simply because there were no noble lords in a new society to

pay a scribbler's way. Mark Twain, Henry James and William Dean Howells, the Big Three of post-Civil War times, did the best they could in an insensitive world. Twain was a tramp printer; Howells got his writing start by producing a hack campaign biography for Abraham Lincoln, which led to a political appointment as consul. Twain had his fun with business villains in *The Gilded Age*, but he was personally entranced with inventors and with the Yankee ingenuity of his Connecticut mechanic who visited the court of King Arthur.

Henry James, the novelist who wrote like a philosopher while his brother William, the philosopher, was writing like a novelist, did not hate business as such. He merely deplored the fact that in its native form it left Christopher Newman of *The American* (1877) very little time for culture.

As for Howells, his ethical preoccupation led to an early dalliance with Edward Bellamy-style socialism. What bothered Howells about his entrepreneurial Silas Laphams and Jacob Dryfooses, millionaires, was the atrophy of their generous instincts in pursuit of success. What escaped Howells was the fact that Silas Lapham's paint had both utilitarian and esthetic uses that justified the business that produced it, and what escaped James was the circumstance that Christopher

Newman had first to earn the money that enabled him to take his cultural *Wanderjahr* in Europe.

Signs of Envy

The American fiction writer was anti-bourgeois before he was pro-socialist. Writers belonged to Grub Street, and if they could not catch on in journalism their natural habitat was the garret where idealism had to struggle to repress envy. Naturally they saw business largely from the outside. Dreiser could be both fascinated and repelled by the amoral energies of Frank Cowperwood, his fictional traction magnate of *The Titan*, but he missed the point that it was a truly responsible man, Thomas Edison, who had brought electricity to the cities and made the five-cent fare possible even in spite of monopolistic financiers.

The anti-bourgeois writer easily went over to socialism. Upton Sinclair saw only a vicious spirit of competition in the Chicago packers who disassembled hogs without hearing "the hog-squeal of the universe." Sinclair changed the law as it affected sanitary conditions in Packingtown, but he was not satisfied with that. Frank Norris, in depicting the Southern Pacific Railroad as an "octopus," tried to take solace in the fact that the wheat of the San Joaquin valley got to market despite the railroad robber barons. But he was troubled by the

gambling element involved in marketing the wheat once it was out of the grain elevators and off the trains.

With Sinclair Lewis, who had gone to college in the muckrake era, the derogation of the businessman took on a Menckonian finesse. Babbitt believed in go-getting, and he skirted the edge of sharp practice. But he had his pathetic side. He was not the heartless capitalist of the proletarian novels, and he was aware of the shallowness of his life. He could return from his fishing trips in the Maine woods with new resolutions which he quickly forgot.

Gertrude Stein's Influence

Emily Watts, with an ear for nuance, credits Gertrude Stein, Ernest Hemingway's mentor, with a most influential defense of private capitalism in the mid-Thirties. Writing in the *Saturday Evening Post*, Miss Stein asked a simple question, "Is Money Money or Isn't Money Money?" "When you earn money and spend money," she said, "anybody can know the difference between a million and three. But when you vote money away there isn't any difference between a million and three."

That put Gertrude Stein in the anti-Keynesian, anti-Marxian camp, and it seemed to pull other ex-radical writers (E. E. Cummings, John Dos Passos) with her. The fictional businessman Merton was provided with some quite convincing lines by

John Chamberlain's book reviews have been a regular feature of *The Freeman* since 1950. We are doubly grateful to John and to Henry Regnery for now making available John's autobiography, *A Life with the Printed Word*. Copies of this remarkable account of a man and his times—our times—are available at \$12.95 from The Foundation for Economic Education, Irvington-on-Hudson, New York 10533.

Edna St. Vincent Millay in her long poem, "Conversation at Midnight." With Gertrude Stein pointing the way, the "lost generation" managed by degrees to find themselves on the side of common sense. The businessman in fiction became as other people, a human being to be judged in terms of his own sensibilities, which might be those of any professional faced with the necessity of both making a living and discharging his duties as a citizen.

Emily Watts is a deft researcher and excellent summarizer, but she has overlooked some points. She sets Willa Cather down as anti-business on the basis of Cather short stories, but it was a businessman, Fred Ottenburg, who pushed the operatic career of Thea Kronborg in Cather's *The Song of the Lark*. And one looks

in vain in Emily Watts' book for the name of Garet Garrett, who, in addition to his purely economic writing, gave us some remarkable novels about business. Garrett's *The Driver*, a novel based on the life of E. H. Harriman of the Union Pacific, was surely worth a glance. And ditto for Booth Tarkington's *The Plutocrat*.

**THE CASE FOR GOLD: A
MINORITY REPORT OF THE U.S.
GOLD COMMISSION**

by Ron Paul and Lewis Lehrman
(CATO Institute, 224 Second Street, S.E.,
Washington, D.C. 20003), 1982
226 pages ■ \$8.95 paper

Reviewed by Tommy W. Rogers

The Case for Gold is more significant in analysis and insight than its title might imply. It is a record of the political economy and banking of the United States as they have evolved in history. It is an important reinterpretation of American history with respect to the uses of the public treasury by financial interests, and of the accompanying struggles, manipulations, and political developments. The book traces the recent economic decline, details the process by which the dollar has lost public trust and has suffered decreased purchasing power, and proposes specific reforms predicated on a monetary standard. It is a specific

defense of the political, economic, and moral desirability of an honest money standard.

This book is anything but a compilation of esoteric statistical data; it is both original and restorative. It contains just about everything one would ask about the history, significance, and importance of the gold standard, past, present, and future, if one knew enough to ask the right questions. The implications of the topic dealt with are enormous; the penalty for public failure to come to grips with the truths presented here would be severe.

This is not to say that *The Case for Gold* is a sensationalist work, for it is not. It is not written with exclamation marks! Honest money (redeemable specie measured by a known standard of value) versus the continuation of politically manipulable fiat paper money which is undefined by, is not redeemable in, and is not backed by specie of specific value, poses questions of such intense reverberation that realism speaks in unfettered terms of the cataclysmic consequences of continuing failure to respect and abide by fundamental economic law.

The question of fiat political money versus honest money poses some of the most dramatic and consequential political and economic issues of the day. The question of honest money, of necessity, goes to the essence of freedom, liberty, limited

government, the role of law, and prospects for economic growth and business predictably. The importance of public understanding and willingness to take appropriate curative steps can scarcely be overemphasized or exaggerated.

Paul and Lehrman make an explicit case for the desirability of an honest money standard (a requirement gold suitably meets) with respect to its political, moral and economic parameters. It was not until August 15, 1971, that the United States severed the last link between the dollar and gold. This act ushered in a new era of inflationary psychology and lack of trust. Gold has value of itself; paper does not. As Thomas Jefferson stated in debate over the money issue in 1784: "If we determine that a dollar shall be our unit, we must then say with precision what a dollar is." From 1792 until August 15, 1971, the dollar was defined as a precise weight of either gold or silver. For the last decade, the dollar has been undefined and unbacked. It is sustained only by popular faith, and that faith has declined steadily. The dollar, in consequence, is worth only about one-third of what it was worth in 1971, as measured by its command over goods and services. The loss of definition of the monetary unit is directly related to the financial and economic problems of today.

The institutionalization of money-

creating powers in the Federal Reserve has not and cannot perform the economic miracle of turning stones into bread. Paul and Lehrman argue that the entire process—the creation of the Federal Reserve in 1913, President Roosevelt's confiscation of privately owned gold and devaluation of the dollar in 1934, withdrawal of silver certificates from circulation and the debasement of coinage and its replacement by copper sandwiches for coins in the 1960s, terminating with the ending of the international convertibility of the dollar into gold in 1971—"is a catalogue of broken promises and outright theft on the part of the federal government as it sought to substitute a managed, irredeemable paper money for a gold standard."

Elimination of honest money, that is, of money as a commodity defined precisely by weight—is a threat to freedom itself. John Locke argued that the right of the individual to own gold was a civil liberty equal in importance to the liberty to speak, write, or practice one's own religion. When the Founding Fathers wrote the U.S. Constitution in the summer of 1787, the debacle of the paper money issued by the Continental Congress was fresh in their minds. The framers of the American Constitution, men who were greatly influenced by both English Common Law and biblical law, regarded money as "a weight of precious metal,


not a weightless piece of paper with green ink printed on it." The authors contend that today's paper money system, issued by a coercive banking monopoly, has no basis in the Constitution. It is, they state, "a form of taxation without representation, and a denial of the hard fought and won principle of consent before payment of taxes," and is a blatant contradiction of the Constitutional provision restricting legal tender to gold and silver.

Chapter one of *The Case for Gold* reviews the problem of persistent inflation and general economic havoc which have become accentuated by the last decade of paper money. Chapters two and three review the history of money and banking in the United States and the process by which we arrived at our present state of economic disorganization through paper currency. Chapter four sets forth arguments for monetary freedom based on historical experience with the free market and an absence of legal tender laws.

Chapter five makes the case for the gold standard. The authors dispose of the common objections, and set forth the benefits derived from sound money. These include low interest rates (anticipated to stabilize at three to four per cent), accelerated real economic growth, increased savings, renewal of longterm financing, checking of government spending, and a grow-

ing economy with increasing demands for employment.

Chapter six outlines specific reforms that are needed to correct the blunders of the past. These include repeal of the legal tender laws, definition of the dollar in terms of a specific metallic unit, gold coinage by government and private mints, removal of monopoly privileges over money by the Federal Reserve, continuing audits of America's gold reserves, and deregulation of banking. Paul and Lehrman point out that there is no free entry into the banking business, which is largely centralized by the Federal Reserve and other federal and state regulatory agencies. Deregulation of banking, including free entry by simply filing the legal documents with the appropriate government clerk, is a must for monetary freedom.

The last chapter of *The Case for Gold* presents two contrasting scenarios for the next decade. One perspective, based on a gold standard and monetary freedom, moves toward longterm stability of prices and business growth with prosperity made possible by maintenance of a sound currency. The alternative is to continue the present course with irredeemable paper accompanied by accelerating rates of inflation and unemployment, the punishment of thrift, and the eventual spectre of whirlwind inflation and social chaos. Americans must choose. 

INTRODUCTION TO THE STUDY OF THE LAW OF THE CONSTITUTION

by A. V. Dicey

(Liberty Classics, 7440 North Shadeland,
Indianapolis, Ind. 46250)

435 pages ■ \$15.00 cloth; \$7.00
paperback

Reviewed by Tommy W. Rogers

DICEY (1835–1922) held a professorship at Oxford for twenty-seven years. He was heir to the first academic post created specifically for the study of English law, the Vinerian Professorship at Oxford, established in 1758, and of which Sir William Blackstone was the first incumbent. The fruitfulness and productivity of Dicey's tenure in this chair was such as to make it known as the second founding. Dicey, said a subsequent incumbent, is entitled to a similar place in the legal literature of the nineteenth century as Blackstone holds in the history of legal literature in the eighteenth century.

Law of the Constitution—published in 1885, revised edition, 1915—was based on Dicey's professorial lectures. The "rule of law" idea is one of the organizing principles of the book. While Dicey did not create the phrase, he did bring the concept into currency and was responsible for the elaboration of its principles. The rule of law means one law for all men alike. It means that "no man

can be made to suffer punishment or to pay damages for any conduct not definitely forbidden by law; every man's legal rights or liabilities are almost invariably determined by the ordinary Courts of the realm, and each man's individual rights are far less the result of our constitution than the basis on which that constitution is founded."

Dicey noted the emergence of administrative law between 1885 and 1914 with a corresponding decline in the ancient veneration for the rule of law in England; there was, he said "a marked tendency towards the use of lawless methods for the attainment of social or political ends." Dicey was referring to legislative acts which gave judicial or quasi-judicial authority to "officials who stand more or less in connection with, and therefore may be influenced by, the government of the day, and hence have in some cases excluded, and in others indirectly diminished, the authority of the law Courts."

Dicey contrasts the rule of law with administrative law which, he writes, was "unknown to English judges and counsel . . . In England, and in countries which, like the United States, derive their civilisation from English sources, the system of administrative law and the very principles on which it rests are in truth unknown."

Dicey, with his opposition to "law" propelled by administrative agen-

cies as a contravention of the rule of law, would be astonished by the amount of discretionary authority which has come to be vested in regulatory agencies and tribunals of administrative law judges in our country today, which makes this classic study more pertinent than ever. ☉

THE PORTABLE CONSERVATIVE READER

edited by Russell Kirk
 (Viking/Penguin, Inc., 299 Murray Hill
 Pkwy., E. Rutherford, NJ 07073), 1982
 723 pages ■ \$6.95 paperback

HERE, in one handy sized volume, is a little library of distinguished writing—prose, poetry, fiction, fable and myth. The anthology opens with Burke, as is fitting; forty-five pages of selections from four of his works. Then there is Adams, Hamilton, Calhoun and Cooper; Tocqueville, Disraeli, Newman and Bagehot. From the modern period there is Santayana, More, Babbitt, C. S. Lewis, T. S. Eliot, and a score of others. It all adds up to hours of reading pleasure.

Where else will you conveniently find Macaulay's letters to Randall, Hawthorne's fantasy called "Earth's Holocaust," Kipling's fable of "The Mother Hive," Conrad's "The Informer," or "The Liberal Death Wish"

by Muggeridge? The imagination kindles while the intellect gets a workout.

These selections reflect Dr. Kirk's far ranging mind in the area of man as a social being seeking freedom and order in the company of his fellows. His Introduction sets forth the essential features of the Conservative outlook and disposition, and the authors he has chosen reveal the depth and several dimensions of this philosophy.

Russell Kirk burst upon the world about twenty books ago with his *Conservative Mind* (1953). Four years later he launched a quarterly review, *Modern Age*, which has just published its Silver Jubilee Issue—248 pages of the best articles which have appeared during its first twenty-five years. There are appreciations of Mises, Hayek, Weaver, Strauss, Vivas and others. The Austrian School is surveyed by Albert Zlabinger. Several scholars assay Conservative thought during the past generation, and others explore its principal fountainhead, the philosophy of Edmund Burke.

Intellectual history has been made in our time, and *Modern Age* has played a significant role. (Copies of this Summer/Fall 1982 issue are available @ \$2.50 by writing to *Modern Age* at 14 South Bryn Mawr Avenue, Bryn Mawr, PA 19010.) ☉

—Edmund A. Opitz
 Book Review Editor

the Freeman

VOL. 33, NO. 4

• APRIL 1983

- Free Trade and Foreign Wars** **Sam H. Husbands, Jr.** 195
Trade barriers between nations lead toward friction and war.
- Free Riders Face a Rocky Road** **Melvin D. Barger** 205
Those who "go along" with pressure-group demands are also responsible for the consequences.
- The Crisis of the Welfare State** **Clarence B. Carson** 213
Policing the market against violence is a political, not an economic, process.
- The Virtues of the Free Economy** **Bill Anderson** 225
The market promotes cooperation instead of conflict—peace instead of war.
- Workers and Robots** **Hans F. Sennholz** 236
The impact of new technology on the job market and on workers.
- Robot Protectionism** **Ernest G. Ross** 248
Robots are a part of a man's technology and his future.
- Book Reviews:** 254
"Progress and Privilege: America in the Age of Environmentalism"
by William Tucker

Anyone wishing to communicate with authors may send first-class mail in care of THE FREEMAN for forwarding.



the Freeman

A MONTHLY JOURNAL OF IDEAS ON LIBERTY

FOUNDATION FOR ECONOMIC EDUCATION

Irvington-on-Hudson, N.Y. 10533

Tel: (914) 591-7230

Leonard E. Read, *President*

Managing Editor: Paul L. Poirot
Production Editor: Beth A. Hoffman
Contributing Editors: Robert G. Anderson
Bettina Bien Greaves
Edmund A. Opitz (Book Reviews)
Brian Summers

THE FREEMAN is published monthly by the Foundation for Economic Education, Inc., a nonpolitical, nonprofit, educational champion of private property, the free market, the profit and loss system, and limited government.

The costs of Foundation projects and services are met through donations. Total expenses average \$18.00 a year per person on the mailing list. Donations are invited in any amount. THE FREEMAN is available to any interested person in the United States for the asking. For foreign delivery, a donation is required sufficient to cover direct mailing cost of \$10.00 a year.

Copyright, 1983. The Foundation for Economic Education, Inc. Printed in U.S.A. Additional copies, postpaid: 3 for \$1.00; 10 or more, 25 cents each.

THE FREEMAN is available on microfilm from University Microfilms International, 300 North Zeeb Road, Ann Arbor, Mich. 48106.

Some articles available as reprints at cost; state quantity desired. Permission granted to reprint any article from this issue, with appropriate credit, except "The Virtues of the Free Economy."

FREE TRADE AND FOREIGN WARS

It is my purpose to show that though the principles of free trade and no entangling alliances on which the nation was founded were unique and sublime, we find that economic fallacy, misplaced patriotism, and political compromise have combined to undermine the legacy of those principles.

In his first annual address to Congress in 1790, George Washington said "Observe good faith and justice toward all nations. Cultivate peace and harmony with all . . . The nation which indulges toward another an habitual hatred or an habitual fondness is in some degree a slave.

Mr. Husbands of San Francisco is a member of a national investment banking firm. He is a Trustee and past Chairman of the Board of The Foundation for Economic Education. This article is from his address at the Fall Meeting of the Board and guests at the Foundation, December 5, 1982.

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 . . . it is our true policy to steer clear of permanent alliances with any portion of the foreign world."

In his first inaugural address in 1801 Thomas Jefferson stated that among his essential principles of governing would be a policy of "peace, commerce and honest friendship with all nations—entangling alliances with none."

And so it was that the founding fathers understood that for free men to remain free they must remain strong in their defense but avoid meddling in other nations' affairs.

The test of that resolution to remain free of foreign wars was to confront Washington and Jefferson in

the first years of the Republic. A combination of events, including legislation passed as the Merchant Marine Act of July 4, 1789 and the acts of a quartet of Barbary powers were leading the nation to its first experience in foreign intervention, the results of which were as ambiguous as any of the dozen or so adventures abroad that were to follow to this day.

The Merchant Marine

The 1789 Merchant Marine Act instituted tariffs for revenue purposes, but with a tariff differential of 10% on any goods shipped in American holds. The effect in stimulating the growth of a distinctly American Merchant Marine was startling, for in 1789 the United States was carrying 17½% of her imports and 30% of her exports. Within six years these numbers had become 92% and 88%, and yearly tonnage under the American flag had grown from 123,893 tons to 529,471 tons.

To advocates of free trade, any reduction in tariffs is good, no tariffs better, but the outgrowth of this selective tariff disparity was the "American" merchant marine. The promotion and protection of its ships and men became a patriotic duty. Just one hundred years later, in 1881, William Graham Sumner considered the necessity of a national merchant marine, and wrote:

If Americans owned no ships and sailed no ships, but hired the people of other countries to do their ocean transportation for them, it would simply prove that Americans had some better employment for their capital and labor. They would get transportation as cheaply as possible. That is all they care for, and it would be as foolish for any nation to insist on doing its own ocean transportation, devoting to this use capital and labor which might be otherwise more profitably employed, as it would be for a merchant to insist on doing his own carting, when some person engaged in carting offered him a contract on more advantageous terms than those on which he could do the work.

The seizure of American merchant ships and sailors in the late 18th century by Barbary rulers, and to a lesser extent the harassment of American shipping by the picaroons of the West Indies, brought humiliation to the young nation. The resulting pressure on its political leaders led the country to embark on a program of rapid construction of six imposing frigates, the 44-gun "United States," "Constitution," and "President" and the 33-gun "Constellation," "Chesapeake," and "Congress."

The construction of these first elements of the U. S. Navy found support from Northern ship-owning families, but only disinterest or even animosity from most Southerners, who were not as concerned about what flag flew over the ship that took

their cotton to English and Continental mills.

The legitimate defense of the territory of the United States may have been a beneficiary of the emergence of the U. S. Navy, but the immediate stimulus to the construction of warships seems to have been the urgency to protect American civil shipping in far off corners of the world. The early adoption of a far-flung policing function for the U. S. government was a precedent which allowed later interventions abroad to come about with less controversy.

The Barbary Wars

The Barbary Wars were to last from 1800 to 1815, at a cost of hundreds of lives and millions of dollars for, at first, tribute and ransom, followed by the expense of construction of ships and naval operations in the Mediterranean. However, direct military intervention is only the most observable of the many ways in which we as a nation became "slaves to habitual hatred or fondness" for the people of other nations.

Were man perfectible the concept of nationhood might be obsolete. In the absence of that perfectibility, the nation state is likely to survive though I should hope as only a shadow of its present size. Man's institutions, like man himself, are imperfect, and must be vigilantly watched lest they assume unintended roles. When acts are made in

the name of the state which are contemptuous of liberty and the good sense of market economics, and which may in fact lead toward war, they must be exposed for the menace they may present to the Republic.

Rhodes Boyson, Britain's Minister of Education, has likened man to a three-legged stool, one leg being moral or religious, one economic and one tribal. Dark deeds have been done in the name of each of these aspects of man's character, but in this century the tribal and economic elements have dominated man's actions, at least in the West. Economic fallacy teamed with rampant nationalism and without moral balance has proved to be a terribly costly affair in lives lost, economic deprivation and cultural undermining.

And so it is that military conflict stems not only from such obvious causes as pure territorial aggrandizement and gratification of monumental egos, but often from a military extension of economic fallacies. Economic nationalism is invariably a partner of military intervention.

Some of the fallacies and interventions that always accompany them, include notions of the necessity for:

- (1) A favorable balance of trade.
- (2) The protection of domestic industry.

A few of the interventions that logically proceed from these fallacies include protective tariffs, im-

port quotas, domestic subsidies, antidumping laws, and currency controls.

Underlying all of these interventions is the notion that government through fiat actions can cause beneficial outcomes without offsetting costs. One does not have to be the complete cynic to suggest that what might be argued on the theoretical level in economic terms comes down in fact to a political formula: Can one group of voters be satisfied through a visible hand-out while another group of voters, affected adversely, and often unknowingly, by interventionist legislation, be mollified through dissembling and obfuscation?

One of the textbook excuses for tariffs has been that they were necessary to protect infant industry. Now that has been modified so that we are led to believe we must also protect mature, ailing industry. In fact, it is only with free trade that entrepreneurs are encouraged and noncompetitive enterprises are culled out, and these are two sides of a vigorous, productive and free economy.

There are then the laws which reinforce the notion that exports are better than imports, known as a "favorable" balance of trade. Bastiat, the 19th-century French economist, took the favorable balance of trade argument to its logical end, and suggested that were such a thing so desirable, the custom agents should

record the export of French silks to Britain and hope the ships will founder, since the result would be a recording of, say, 1,000,000 francs as an export and no offsetting import, since the silk manufacturer has received no payment with which to purchase British goods. The result would be a favorable balance of trade, but we needn't envy France for having achieved that goal.

Balance of Payments and Balance of Trade

Balance of payments refers to the accounting between nations of all goods, services and financial transfers. On a pure gold standard or pure flexible exchange rate basis, balance of payments tend to balance on a regular basis. Balance of trade is this figure less "invisibles" or cash transfers.

Jacques Rueff demonstrated in his book *Balance of Payments* that France had an "unfavorable" balance of trade with Germany for over 50 years from 1870–1933, with the exception of the four years after the Franco-Prussian War, when France was making reparation payments to Germany. Again, the act which causes the "favorable" balance of trade is obviously not in the interest of French citizens at large, but may only favor certain special interests. The reason for the long period of French-Prussian balance of payments situation was, of course, the

result of the dominant French investments in Germany.

This necessitated a French "unfavorable" balance of trade in order to offset intangibles such as dividends and interest accruing from French investments in Germany.

Milton Friedman has made the observation that the most favorable situation that could visit a people would be that in which we send dollar bills to Japan in exchange for automobiles, and the exchange ends there. If Japan were a willing partner to that transaction we could all retire. The absurdity is obvious.

Extending the Logic

What difference, in moral or economic terms, is there between a New Yorker buying an automobile built in California by a naturalized Japanese-American or an automobile built in Yokohama by a Japanese national? Yes, one is American and the other Japanese, but if that argument has merit why not extend it backward and suggest that no New Yorker buy anything not made in New York, or extend it even further, and suggest that it would be in the interest of the denizens of Manhattan to buy no item not made on the island. One thing, for sure, there wouldn't be much to eat, certainly no bananas.

Unfortunately, the Constitutional prohibitions against tariffs did not extend to international trade.

One often hears that free trade is fine, but not unfair trade, that being defined variously as everything from foreign government subsidy of exports to foreign workers receiving relatively lower wages. "Dumping," a useful pejorative, is generally considered the extreme variant of unfair trade. Dumping refers to goods being sold in this country at a price below which they are sold in the country of origin. I daresay the network news commentators would look with favor on an announcement by the British government that it was going to give away 10,000 Rolls Royces to a random group of lucky American citizens, in gratitude for American help in World War II.

It is highly unlikely that even the American automobile industry could rally much of a boycott against such an act, though it would remove those 10,000 individuals as potential customers for Detroit autos. There is no economic difference between such a daft proposal and that act of constructing and operating the Concorde supersonic aircraft, with losses made up each day by French and British taxpayers. Each traveler on the Concorde could consider the advantageous speed the aircraft offers as a partial gift by those taxpayers. However, the United States should have a difficult time working up much of a lather over foreign government subsidies for their businesses when we have such institu-

tions as the Export-Import Bank, agriculture subsidies and Federal insurance on foreign investment.

Tariffs for Protection

U. S. tariffs were primarily a revenue-raising device prior to the Civil War. The first tariff passed in 1789 raised half of the nation's fiscal needs, and by 1808 duties were providing twice the federal government's expenditures. By 1816 tariffs were becoming specifically protective and by the 1970s when revenues from duties only totaled 10% or so of the budget, their nature had evolved almost purely into protectionist devices.

Historically, Republicans have been defenders of high duties, Democrats lower duties. At the moment, sympathy for protectionist tariffs seems to be a bi-partisan affair. As mentioned earlier, protectionist tariffs have always been introduced on the ground that a particular industry is threatened by foreign competition. For the sake of jobs and the long-term future of the country, imports, under this persuasion, must be selectively restricted. What those advocates fail to point out is that for everyone who benefits from tariffs there are others, perhaps less observable, who are being economically punished.

The recently passed quotas on the importations of steel, at the behest of domestic steel management and

labor leaders, have received nothing but plaudits by the favorably affected industries and the media, though often couched in terms such as "the act is too little or too late." One would have to seek out journals of economic opinion, and selective ones at that, to find mention of those who suffer as a consequence of those import quotas.

Currency restrictions and pegged exchange rates are put in place to cover up governmental overspending and inflation, and to exert control over citizens in their attempts to make voluntary transactions with others or to avoid government's confiscation of their accumulated wealth. It is a delaying tactic; no matter how severe the penalty, if the free market exchange ratio of two currencies is different from that dictated by government, the pegged price will be undermined by market forces resulting in sudden and catastrophic devaluation. U. S. laws to make it a felony to move more than \$5,000 in or out of the country without reporting it only reinforce those who see it their business to run others' lives.

However, the most melancholy of all these false economic persuasions is autarky or National Economic Independence. What inevitably follows the embracing of this concept is the implied or real expansion of national borders with consequent recourse to military action. One of the major differences that divided

Hitler and his finance minister, Hjalmar Schacht, was over this concept of economic independence. How unsettling when we have words from Wall Street to Washington that sound so familiarly like those of Hitler when he suggested the necessity for economic mobilization "comparable to the military and political mobilization."

The Pattern of Controls

Though the imposition of Wage and Price controls in 1971 was done in the name of controlling inflation, those controls remaining on oil and gas caused the government to begin to intervene in the classic manner of politicians anywhere who believe in the economic and political benefit of autarky.

The United States is widely regarded as the marginal factor in world production and consumption of oil. The steps that follow essentially led this country to place a *floor* under the price of oil not a *ceiling* over the price of oil as the Department of Energy bureaucracy would have led us to believe.

Step 1. 1971—Wage and Price controls instituted.

Step 2. Most controls removed in 1973 but kept on oil and gas.

Step 3. OPEC raises prices drastically.

Step 4. We counter, irrationally, with the "entitlements" scheme encouraging imports, and price con-

trols, discouraging domestic production.

Step 5. We don the national hair shirt of a contrived energy crisis and directly intervene in the auto industry through mileage requirements and 55 m.p.h. speed limit.

Step 6. This forced draft downsizing causes extraordinary capital expenditures and dislocations in the American automobile industry.

Step 7. Japanese and German auto manufacturers find themselves in the fortuitous position of manufacturing automobiles that are now perfect for the American market, this having come about because of their own governments over the years imposing three times the taxes on gasoline as in the U.S.

Step 8. The U. S. government urging National Energy Independence through subsidy and tax break, resulting in unnecessary and uneconomic allocation of capital to "alternate" fuel sources.

Step 9. All of this resulting in a disabling of the domestic automobile and steel industries and immeasurable costs to all the Western world.

One frequently hears that our presence in the Middle East is necessary to protect "our" oil. The implication is that in our absence, the oil would necessarily fall into unfriendly hands and those parties would then embargo exports to the United States. Ironically, *Business*

Week reports on November 8, 1982, that "Standard Oil of California and Texaco are reportedly trying to minimize their take of Saudi oil in favor of cheaper Russian and Mexican oil." In fact, another "lubricant," ball bearings, owes its existence to the importation of chromium ore. Ninety per cent of what is used in this country comes from abroad, the Soviet Union being one of the largest suppliers.

Does our dependence on importation of chromium or other exotic minerals require government's intervention to insure supplies? I would suggest quite the contrary, for it is the reliance on the market place and individual initiative which will insure our supplies. As Hans Landsberg, Senior Fellow at Resources for the Future, says in a *Forbes* article of November 22, 1982: "We preach belief in market forces but we abandon reliance on them too easily."

Intervention Policies at Home Lead to Conflict Abroad

Each step we take to insure National Economic Independence carries us ever closer to military conflict. Our Middle Eastern commitments have now grown to the point that troop strength assigned to the Rapid Deployment Force is 230,000 soldiers, sailors and marines, that number to double in coming months. Its assigned area of operations will cover 20 countries in

the Middle East, excluding Israel. The force, it is reported, will take on responsibility with the objective of strengthening friendly nations *politically* and militarily. How far removed that notion is from those admonishments of George Washington at the founding of the Republic!

A logical step that follows the notion of economic independence is the use of sanctions and embargoes. It is with these acts that we skate close to the pitfall of war. The problem is that sanctions by definition inhibit the market and precipitate reactions from perceived or real enemies which may have been unnecessary in their absence.

Pinpointing the root cause of any war is precarious. A colleague noticed some graffiti in San Francisco around Columbus Day which said: "World War III started when Columbus took away the land from the Indians." Of course, using that logic, the apple would be at the core of all our problems. One can, nonetheless, wonder whether the oil and steel embargo of Japan and the resulting fall of the Konoye government in October, 1941 did not in turn lead to the controversial exchange of the Greater East Asia Co-Prosperty Sphere for Communist hegemony throughout a major part of the Far East. The resultant loss of lives made the earlier Rape of Nanking appear an almost minor tragedy of this tragic century.

Steps for Survival

But what steps should the United States take to insure its survival in what can be a most unfriendly world?

It first must insure its priorities are right from the perspective of its uniqueness as a liberty loving, free market, limited government example to the world. Free trade is an inherent part of that profile. The maintenance of the military necessary to defend the country from aggressive acts can only be consistent with the American ideal of choice if it is maintained by voluntary enlistment. One hears much about one's obligation to make a "fair share" contribution to causes. There is a rule of thumb that in voluntary associations, 20% of the members contribute 80% of the time and money necessary to keep the effort going. Any notion that even with a draft there is an even sharing of responsibility for the defense of the country falls in the face of the evidence that few soldiers in any war are in line operations, and one study shows that fewer than 50% of those actually fire at the enemy.

Ronald Reagan said in a letter to Senator Mark Hatfield on May 5, 1980 that "draft registration may actually decrease our military preparedness, by making people think we have solved our defense problems when we have not. . . . But perhaps the most fundamental objection to draft registration is moral.

Only in the most severe national emergency does the government have the claim to the mandatory service of its young people. In any other time, a draft or draft registration destroys the very values that our society is committed to defend."

Milton Friedman in a debate with a U. S. general at Stanford University defended the pro-volunteer Army position. The General scoffed that he did not want to be defended by "an army of mercenaries." "Would you rather," Friedman replied, "be defended by an army of slaves?"

With the exception of President Reagan's implication that there might be emergencies in which the draft was desirable, I would otherwise agree with both in abhorrence of the use of force to conscript people to defend the country.

Defensible Action

The full-time job is the nourishment of the precepts of liberty at home and noninterference with other nations' affairs abroad. There will always be good men and women who will come to the defense of such an arrangement.

If foreign intervention tends to erode domestic liberty—as I would contend—there may still be instances where American citizens wish to put in with others they perceive to be suffering. The repeal of the legal inhibitions, including the Logan Act, preventing individuals

from aiding those in other nations would expand free choice with no perceived risk to a nation bent on limiting its government's role.

Obviously, it is the understanding of and the willingness to stand by the principles of free choice which underlie the maintenance of a free society. What could be better than a rereading by veterans of free market theory or a first reading by a novice of Bastiat's works, or Henry Hazlitt's *Economics In One Lesson* or Leonard Read's "Conscience on the

Battlefield" to make certain the argument on behalf of freedom remains articulate and principled?

Above all else it is vital that if the case for liberty is to prevail, the dangers of war posed by imposition of foolish economic theories be recognized and free exchange be applied to international as well as domestic trade. The saying is as true today as it was a century ago, "If goods do not cross borders, soldiers will." ☉

Tariffs and Dumping

THE term *dumping* carries a fairly definite impression to most people, but to define it is not easy. When goods from one country are sold in another at prices below the cost of producing them, the process is commonly called dumping. Presumably it doesn't matter whether it is an individual or a firm or a government that does it; it is still called dumping.

The argument against dumping is that domestic producers cannot meet "unfair" competition from abroad. The remedy often suggested is to raise a tariff wall against these products by an amount equal to the difference between what foreign producers are willing to sell for and their costs of production. Sometimes the comparison is even made with *our* costs of production.

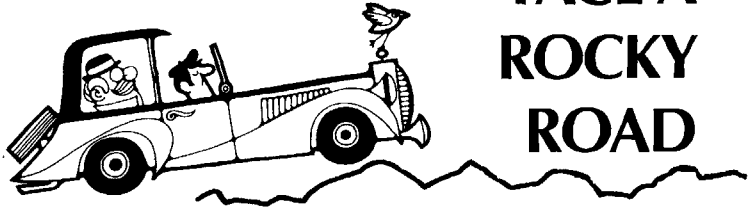
Since when has the cost of production been the determining factor of the selling price? This idea is based on the labor theory of value, rather than on the market theory. Using this same argument, local tariffs should be levied against all domestic businesses which, for any reason, offer their products for sale at a price below the cost of production. Of course, the advocates of this argument demand that the government be given the power to determine the "true" cost of production. And don't laugh this off as a joke because it has been seriously proposed more than once. The proposal may be in the form of a subsidy rather than a tariff, but the reasoning is the same.

IDEAS ON



LIBERTY

FREE RIDERS FACE A ROCKY ROAD



"I hope you're enjoying your day off," a neighbor told me some years ago. "You wouldn't have this holiday if it wasn't for the union. Maybe you ought to thank them for the free ride you office people get while the factory workers pay dues and do your fighting for you."

As a salaried employee of a major corporation, I've been taunted by this argument a number of times. It's essentially the "free rider" argument. The point of this argument is that a union obtains pay increases and benefit improvements for *everybody* in the organization, and not just those covered in the bargaining unit.

In fairness, I would have to admit that this is true. The items covered in my employer's union contracts have routinely been distributed to

nonunion employees almost immediately after the signing of union contracts. Over the years, we've received cost-of-living adjustments, pension improvements, salary increases, extra holidays, and even dental and eye care programs. These changes were obviously related to similar changes in union agreements, so it would be ridiculous and false to insist that there was no tie-in.

I sometimes worried about the way spiraling costs were hurting our business. And it bothered me in late 1974 when the union negotiated hefty wage and benefit increases even while hundreds of employees were laid off. Like other free riders, however, I went along with the process, and accepted the new benefits as an additional "right." As far as I know, not a single free rider protested be-

Mr. Barger is a corporate public relations representative and writer in Toledo, Ohio.

cause of a system that enabled people to demand and get wage increases *even when the market for their services was sliding.*

A Changed Climate

Today the climate has changed dramatically—changed both for union members and for other employees who have gone along for the ride. Unemployment has been soaring, from an 8 percent rate in September, 1981 to a 10.8 percent rate only 14 months later. Basic industries such as autos, steel and construction are in deep trouble, and this is causing ripple effects of distress throughout the nation. White-collar workers, the so-called free riders, have been caught in this storm along with unionized employees. In the September 1981 to September 1982 period, unemployment among white-collar workers rose from 4.1 percent to 4.8 percent, and the climb apparently is continuing.

In this deteriorating economic climate, the unions have become a favorite target. They are blamed for shoddy work practices which have made American goods less competitive in the market, they are blamed for refusing to make wage concessions which would lower manufacturing costs, and they are blamed for supporting legislation which raises taxes or handcuffs business.

The unions deserve this critical attention, and it's probably causing

some members to question whether unions have served their best interests. But let's not believe that we can dispose of our problem simply by putting a union label on it. We free riders also deserve some of the blame, if only because we shrugged at ideas and practices which helped create the serious problems we now face. If we're traveling on a rocky road today, it's because we once thought it was a smooth highway into the future.

Both union members and free riders have made certain assumptions, or held certain beliefs, which are turning out to be liabilities for the nation as a whole. Here are three of these ideas which need re-examination and overhauling:

- 1) That compulsory union membership serves the interests of all workers;

- 2) That wage and other cost increases can be "passed through" indefinitely in the form of higher prices;

- 3) That companies, with their seemingly large resources, are the basic providers of jobs and security.

None of these ideas stands up very well when it is thoroughly explored and tested. Yet both union members and other company employees in the United States have acted as if these three beliefs were true. As a result of these false beliefs, there has been a tendency to ignore market signals which clearly were pointing to trouble ahead.

Here, in my opinion, are some of the things we free riders should have given more consideration to, in the years when we thought we were traveling on a smooth highway.

Compulsory Union Membership

For one thing, we should have worried about the long-term and general effects of compulsory union membership. The public has fretted about the "greed" of the large unions and, occasionally, the weakness of management in coping with union demands. In fact, however, the system has been tilted politically to give unions unusual powers in the bargaining process. It is useless to blame unions for abusing this power. It is pointless to insist that management should have shown more firmness in bargaining sessions. Given the realities of compulsory union membership, we have come out about where we should have expected to be.

The public seems to be ambivalent about unions. On the one hand, there is a belief that unions were once very necessary and performed a useful service in bringing general improvements to working conditions and in raising pay levels. But now unions are seen as "having too much power" and there's a belief that they ought to be reined in or made to behave in a more responsible manner. There is amazement at some current union actions, such as the strike by Chrysler's Canadian workers at a

time when the company's future is very shaky. Why do unions, or their members, sometimes behave in ways that seem to go against the public interest and may also destroy their own jobs? (We free riders are especially alarmed when unions launch strikes which threaten *our* jobs as well as the jobs of striking workers!)

But by authorizing compulsory union membership, the public (through its elected representatives) also authorized what it now deplores as abuses of power. Without compulsory membership, there are checks and balances which would serve as natural restraints or adjustments in relations between companies and their work forces. If there is no compulsion, for example, some members could refuse to pay union dues or they could resign from the union if they disagreed with its actions. Other workers could be brought in to replace the workers who had struck. And there could also be vigorous prosecution when the union uses violence to enforce its demands, as unions have done in hundreds of cases.

Admittedly, most of these actions to restrain unions have been discredited or held up to ridicule. But that's only because unions were so successful, in the past, in winning support for practices which would frighten us if everybody adopted them. The nonunion, salaried employees of a company do not have

the same "right to strike" that is conferred on union organizations. Yet many of those salaried employees—the free riders—think it is reasonable and proper that unionized employees should have this privilege.

I've also talked with many salaried, nonunion employees who do not understand the implications of the unions' right to strike. They feel that a strike is just the normal use of one's right to quit a job. But if striking workers were merely *quitting* their jobs, most companies would respond simply by hiring new workers and starting up again. The *real* power of the strike is the unions' power to keep companies from exercising this alternative. Unions do this by using either the law or violence to enforce their strikes.

Over the years, unions have used the strike weapon to bludgeon most of the major U.S. industries into compliance with union demands. We free riders, as well as unionized employees, have been included in the process. And many of us, while voicing disapproval of high-handed union actions at the bargaining table, may have secretly enjoyed what was going on. "I hope they get what they're going after," one of my fellow employees told me, just after the union's demands became known. "The company will have to give us the same benefits!"

But while this was going on, few people paused to ask what the cu-

mulative effects of these periodic contract agreements might be. We can now look back and realize that excessive costs have destroyed one market after another for U.S. producers. We now feel that unions should have shown more "social responsibility" or foresight. But most of us probably believed that increases in wages and benefits could always be "passed through" in increased costs.

The Myth of "Passing Through"

We free riders got into trouble because we believed, along with the union, that large industrial companies could always "pass through" increased costs to the customer. This was widely believed about the U.S. automobile industry, and some critics even felt that bargaining negotiations were simply *pro forma* sessions which unions and management conducted at the customer's expense. This was believed possible because U.S. auto manufacturers had little strong competition in American markets until the 1960s, when both European and Japanese producers began to move into the U.S. market in force.

In fact, however, there is almost no way increased costs can be "passed through" indefinitely, or even for the short term, without harming one's position in the market. Even when U.S. manufacturers dominated the market, increases in automobile

production costs resulted in higher prices which forced some buyers to abandon or postpone their purchases. Or, if they purchased automobiles at higher prices, they passed up the purchase of something else on their lists of preferences. In any case, higher costs and prices always led to reduced sales and production for somebody, although it happened so slowly and was spread over such a large market that few people noticed it or could trace the process.

It's possible that economics professors and antibusiness writers helped perpetuate belief in this myth. Major U.S. industries, they argued, were "oligopolies" which gave companies the power to adjust prices markedly without paying any penalty in reduced sales. Business leaders and marketing executives who said this wasn't true were merely being "self-serving" in order to maximize their own profits and take a larger share of the pie. Meanwhile, by demanding a larger share of the pie for themselves, unions were performing a useful social function.

Free riders, also, believed that costs could be "passed through" in a painless manner, and few of us realized what the cumulative effects of this false belief would be. U.S. manufacturers held a dominant position in world markets until about 1965, and then a tremendous slippage started to occur because of price competition. In market after mar-

ket, we had become the high-cost producers, and jobs were lost in steel, in autos, in textiles, in shoes—in virtually every manufacturing industry.

When plants were closed, free riders lost their jobs along with union members. There were rising complaints in northern industrial states about losing jobs to "cheap labor in the South" or "cheap foreign labor" in Taiwan, Mexico or Japan. But the competition from low-cost producers elsewhere was not the real cause of our problem, although it did help dramatize the cost inefficiencies of many American industries. Even more dramatically, it proved that even the largest manufacturers and so-called "oligopolies" do not have much power when it comes to "passing through" cost increases.

Now, it is true that mature industrial states like Ohio and Michigan have a tendency to become high-cost areas over long periods of time. It was inevitable that other areas in the United States and in foreign countries would someday challenge us in our markets. But we made it much easier for them to succeed in this challenge when we accepted the idea that major U.S. industries had the power to bypass price competition.

Who Provides the Job?

A third false belief we free riders accepted is that companies, with their

seemingly large resources, are the basic providers of jobs and security. This seemed to be true because many people, both union and nonunion, spend their lives with strong companies which always offered good pay and benefits. In these arrangements, the company is viewed as the employer and the jobs are a form of property.

We are now learning that no company has a fixed number of jobs which it can offer to any group of employees, union or nonunion. Employees may like to think that they have lifetime employment, but this is a false belief because the company itself is mortal and cannot really control the length of its own lifespan. Good management and brilliant planning may make one company more successful than another, but every company is subject to market changes and unpredictable events which can wipe it out almost overnight.

We have been getting a lesson in this reality. Who would have believed, some years ago, that great industrial firms like Chrysler Corporation and International Harvester would move to the edge of bankruptcy, dislodging thousands of people who once thought they had lifetime employment with these companies? Who would have believed that General Motors Corporation would have more than 150,000 people on indefinite lay-off by 1982

or that more than 500,000 jobs in auto manufacturing and auto-related industries would be lost with little likelihood of restoration? All of this has happened, and the process has been repeated in most major industries.

The Customer Is in Charge

What this should teach us is that *no company is really the basic provider of jobs and security*. Every company, no matter how vast its resources, is really performing a brokering service between customers and the resources needed to supply customers with products and services. Jobs come into existence when there is a market need for them, and pass out of existence when the market need for them disappears. Job levels also can be reduced when companies change the combination of resources needed; for example, when a highly automated plant replaces a less efficient one that required a larger work force.

In the current recession, some business analysts are telling us that millions of jobs have disappeared and might never come back again. What really happened is that *customers* who formerly *provided* the jobs have changed their preferences for various reasons. And just as companies do not have the power or willingness to provide lifetime employment, neither can customers continue to schedule their purchases so as not to

disrupt our personal employment plans. This may bring anguish, not only to employees of a company, but also to shareholders, plant communities, suppliers and many others who depend on the company. It is a fact of life, however, that the customer is the real provider of the job, and we ignore that fact at our own peril.

There is No Such Thing as a Free Ride

Perhaps some of our friends who constantly tell us there is no "free lunch" should also say that there is no such thing as a "free ride." We do live in a very complex society in which many forces are delicately balanced and related to one another. Almost everything we do or think is bound to affect somebody in some way. More to the point, everything we do or think in our commercial activities will eventually affect our pocketbooks in some way.

As a free rider, I now think it was wrong to pretend that I was a spectator or innocent bystander during the years when our own basic industries were being sapped of the vitality and cost-efficiency which once brought them leadership in world markets. I should have realized, more keenly than I did, that false beliefs and unsound practices would lead to trouble for all of us.

And while I have been critical of unions in this article, I do not really

blame them for the troubles we are in, as some of my fellow free riders do. Industrial unions are simply forms of the pressure groups we have throughout society. Many of the people who criticize industrial unions belong to pressure groups of their own which are seeking special legislated advantage at the expense of the rest of us.

The Real Message

What our troubles should be telling us is that we ought to look at ideas and practices in the early stages, and do something about them before they've run their course and produced so much damage. We should really be studying trends and ideas by asking where each is likely to lead.

Take, for example, the time when my neighbor taunted me about receiving the extra holiday which came as a result of the new union contract.


If I had been thinking with any clarity, I might have replied thusly: "Yes, it is always nice to have a day off. But the union did not really 'give' me this day off. It had to come out of our business in some way, and what it really means is that the company has been forced to pay me for not working. But the company is really only a broker between customers and resources, so the truth is that our customers had to pay me for not working. Today's vacation is really a small amount and it's not likely to

affect their decision to use our products in the future. But I am concerned because we've been piling lots of things onto the customers. I hope the customers do not eventually rebel and put the union and free riders like myself out of our jobs."

But that would have been too much of a statement for a warm holiday morning when everything seemed to be going so well. And I'm also afraid my neighbor would have replied with a popular two-syllable expletive. In

his view, I was a free rider, and that was that.

He was right—but he should have noted that almost everybody in the country has to go along with whatever ride is being offered.

That's why we should all pay more attention than we do to the driving. We now know that the road can become just as rocky for free riders as it does for the people behind the wheel. 

Let the Market Decide

INSTEAD of making a union the exclusive bargaining representative for all employees in a firm when it has been selected by only some, the law should see that those who object to the union retain their basic right, as free men, to fend for themselves. When men are forced in the first place to join unions, forced in the second place to go along with all plans and programs conceived by their leaders, and forced in the third place to keep their peace if they wish to keep their jobs (and maybe their health)—it is not at all surprising to find a good many trade-union leaders less than responsive to or honest with their membership. . . .

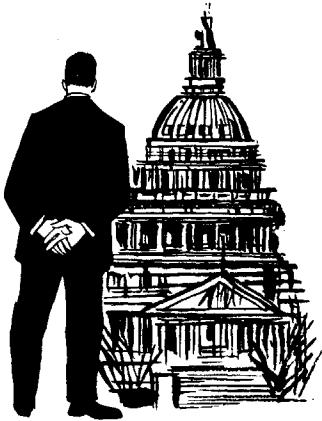
Power acquired by force and subject to no continuing functional check is bound to corrupt. Corporate managements are kept in line by the right of stockholders to move their equities when they are dissatisfied and by the right of consumers and other purchasers to take their patronage elsewhere without let or hindrance when price or quality are poor. If the house of labor is to be clean, the same general principles must be applied there, with the workingmen of the nation in the position of stockholders and consumers. It is as absurd to expect good clean unionism in conditions of extensive compulsory unionism, as it would be to expect good government in a society where the divine right of kings or the dictatorship of the proletariat was the central political principle.

IDEAS ON



LIBERTY

Clarence B. Carson



THE CRISIS OF THE WELFARE STATE

DISTRESSING SYMPTOMS often induce people to go to a physician. Quite often, these symptoms indicate that a patient is afflicted with some internal disorder. The symptoms may range from headaches to dizziness to fever to a vast assortment of aches and pains. It is not unusual for a physician to prescribe something aimed at relieving the distressing symptoms, even when he may go beyond that. Indeed, many of us take home remedies to relieve symptomatic discomforts before or instead of seeing a physician. Despite the complaints of some purists in the medical profession or among scientists that this is treating symptoms rather

than curing the disease, the prescribing or taking of medicine which provides symptomatic relief is often sensible, adequate and economic. After all, an aspirin to give temporary relief from a headache or reduce a fever may be all that is required.

Even so, symptoms *are* symptoms. They are not the ailment, though they may be important signals that something is awry. To put it another way, symptoms are effects, not causes. The effects may have a variety of causes, and a given cause may have several effects. If the symptoms persist, and the cause can be discovered, it is the cause that must be dealt with if health is to be restored. At this level, the critics of the treatment of symptoms are correct.

For a good many years now eco-

Dr. Carson has written and taught extensively, specializing in American intellectual history. He is the author of several books and is working at present on *A Basic History of the United States* to be published by Western Goals, Inc.

nomic "doctors"—whether they be economists, politicians, journalists, or soothsayers—have been treating symptoms rather than the disorders. They have been prescribing for the effects, not the causes. Unemployment is a symptom, not the disorder. High interest rates are an effect, not a cause. General price rises are effects of something else, not ailments to be treated. So it goes with all the indices which have been contrived in the effort to measure economic activity or inactivity. They are at best only symptoms which may signify some disorder.

Medically, the worst aspect of treating symptoms is that it may silence the signal, so to speak, without getting at the source of the trouble. Something analogous to this may happen in economic activity as well. For example, interest rates may be lowered, temporarily, at least, by increasing the money supply; this not only silences the signal but also sets the stage for even higher interest rates later.

Intervention Damages the Market

The political treatment of economic activity or inactivity has consequences and causes damages for which there are few medical parallels. Except for the possibility of taking political action to allay economic symptoms and the tendency of treating symptoms to obscure the sources of the difficulty, there may

not be any. An economy is hardly analogous to the human body. It is not naturally subject to ills for which there are specific political remedies. An economy consists of those arrangements by which production and trade are conducted. It is economical in those ways and to the extent that those goods which are most wanted are produced and provided with the least expenditure of the scarce elements of production. Theory now demonstrates and experience tends to show that the constructive activities of production and the social relations involved in exchanges are most effective economically when they are freely and voluntarily done.

These last points can be stated more strongly in a different way. Force is anathema to economy. To put it in medical terms, an economy is *allergic* to coercion. There are all sorts of unwanted side effects when compulsion is intruded into the personal and social relationships by which production and trade are carried on. It inhibits exchanges. It upsets the balance between supply and demand. It interferes with production by arousing resentments among the producers and gets in the way of their full use of their faculties to productive ends. It interrupts the smooth functioning of the market in facilitating exchanges, in signaling what is most wanted, and in adjusting to the continual changes occurring within an economy. Coercion,

whether it be compulsion, force, violence, intimidation, fraud, deceit, theft, confiscation, trespass, slavery, or involuntary servitude, is disruptive of human efforts to carry on their constructive activities economically.

The Role of Government

One of the basic functions of government is to prevent the use of coercion in constructive productive activities and in the distributive activities of the market. It does so most broadly by maintaining the peace. More particularly, it may do so by defining property, settling disputes, enforcing voluntarily entered into agreements, prohibiting the use of force and fraud or compulsory labor, and restraining or punishing offenders. To the end that they may effectively perform these functions governments are granted a monopoly of the use of force within their respective jurisdictions. (That states the principle, of course, to which there may well be exceptions, such as, the right of self-defense, the prerogative of parents to restrain and punish children, within limits, and the like.) The task of government in these matters is fundamentally defensive.

The exclusion of force from production and the market, then, is a political, not an economic, problem. Ordinarily, it is a problem of justice, not of equity. That is, it is ordinarily a problem of protecting the rights of those who produce and exchange

from trespass upon them. In the absence of force, those who produce may keep their production, or exchange such portion of it as they will. In their exchanges they receive such as others are willing to offer them. That is the equity of the market. In these circumstances, too, an economy performs as well or as ill as those who work and exchange within it. Any problems that might be described as economic are those of individuals and groups, not something attributable to "the economy."

Market Signals

An economy sends signals, so to speak; it does not have symptoms of disorder. If the price of some good rises, this signals the possibility of profit for producers. If interest rates rise, that is a signal to investors to become lenders in the market. If interest rates fall, that may be a signal to shift into other areas. If wages fall in some field, that may be taken as a signal to learn a different skill. Of course, interpreting the meaning of the signals of the market is not so simple as that, but the examples are meant to show the kinds of signals that the market sends. They are signals, as I say, not symptoms, and there is no political medicine which properly applies to them.

But enough of signals, symptoms, and medicine. My purpose for discussing them was to lay the groundwork for establishing that the wel-

fare state is in crisis. To do that, I wanted to make clear the character of an economy and to distinguish it from government. It is important to understand that an economy, *per se*, cannot malfunction. It is equally important to grasp the fact that force disrupts the operation of an economy. For example, when signals from the market are interpreted as symptoms of disorder and government intervenes so as to alter signals, this disrupts economic activity rather than effecting a cure from some imaginary economic disease.

The matter goes much deeper than government's tampering with the economy to provide symptomatic relief from some economic signal, however. The long-term intervention in the United States (and many other countries) has a much more thoroughgoing animus than that and is a much more powerful current running against the tide of economy. It is true that once the basic instruments of the welfare state were in place, politicians and their economic advisers have often talked as if all that would be needed to keep the economy moving would be minor adjustments. But the thrust of the welfare state is against economy; it is animated by an anti-economic idea. It substitutes political goals for the rules of economy. By so doing it disrupts economy progressively and tends to produce an endemic crisis.

The impact of welfare state inter-

vention can be most clearly seen in the market, though it extends outward into every aspect of economy. In essence, the market is the place where we exchange the excess of our produce for those amenities of life which either we do not own or produce at all or else not in sufficient quantity. Or, to put it in precise humane terms, the market is the place where we *adjust* our production to our wants. There are other ways to describe the function of the market, of course, such as, that it makes possible the division of labor by which we are enabled to produce and have more. But since adjustment is the key to the disruptive impact of intervention let us focus our attention on that.

Each Party Gains in a Voluntary Exchange

The principle of trade in the market is *quid pro quo*. It is also the most basic equity in economics. It is the balance wheel in an economy. On the face of it, *quid pro quo* doesn't say anything much. The Latin phrase means, literally, "something for something," connotes "one thing in return for another," and it may be rendered as "tit for tat." Yet it is the essence of trade. Without something for something, no exchange has occurred; with it, a trade has been consummated.

It is singularly easy to misunderstand the nature of the equity in-

volved in trade. It is quite plausible to suppose that the equity consists in the equal value of the goods traded for one another. On reflection, however, it should be clear that if both parties to a trade valued the goods equally there would be no exchange. On the contrary, what makes for trade is that each party values what he receives more highly than what he gives up in the trade. The equity consists in the advantage which each party receives, not in some sort of equality supposed to be in the goods traded. Courts have long held that in private exchanges where both parties are competent to contract, are the rightful owners of the goods they offer, and there is no force or deceit involved, a sale can be made, regardless of the amount of the consideration received by either party. All that matters, in such circumstances, is that there was something for something. That is in accord with the principle of *quid pro quo*.

This principle enables the market to function effectively; it allows prices to adjust to supply and demand, wages to fluctuate as employment conditions change, and assists producers with signals about what is most wanted. It leaves decisions of worth and value to individuals who are in the best situation to determine them. The market can be cleared of excess goods; employment can be as full as there are people willing to work for what others are

willing to pay; production can be adjusted to wants.

The Welfare State Idea

The welfare state is animated by a different idea; it is an attempt to substitute a different rule for *quid pro quo* in the economy. The moving idea of the welfare state is *social justice*. Undergirding the notion of social justice, or sustaining it, is the idea of *distributive equality*. But the equality of the welfare state is not individual equality. It is *social justice*, not individual justice, equity, or equality. More precisely, it is class or group equality, and within that framework, individuals may be supposed to obtain some sort of equality with others of their class. Examples of this sort of equality can be most easily recognized in the pay scales of labor unions and government workers. Workers do not receive equal pay, of course, but within their particular classifications they tend to be paid at an equal rate. The "equal pay for equal work" slogan makes such sense as it does within this framework. It is really a call for equal pay for all in the same job class or classification, to which the appeal to "work" is largely a smokescreen.

The welfare state tends to substitute something for everybody for the *quid pro quo* something for something of the market. More directly, the welfare state attempts to provide something (distributive equal-

ity) for every class, order, grouping, and category of people. Quite often, it provides something for nothing. It is a political, not an economic, concept. The welfare state continually upsets the tensioned balances within an economy: the balance between supply and demand, between production and consumption, between work and reward, between buyer and seller, between the money supply and prices, and between foreign and domestic markets. It does so by progressively introducing force into the economy for political ends. Coercion is disruptive to economy in any case, as already pointed out, but when it is pervasively applied for political ends, it has a corrosive effect ameliorated only by its regularity.

The Market Is Disrupted, Not Entirely Displaced

The welfare state in the United States has not entirely displaced the market, nor the other major elements in the economy. Even *quid pro quo* is still in operation, though its workings have been progressively disrupted. The welfare state is more like a vast overlay of interventions on the market and economy than the displacement of it. They burden the economy, distort it, disrupt it, but they do not replace it. The interventions produce episodic disorders as well as crises. Some of these have been called by such varied names as recessions, inflation, economic stag-

nation, even stagflation, in recent decades. They are usually popularly described as if they were economic in origin. Actually, they are the products of government intervention. Each intervention, whether it be increasing of the money supply, raising of the minimum wage, price controls, production controls, redistributionist programs of a more direct kind, or what not, produces its own bitter fruit of price rises, unemployment, surpluses, shortages, and so on.

On the surface, at least, the welfare state appeared to be working fairly well for much of the 1950s and 1960s. It was generally conceded that prosperity was widespread, and some commentators even became publicly concerned about the dangers of affluence. The prosperity, however, was despite the welfare state intervention, not because of it. There were special conditions which help to explain the prosperity.

Mitigating Factors

First and foremost, capital investment and technological innovation overcame much of the drag of the welfare state. Increased productivity kept prices from rising nearly as much as might have been expected from the increases in the money supply. That is not to say that capital investment and technological innovation could have done the job alone. While the federal govern-

ment had deficits, they were not nearly so large then as they have become since. Interest rates generally were low during most of the period.

The United States had acquired vast holdings of gold in the 1930s, and this was being used, and nearly used up, in defending the dollar around the world. This was so effective in supporting the dollar that it was only in the late 1960s that the pressure shifted to silver, which was legal tender domestically, in the flight from the dollar. At that point, the issuance of silver certificates was discontinued, and silver coins ceased to be used as a medium of exchange. But the dollar had been reinforced by precious metals to that point.

Nor should the role of human adaptation in overcoming the disruptions, distortions, and drag of the welfare state be discounted. Man is marvelously adaptive in finding ways to survive, and even prosper, in the face of otherwise debilitating government interventions. Americans were somewhat aided in making these adaptations from the late 1940s through the mid-1960s by the removal or reduction of some of the more burdensome restraints and interventions of the New Deal and wartime years. For example, production and price controls were either removed or reduced in both agriculture and industry. **The drag of the welfare state was there during**

these years, but much of it was overriden by favorable developments.

A Prolonged Crisis

Since the early 1970s, at the latest, the United States has been in a crisis. It is similar in many respects to those crises which used to be called depressions. It is as severe as most of the depressions in past American history and has lasted longer than the generality of them. But the word has gone out of style since the beginning of the New Deal, out of deference, it may be, to the claims that the legislation of the early New Deal had banished depressions once and for all. (Of course, the Federal Reserve system, which was passed much earlier, was supposed to prevent depressions, but it didn't.) At any rate, we only have recessions nowadays, according to fashionable terminology. But this is not a call for the revival of the word "depression" nor a brief for the use of such words as "recession." At best, they describe symptoms, not causes.

To call the present condition a crisis would be no better, if the word were left to stand alone. It becomes much more precise, however, when it is labeled the crisis of the welfare state. Moreover, the cause is identified and named. It is the welfare state. More specifically, the cause of the crisis is those government interventions by which the welfare state is established and grows and ex-

pands. The crisis is reached when the interventions so unbalance and disrupt the economy that it is, in effect, at least extensively paralyzed. To put it another way, the crisis of the welfare state occurs when the social justice modes of something-for-every-class and something-for-nothing go so far in displacing the market's something-for-something principle that the market can no longer function effectively and the economy is debilitated.

Let me not suggest, however, even by implication, that a crisis of the welfare state occurs at some precise identifiable point which could be pinpointed and be expected to recur again and again at that point. The crisis of the welfare state is ultimately qualitative, not quantitative. The welfare state establishes a vast network of dependencies of the people upon it, assumes responsibility for their well-being, and arouses expectations that it will deliver. In consequence, many people are unaccustomed to taking the initiative and making the adaptations which might enable them to survive and prosper. For example, they may not move to new locations to find work or enter new fields of endeavor when old ones promise little for the future. Also, interventions tend to mix up such signals as the market can send, and many people become frustrated with the continual fluctuations which accompany government interfer-

ence. These are qualitative matters depending upon the wills of people, are not measurable, and hence are unpredictable. In any case, the symptomatic character of indices deduced from statistics makes them unreliable predictors of anything.

Cities in Crisis

Probably, the most dramatic examples of the crisis of the welfare state have been the cities for the past decade or so. There is good reason why this should be so. In the first place, large cities are concentrations of people that are most dependent upon the market in a country. In the second place, the welfare state is more firmly and deeply established in what are called the inner cities than anywhere else.

Trade is the life blood of cities. They have almost always arisen as trading centers. Their origins are still apparent in the fact that most large cities to this day are located on navigable streams, on lakes, near the confluence of rivers, or are seaports. The first large cities in America were Boston, New York, Philadelphia, and Charleston, all port cities. In time, most cities have become manufacturing centers, transportation centers, and centers of wealth. They drew goods and workers from near and far, shipped goods to the surrounding hinterland and often to the far corners of the world.

If the *quid pro quo* which under-

girded the relationship between these cities and the trading areas they served be ignored or downgraded, it is easy enough to see how they may have provided the model in the minds of reformers for the welfare state. After all, what is the welfare state but a great grid extending outward from a central city? Except, of course, force has been substituted for voluntary exchange; wealth is drawn inward by taxation, and it is distributed on the basis of political favor rather than an economic *quid pro quo*.

At any rate, welfarists have been drawn to the great central cities much as moths are attracted to a flame. Concentrated wealth is the prime ingredient of the welfare state, and the cities were the places where it was mainly concentrated. Cities would have been drastically harmed by the welfare state anyway, for their lifeblood is trade, and welfarism is an assault on the market. But they have borne the brunt of it in two other ways. In the first place, much of the wealth which financed the welfare state has been drawn from the cities. In the second place, many city governments became the most profligate distributors of welfare.

In the past several decades central cities have drawn welfare recipients much as they were once a magnet for workers. Many of the factories, commercial institutions, and service institutions have left the

inner cities as they became welfare enclaves. Far from being the centers of wealth they once were, they have become political fiefdoms of mendicant politicians seeking federal and state grants to stay afloat. Their crises are the crisis of the welfare state writ large.

The Crisis Spreads to Outlying Areas and Other Lands

But the crisis of the welfare state is by no means restricted to the inner cities; the whole country (and, for that matter, much of the rest of the world) has been in its grip for the past decade or longer. It is a crisis which began to beset us around 1970. It has had some ups and downs since that time, but it persisted throughout the 1970s and is thus far a fixture of the 1980s. The signs—symptoms, if you will—of the crisis are: the declining value of the dollar, wildly fluctuating interest rates, unbalanced budgets, mounting deficits, the bear market for stocks (interrupted from time to time by mini-crashes and mini-bulls), unemployment, rising prices, stagnation in productivity, imbalances in foreign trade, and many others. Economic analysis can show that these symptoms are effects of welfare state interventions and the inflexibilities they brought with them. Historical evidence points to their cause as the massive intrusions which immediately preceded their onset.

The last great cycle of government intervention before the onset of the crisis of the welfare state came in mid-1960s. It came during the Johnson Administration, and many of the crucial acts came in 1965, when President Lyndon Johnson was fresh from his landslide victory over Goldwater. "A wide-open legislative road stretched before the Great Society programs," as one history has described it. "Congress poured out a flood of legislation, comparable only to the output of the New Dealers in the Hundred Days Congress of 1933. Fiscal orthodoxy flew out the window and planned deficits came in the door. . . . The Office of Economic Opportunity . . . had its appropriations doubled to nearly \$2 billion. Congress granted more than \$1 billion to redevelop the gutted hills of Appalachia, and voted a slightly greater amount for aid to elementary and secondary education. . . . A tireless Johnson also prodded the Congress into creating two new Cabinet offices: The Department of Transportation and the Department of Housing and Urban Development (HUD)." (Thomas A. Bailey and David M. Kennedy, *The American Pageant* [Lexington, Mass.: D. C. Heath, 1979, 6th ed.], pp. 885-86.)

But the above only scratches the surface of the new programs inaugurated or old programs bolstered in 1965, some of them involving long-term commitments. The Medicare

program was begun in 1965. A general scholarship program for college students got underway. The government got more involved in health services with enactments for Community Health Services, Mental Health Facilities, and a Heart, Cancer, Stroke Program. A variety of programs to aid in pollution control were authorized or funded. Actually, however, Johnson had not waited until his victory over Goldwater to speed up welfare state activity. In 1964, such acts as the following were passed: Federal Airport Aid, Farm Program, Pesticide Controls, Civil Rights Act, Urban Mass Transit, Truth-in-Securities, Food Stamp, Housing Act, Wilderness Areas, Nurse Training, and so on. The thrust did not end in 1965, but it tapered off after that year, as the Johnson Administration became more and more involved in the Vietnam War.

Interventions of the 1970s

Some of the enactments of the first term of the Nixon Administration contributed substantially to the crisis of the welfare state as well. The Occupational Safety and Health Administration and the Environmental Protection Agency, both authorized in 1970, were major thrusts. The Equal Employment Opportunity Act of 1972 was yet another. Not all this legislation was class legislation. For example, neither

OSHA nor EPA fall clearly in that category. But it was all welfarist in character, and most of it has been class legislation. At any rate, the spate of legislation between 1964 and 1972 was more than adequate to burden and restrain even the most resilient economy.

Actually, there are many crises, potential and actual, within the general crisis of the welfare state. Some come and go, occupy center stage for a bit and then are set aside to smoulder. For example, there is the monetary crisis which emerged even before the end of the Johnson Administration. The United States government could no longer support the ever-increasing number of dollars issued to finance the welfare state with its dwindling supplies of precious metals. Therefore, between 1967 and 1971 the government abandoned official support of the dollar with precious metals, as quietly as it could. That did not end the monetary crisis, of course. Thereafter, the dollar "floated," as it is still floating, floated in relation to other currencies, on the one hand, and against durables, among them precious metals, on the other.

The flight from the dollar got underway in earnest after 1970. The most dramatic of the crises resulting from the flight thus far has been the oil, or, more broadly, energy, crisis. There were other factors in the oil crisis, such as OPEC and animosity

toward the United States, but the enduring feature has been that oil-exporting countries will no longer accept the dollar in exchange for oil at anything in the vicinity of its former valuation. When the United States ceased to support the dollar with gold in international exchange, it was more or less drastically devalued, nowhere more than in the price of oil.

There is not space here to attempt to trace out all the crisis-producing aspects of the manifold activities of the welfare state. Indeed, a good-sized volume would not provide the space. Suffice it to say that monetary manipulation results in booms and busts, general fluctuations in prices, higher or lower, and can only be offset by unpleasant adjustments. Regulations and controls increase the costs of producing and distributing goods by the cost of every activity of compliance.

Inflexibilities Introduced Which Hinder Adjustments to Change

Administered prices and wages, whether it be minimum wage laws, union-prescribed wage scales, price controls on goods and services, or what not, produce inflexibilities that make changes to meet changing conditions exceedingly difficult, if not impossible. Deficit spending must be made up either by borrowing in the market or increasing the money supply. High taxes take money away

from productive purposes to be applied to nonproductive ones. Redistribution disturbs and distorts the market mechanism for distribution.

Long term commitments, such as Social Security, produce crises as they come due. Indeed, the United States government has a large assortment of long-term commitments in its various "insurance" programs which could only be met, if at all, by so flooding the market with paper money that the dollar would be destroyed.

But let us not be drawn away from the main point by an elaboration of intermediate causes of the present crisis. To be aware of the economic consequences of political intervention is no doubt desirable, but to focus on these is to leave the root cause untouched. The root cause is not to be found in any one or combination of intermediate causes. Those who believe this way are still open to the view that by better conceived political manipulations, based on better understandings of economics, the crisis can be averted and things set right. But so long as the root cause continues to produce its effects, the

crisis will remain, either potentially or actually.

The root cause is a premise. It is the premise of the welfare state. It is the belief that government can and should intervene in the economy so as to achieve social justice. It is this belief which prompts those in power to alter or supplant the *quid pro quo* of the market—a system of equity for voluntary traders—with a class system of distribution. It is this that burdens the market and economy with every sort of exaction, extraction, regulation, control, distortion, and disruption.

The cause of the present crisis is political, not economic. That means that the cure is political. The cure is for government to confine itself to establishing justice and reducing force, leaving equity to the market in economic matters. That will not solve all problems. Nothing will. But it will restore the responsibility for wrestling with them to the individuals and voluntary groups who are best qualified to deal with them. When that is done, the economy will function as well or as poorly as the people who operate within it. ☉

Charles Dickens

IDEAS ON



LIBERTY

EVERY man, however obscure, however removed from the general recognition, is one of a group of men impressible for good, and impressible for evil, and it is the nature of things that he cannot really improve himself without in some degree improving other men.

Bill Anderson



The Virtues of the Free Economy



IT IS FITTING, I believe, that this 1982 meeting of the Mont Pelerin Society be held in West Berlin, for it is in this place that the realities and ironies of the free economy and collectivism stand as stark and clear as the *Schandmauer*, the oppressive Wall of Shame that surrounds this free city in a sea of totalitarianism. If we are to present the case of the superiority of capitalism over collectivism, this is as good a place as any to begin.

Were I a lawyer presenting the case of economic freedom, I would be tempted to use Berlin as my example. After all, the good economic fortune of West Berliners is well-known, especially by East Berliners who have been kept from the western sector of their city by the imposing barrier of concrete, barbed wire, land mines and machine guns for longer than twenty years. In the free West Berlin, people move at liberty throughout the city; in communist East Berlin, the *Bereitschaftspolizei*, the civil police, harass and intimidate citizens at will. The West Berliner's income is higher than that of his eastern counterpart, whose wages, while the highest in the communist bloc nations, would place him below the poverty line in the West.

Mr. Anderson is a teacher of social studies at Rossville, Georgia, Junior High School. This article is published by permission from his prize-winning essay in the 1982 Olive W. Garvey Essay Competition in cooperation with The Mont Pelerin Society.

There is no question that West Berliners are freer, wealthier and happier than their eastern counterparts.

Western Intellectuals Persist in the Denigration of Capitalism

But the minds of men are confused and muddled on the subject of economic freedom. The western world in the last two centuries has been a showcase for the virtues of economic freedom, yet, as theologian Michael Novak points out, "Few themes are more common in Western intellectual history than the denigration of capitalism."¹ George Gilder, in his perceptive *Wealth and Poverty*, notes with sadness that many who give intellectual support to free enterprise do so not because they agree with its ethos (which they see as morally bankrupt), but simply for utilitarian reasons: it creates more wealth than does collectivism.²

Yet, if capitalism is to continue to be a vibrant part of the world order, it must be seen as having virtues beyond its immense productive capacities. Those who wish to enlist economic freedom in the quest for human progress, for justice, for an end to world hunger, for freedom itself, must see capitalism not only as an efficient dispensary for human greed, but basically as a conduit for moral actions. Capitalism is an economic way of life that can help promote not only material well-being, but also spiritual well-being.

At the present time, however, people—even many West Berliners—are abandoning the road to economic freedom and supporting, instead, the ethos of collectivism as they seek values they deem worth owning. But such a road, Walter Lippmann wrote, "leads down to the abyss of tyranny, impoverishment and general war."³ It is the purpose of this essay to examine this western abandonment of capitalism and to show that the alternative to collectivism, the free economy, is, indeed, a worthy and moral choice by individuals and by nations.

The Paradox of Freedom

The free economy is a study in paradox. Persons vote against it at the polls and vote for it with their dollars. Collectivist governments place it at the top of their enemies lists, yet turn to it to help cure their economic ills.⁴ Clergymen denounce the capitalist spirit as immoral, yet the very foundation of the free market is dependent upon what Novak calls "the exercise of moral character of certain sorts."⁵ The free market seems to have become a social prostitute: people of all income, education and cultural levels denounce it publicly for its alleged sins while at the same time seeking it in times of economic need.

Perhaps this is not surprising. After all, the intellectual and legal basis of capitalism—that the individ-

ual is free, has the ability (and responsibility) to make moral choices, and has certain rights that cannot be pre-empted by his government—runs counter to the deeply-held tenets of pantheistic traditional thought that have ruled human minds since the beginnings of civilization. At the heart of traditional thinking, whether or not it be articulated by a Plato, a Confucius, a Rousseau, a Castro or a Mao, is the contention that one's identity begins not with himself but rather with his community, his guild, his tribe, his predetermined social class, or, in modern terms, his state.⁶

While it is true that Christianity (and especially the legacy of Protestantism) has undermined traditional thought—and gave spark to the rise of capitalism—the communal ideology of pantheism, with its emphasis on “aristocracy,” social order and varying rights and privileges to be granted to persons of different castes, became officially mixed with the Christian religion in the Middle Ages. Nor did the Protestant Reformation and its resulting doctrines instantly change the long-held conception of “superiors” and “inferiors” in the social order.⁷

The superiors included the clergy, the university professors, royalty, political figures and soldiers of high rank; the inferiors were the serfs, the merchants (who were especially dis-trusted) and other townpeople born

of less than nobility. As one can imagine, such a “moral” order was more than popular with the upper classes, for along with being the natural heirs to leadership over the masses, they were free to impose their “superior” values upon their subjects, and that meant sumptuary laws and thousands of rules governing business practices.⁸

The free economy is a study in paradox. Persons vote against it at the polls and vote for it with their dollars.

The historian Arthur M. Schlesinger Jr. certainly showed an affinity for the pre-capitalist structures when he wrote of mercantilist England, “Power was held to imply responsibility, and all classes were to be brought together in harmonious union by a sense of reciprocal obligation.”⁹ Yet, as demonstrated by the numerous peasant uprisings that periodically threatened the foundation of the feudal order, it is clear that the masses did not share Schlesinger's enthusiasm for their plight. And well they did feel discontent; their lot was a most miserable one. The lower classes were as poverty-stricken then as the poorest villagers in destitute Third World nations today.

The vast number of regulations restricting price, supply, manufacturing procedures and—above all—competition, served as effective barriers to limiting economic growth. Only the nobility could be wealthy; after all, believed the superiors, wealth was fixed and could only be divided, not expanded. It was unthinkable for one of a lesser social order to gain wealth. So when it came to gaining riches in the old world, “the worldly order,” wrote Lippmann, “was to be predatory.”¹⁰ Neighbor plundered neighbor, city plundered city and nations constantly plundered nations.

It is of little wonder, then, that the aristocratic upper classes in post-mercantilist Europe neither appreciated nor understood the new capitalist economic and social revolution. After all, as one grasps when reading *The Wealth of Nations*, Adam Smith developed the concept of Natural Liberty precisely for the benefit of the poor, not the rich. The aristocrats could not comprehend the fact, as Lippmann put it, “that the Golden Rule was economically sound.”¹¹ They could not envision the self-interest of the merchant being freely channeled to serve others, nor could they accept the merchant’s gaining not only wealth but social prestige as well. The Industrial Revolution, in reality, was a revolution of the common man, and those who had once set the public agenda were left be-

hind in democratic capitalism’s wake.

And despite the vast increase of wealth and power capitalism has brought to the western world, and despite the great steps that have been made in eliminating the once-common poverty in the industrial nations, the free market is still an anathema to many of those outside the business realm—the New Class, as Kristol calls them—who seek to determine the “social agenda.” These people are hostile to business, but the reason for their hatred, in my opinion, has little to do with social and economic inequalities that exist within our society. After all, the traditional societies for which many of capitalism’s critics share an affinity are often wretchedly poor with inequality the norm. As Kristol has noted, the reason for their contempt of the free market is the lack of social and political power the liberal, individualistic capitalistic order gives to them.¹² Within a society that permits a free market, power lies within the market itself, and “is dispersed among so much of [the] population rather than concentrated solely in a governing elite.”¹³

Novak, commenting upon the hostility many clergymen seem to hold toward capitalism, writes:

In traditional societies, church leaders (whether in Rome or in Geneva) were able to impose their own values on the entire civil society. It is difficult for church leaders to play such a role within a dif-

ferentiated society. Thus there is often a secret hankering, a lingering nostalgia, for a planned society that would once again permit church leaders to be in alliance with civil leaders in suffusing an entire society with their values. This new Constantinianism appears today as socialism in totalitarian states, and as statism in mixed economies.¹⁴

Democracy in the Market

Critics of the capitalist system, especially those who might share the paternalistic biases of Kristol's "New Class," simply are not impressed with the democracy inherent within a market system. The aristocracy never had confidence in democratic institutions, especially during the pre-capitalist era; their descendants—though they may espouse a belief in democratic equality—have as little confidence in free choice as their forebears. For when they speak of equality, they talk not of a state of equality under law, but rather a state of equality *brought about* by the law. Their religion demands an equality of results to be administered by a governing elite.

Such a concept of law—that it restrain some and unleash others—is rooted not in the spirit of equality manifest by the rise of 19th-century liberalism, but rather in the despotic mentality of ancient tribalism. Therefore, the modern results of a legal system of equality by coercion—including progressive tax

Where inequality before the law prevails, so prevails the specter of despotism, of tyranny, of poverty, and loss of freedom.

rates, transfer payments, housing subsidies, food stamps and other welfare programs, or the brutal results of collectivism seen in the past 50 years in the Soviet Union and Asia—reflect not some sort of advanced social compassion, but rather a mental leap backward into an age of monarchs who thought themselves to rule by divine fiat.¹⁵ And such a mentality, it needs to be stressed, mutually excludes the liberal view of equality before the law. For where inequality before the law prevails, so prevails the specter of despotism, of tyranny, of poverty, and loss of personal freedom.

Henry Hazlitt, Gilder, Kristol and others have intelligently argued that government poverty programs based on legal inequality actually retard potential economic gains poor persons can make. What they have not pointed out, however, is the link between today's agenda of statism and the paternalistic ethos of ancient times. And it is here that nations can learn from the past, for it is the indisputable fact of history that legal inequality, enforced economic isolation (called self-sufficiency) and

the throttling of the free market leads not to the desired ends of justice and prosperity, but to the reverse. It has only been the practice of free division of labor, free markets, and equality before the law that has led to freedom and economic growth. It has long been the contention of traditional man that he must choose between liberty and bread; the experience of freedom has demonstrated the opposite. Liberty leads to more bread, and much else besides.

Ultimately, it is both the liberty and prosperity inherent in the democratic capitalist order that brings those grounded in ancient ideals of society to distrust of the free market. For the liberty of this order permits those who once labored under the domination of despots to govern themselves, while the prosperity brought about by the free market system allows those who once were desperately poor to support themselves and not be dependent upon the paternalistic whims of the aristocracy. Lippmann once commented about those who seek, in effect, the older order:

... the only instrument of progress in which they have faith is the coercive agency of government. They can imagine no alternative, nor can they remember how much of what they cherish as progressive has come by emancipation from political dominion, by the limitation of power, by the release of personal energy from authority and collective coercion.¹⁶

And it was Frederic Bastiat who so eloquently predicted the results in store for those who seek coercion under the guise of freedom:

Capital, under the impact of such a doctrine, will hide, flee, be destroyed. And what will become, then, of the workers, those workers for whom you profess an affection so deep and sincere but so unenlightened? Will they be better fed when agricultural production is stopped? Will they be better dressed when no one dares build a factory? Will they have more employment when capital will have disappeared?¹⁷

Giving and Receiving

One who gives is held in far greater esteem than one who receives, and it is widely believed by those embracing traditional views that capitalism is simply the economy of receiving; that is, the poor labor and the rich receive. Hence the view, articulated by John C. Bennett, president emeritus of Union Theological Seminary, that the free economy, if not altered by forces of government, is "morally intolerable."¹⁸

Economic freedom as demonstrated by two centuries of unparalleled fiscal growth, has given those nations that practice it wealth that far exceeds even the richest monarchies of ancient times. And yet, the spirit of economic freedom is seen by critics as just "the unguided lust of the businessman for profit."¹⁹ **Schlesinger, an outspoken advocate**

of the planned economy, describes the philosophy of free enterprise as an anarchic creed of "everyone for himself and the devil take the hindmost."²⁰ And Ronald J. Sider, author of *Rich Christians in an Age of Hunger*, dismisses capitalistic economic growth as simply the product of covetousness.

One cannot read the parable of the rich fool [in the New Testament] without thinking of our own society. We madly multiply more sophisticated gadgets, larger and taller buildings and faster means of transportation not because such things truly enrich our lives but because we are driven by an obsession for more and more. Covetousness—a striving for more and more material possessions—has become a cardinal vice of Western civilization.²¹

Such charges—and they are legion—bring one to ask obvious questions, and they are: Have the vast improvements in the material quality of life, life-saving drugs, mass education, the elimination of famine, the breaking down of structures that once enslaved persons of little means and the concept of individual liberty simply arisen from greed, from covetousness, from the desire to harm one's neighbor? Have the economic gains made in the past two hundred years by the descendants of those once legally bound as serfs simply been a moral blight on history?

I leave the reader of this essay to

answer those questions for himself. But my point is this: Capitalism has brought vast economic improvements to nations practicing it; that is not in dispute. However, if the free market order is seen by a majority of men—and especially those who have the power to set social agendas—as a license for greed, decadence, and moral bankruptcy, then nations will continue their slide toward collectivism and statism and what is left of the free market will disappear into the dishonesty, graft and bribery that is the black market.²²

In establishing moral criteria for judging capitalism, I believe the free market must pass two tests. First, it must be consistent with the principles of the ancient time-honored Golden Rule; second, the society that produces the capitalist system must be a moral one that measures up to certain moral principles.

Living by the Golden Rule

In a predatory economy, the Golden Rule, "Do unto others as you would have them do unto you," cannot be easily practiced. If wealth can be gained only by extraction, then it seems logical to assume that one cannot become rich and simultaneously live by the Golden Rule. Either one steals (and no one likes to be called a thief) or one is poor (which demonstrates why poverty has been held in such esteem in traditional

religious thought). Traditional thinking dictates that a society governed by the Golden Rule be poor; it is not difficult to understand, then, why a mind governed by such ideas would interpret the capitalist society as rapacious.

But, as Lippmann, Mises, Gilder and others have articulated, the prosperity of the free market order has developed not as the result of theft, but rather by the forces of mutual cooperation and trust between individuals. Lippmann's thesis of *The Good Society* was that a moral, cooperative society could come about *only* by the practice of free market principles. He wrote:

All of this [western prosperity] did not happen by some sort of spontaneous enlightenment and upsurge of good will. The characters of men were not suddenly altered . . . For the first time in human history men had come upon a way of producing wealth in which the good fortune of others multiplied their own. It was a great moment, for example, in the long history of conquest, rapine, and oppression when David Hume could say (1742) . . . "I shall therefore venture to acknowledge, that, not only as a man, but as a British subject, I pray for the flourishing commerce of Germany, Spain, Italy, and even France itself." It had not occurred to many men before that the Golden Rule was economically sound.²³

For one to gain wealth in the capitalistic system, notes Gilder, one must first *give*, not receive. "The gifts of advanced capitalism in a mone-

The capitalist 19th Century—so condemned by its critics as a hundred years of exploitation—was the most peaceful century in human history.

tary economy are called investments . . . The gifts will succeed only to the extent that they are altruistic and spring from an understanding of the needs of others."²⁴ Wrote Mises:

Wealth can be acquired only by serving the consumers. The capitalists lose their funds as soon as they fail to invest them in those lines in which they satisfy best the demands of the public.²⁵

Within such a system of freedom, one is rewarded only if his neighbor is also rewarded. "A" profits only—when voluntary choice prevails—by giving "B" either a product or a service which "B" feels will meet his needs or desires.²⁶ If this interaction were to cease, the intricate web of cooperation that supports the capitalist system would quickly break down. Retailers would not sell if they could not trust their producers; consumers would not buy if they had no confidence in the products and services available. Investment would not be possible if those with the means to save and invest had neither confidence in nor concern for the future.

As demonstrated by Leonard Read in his 1958 article, "I, Pencil," even

the basic products made within the capitalist system involve the cooperation of thousands of persons, even persons who by sight or creed might hate each other. Such is the power of the free market. It is no coincidence, then, as Hans Sennholz points out, that the capitalist 19th Century—so condemned by its critics as a hundred years of exploitation—was the most peaceful century in human history.²⁷

The Moral Foundations

When Adam Smith in 1776 laid out his thesis in *The Wealth of Nations*, he envisioned the free market order to arise not from a people controlled by avarice, greed and ill-will, but rather from a society in which moral values were considered to be important, where creativity, sympathy, thrift and the postponing of present gratification for future reward were upheld as virtuous. Such an order had already arisen in Puritan New England, where the virtues so vital to the establishment of a growing free market had become the basis of the region that gave birth to Yankee Ingenuity.

Puritanism gave the pursuit of such interests (work, thrift and enterprise) divine sanction and showed that this working of divine will through an individual's daily work could be advantageous to society at large It was because the Puritan was satisfied to postpone or delay his gratification, that capital ac-

cumulation was made possible and that investment leading to new kinds of productivity emerged.²⁸

Conversely, one might add, the societies which are predatory and show little of the moral virtues as have been described, are also societies that show little or no economic promise. For as Novak has so eloquently stated, capitalism is not the end result of materialism. Rather, materialism—that is the insatiable desire for instant material gratification—works against the free market. He notes:

Sustained economic growth does not consist solely in material abundance; it springs from and it continues to demand the exercise of moral character of certain sorts. Should such character disappear, so would sustained economic growth. A hedonistic, narcissistic culture is not likely to invest in its own future or to make the necessary sacrifices for its own posterity.²⁹

Outstanding Economic Growth a Consequence of Freedom

Despite the fact that breathtaking economic growth has occurred for more than 200 years, those two centuries, when placed in the context of the millennia of human history, are but a blink of an eye. The rise in the living standards of men once destined to live in squalor and oppression has come, perhaps too quickly for most who have participated in or have been caught up in the capital-

ist order. Men have profited greatly from the free economy, but few have ever understood why this sudden increase in prosperity even occurred. Thus, men, who are inclined to follow the traditional philosophies so firmly etched in their minds, easily fall prey to those who would offer them coercion and collectivism as the road to an even better life.

The free economy promotes cooperation instead of conflict; it encourages peace instead of war.

But the genie of freedom has been allowed to escape, and men, even while not understanding fully how freedom has given them economic opportunity, have still tasted of its fruits. Because of the phenomenon of individual freedom, the shackles that bound the serfs—and even their oppressive monarchs—in the pre-capitalist era have, at least, been temporarily discarded. Therefore, men can dream of a better life where their ancestors could only accept the poverty of their day.

The experience of the free economy leaves one both optimistic and pessimistic at the same time. One is optimistic, because it has been demonstrated for 200 years that freedom works, brings a better life to all, and is not a force to be feared. But one is also pessimistic, because so many

have failed to understand the virtues of the free economy and, therefore, turn to collectivism and statism in hopes that coercion will allow them to fulfill their dreams.

The free economy allows men to be virtuous, to practice trust and honesty and be rewarded for it, to bestow a good life for their fellows, to help rid the world of plagues, hunger and other blights that prey upon the weakest of those in our midst. It promotes cooperation instead of conflict; it encourages peace instead of war.

When Lippmann exhorted his peers to turn from the drive to statism in the 1930s, he was jeered and declared by many of his fellow “liberals” to be a “reactionary.” And, yet, many of his insights were correct, many of his predictions of coming wars accurate. They are true today as well.

The message of Lippmann, and the message 200 years of liberty has proclaimed is this: the Good Society, one in which men can strive for justice, virtue and a better life for all can come about only by the practice which “preserves and strives to perfect the freedom of the market.”³⁰

This is not a utopian dream, for those who believe in utopia believe also that man can be coerced into perfection. I cannot accept the idea that somehow man in the world as we know it will lose his willingness to sin. But while man is in his im-

perfect state, the free economy will help him to create a more prosperous, a more tolerant, a more just, and a more virtuous world. ☉

—FOOTNOTES—

¹Michael Novak, "The Economic System: The Evangelical Basis of a Social Market Economy," *The Review of Politics*, Vol. 43 (July, 1981), p. 355.

²George Gilder, *Wealth and Poverty* (New York, 1981), p. 4.

³Walter Lippmann, *The Good Society* (Boston, 1937), p. 204.

⁴Lenin's New Economic Policy of 1923, Stalin's introduction of differential wages and other "capitalist" practices in 1931, and the encouragement of small, private enterprises in present-day Communist China are notable examples of despotic, collectivist governments seeking help from the free market.

⁵Novak, p. 365.

⁶J. Kautz expressed the traditionalist ideals in his 1860 work *Die geschichtliche Entwicklung der Nationökonomik* when he described the pantheistic views of Hindu India. "Above all," wrote Kautz, "as a controlling fundamental of the entire social and economic theory of India can be placed the esthetic self-denial and renunciation, the unreserved recognition and glorification of absolute political despotism, the denial of the personal worth of man. . . ."

⁷The Calvinistic *Westminster Confession of Faith*, composed from 1643-1648, deals with the Fifth Commandment (Honor your father and mother) by extending the concept of parents to include social "superiors" as well.

⁸For example, during the French monarchy from 1666 until 1730 the French textile industry faced a mountain of regulations contained in four quarto volumes of 2200 pages and three supplementary volumes.

⁹Arthur M. Schlesinger, Jr., "Neo-Conservatism and the Class Struggle," *The Wall Street Journal*, June 2, 1981, p. 30.

¹⁰Lippmann, p. 194.

¹¹*Ibid.*

¹²Irving Kristol, *Two Cheers for Capitalism* (New York, 1978), p. 28.

¹³Robert Heilbroner, quoted from *Time*, April 21, 1980, "Is Capitalism Working?" Heilbroner is an advocate of the planned society.

¹⁴Novak, *Toward a Theology of the Corporation* (Washington, D.C., 1981), pp. 11-12.

¹⁵See "Inside North Korea, Marxism's First 'Monarchy,'" *Reader's Digest*, Feb., 1982.

¹⁶Lippmann, p. 5.

¹⁷Quoted in William H. Peterson, "Creating a 'Negative-Sum' Society," *Business Week*, November 16, 1981, p. 32.

¹⁸John C. Bennett, "Reaganethics," *Christianity and Crisis*, December 14, 1981, p. 339.

¹⁹"The New Deal in Review, 1936-1940," *The New Republic*, 102 (May 20, 1940), p. 707.

²⁰Schlesinger, p. 30.

²¹Ronald J. Sider, *Rich Christians in an Age of Hunger* (Downers Grove, Illinois, 1977), p. 123.

²²For in-depth looks into how a state-strangled economy invites black market activity, read Antonio Martino, "Measuring Italy's Underground Economy," *Policy Review* (Spring, 1981), and Ken Adelman's description of black market corruption in socialist Tanzania in "The Great Black Hope," *Harper's*, July, 1981.

²³Lippmann, pp. 193-194.

²⁴Gilder, pp. 24, 27.

²⁵Ludwig von Mises, *The Anti-Capitalistic Mentality* (South Holland, Illinois, 1972), p. 2.

²⁶In a planned society where the state makes economic choices for its citizens, people must "choose," then, whatever the state gives them. Under these conditions, however, the products and services usually leave much to be desired and the result is a bullied, dissatisfied customer.

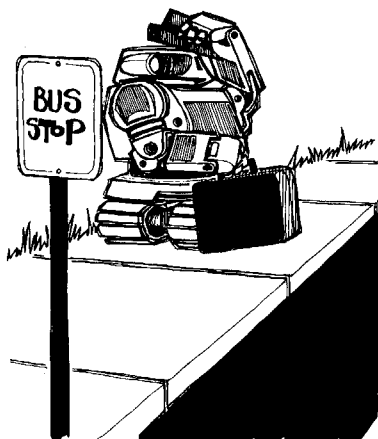
²⁷Hans Sennholz, "Welfare States at War," *The Freeman* (January, 1981).

²⁸James T. Laney, "The Other Adam Smith," *Economic Review*, October, 1981, p. 28.

²⁹Novak, "The Evangelical Basis of a Social Market Economy," pp. 365-366.

³⁰Lippmann, p. 207.

Workers and Robots



WHEN, shortly after World War II, the first electronic computers were placed into service, they occupied large rooms, contained miles of wire and hundreds of vacuum tubes, and cost many thousands of dollars. Today, a computer with similar capabilities fits on a desk top and, despite rampant inflation, costs less than \$1,000. The early computers consumed enough power to drive a locomotive; the modern computer uses less electricity than a television set. Two technological inventions gave rise to this spectacular computer revolution: the transistor and the integrated circuit. They ushered in what the National Academy of Sciences called "the second

Dr. Sennholz heads the Department of Economics at Grove City College in Pennsylvania. He is a noted writer and lecturer on economic, political and monetary affairs.

industrial revolution." It is thoroughly affecting not only the way we communicate, store and use information, but also the very nature of industrial production. It is transforming millions of jobs and changing the skills needed in productive society.

Computer manufacturing is the fastest-growing industry in the United States. In 1980 its sales were estimated at \$24 billion and its growth rate was averaging more than 20% per year. It gave us a growing array of computerized consumer goods, such as pocket calculators, digital watches, electronic games, computer toys, and microelectronic timing devices in washing machines and microwave ovens. It provided the automobile industry with computerized engine controls regulating fuel and air intake and ignition timing.

Computer technology is applied to every operation of the engine and drive-train as well as to speedometers, clocks, and other dashboard instruments.

Other Uses for Computers

Computers have begun to affect product structuring for many other industries as well, for apparel, food distribution, petroleum, energy, printing, publishing, retailing and transportation. They are invading the halls of government and the offices of banking, insurance, accounting, and the securities industry. They are helping to provide health and welfare services and forcing education to adapt to its new ways. Computers are touching the lives and work habits of people in all trades and professions, of millions of hourly workers and professional engineers, managers, lawyers, doctors, dentists, scientists, writers, editors, historians, economists, and others.

Word processors, which are relatively cheap computers equipped with the capacity to edit text stored electronically in the machine's memory, are finding their way into many offices. An estimated half a million were in operation by 1980, and sales are expected to exceed 200,000 a year by the mid-1980s. We are seeing a new generation of "intelligent" office equipment, such as facsimile machines, which can read printed text and transmit it over

telephone lines to other facsimile machines that reproduce the printed text. It is converting more and more information from paper documents to electronic signals that are stored in electronic data banks and transmitted to other banks. It is reshaping the nature of white-collar work.

Computerized machinery is helping engineers to design products and parts thereof on computer screens and then draw up the specifications for manufacturing them. In the production process the computer that designs a part then generates the instructions for the machine that will manufacture it. A new generation of industrial robots, which are flexible computer-controlled arms holding tools, is performing a wide range of complex tasks. In 1980 some 3000 were performing heavy repetitive labor on American assembly lines. By the end of the decade a hundred thousand more versatile robots may be clanking away in shops and factories. Some experts are predicting that more than 50% of all jobs in the American economy may soon be affected by computer-based automation. And the microelectronic "revolution" has barely begun.¹

Antagonism to the New

Many Americans are painfully afraid of the economic and social consequences of the revolution. They are convinced that the computer technology is responsible for the high

rates of unemployment, and that it is bound to get worse with the addition of every new robot. The computer-intensive industries are burdening society with mass unemployment, they lament, which may greatly intensify the social tension and polarization between its productive members and millions of people out of work.

How terrifying! Tools and machines are said to cause unemployment. If it were true it would suggest a simple solution: pass more laws and regulations that restrict or even bar the application of computers. Let's return to the simple ways of the past that made for hard labor and full employment!

Popular hostility toward any type of innovation probably is as old as the first invention. Since the dawn of history it sought to block the way toward economic betterment. Early stonecutters probably objected to the discovery of metal and the casting and forging of a wide assortment of metal tools. The monastic scribes copying ancient manuscripts undoubtedly were alarmed about Johann Gutenberg's first printing press, built in the 1430s. Laborers resented the harnessing of wind and water power, and when steam power appeared on the scene, the use of steam engines. Water carriers regretted the introduction of water pipes, messengers deplored the invention of the telegraph and tele-

phone, and horse breeders and blacksmiths bemoaned the coming of the automobile.²

Old ways and habits are always defended by antagonism to the new. But new ideas are difficult to resist for long if they are beneficial to someone. In a free economy with private property in the means of production, eager entrepreneurs are always searching for new tools and machines that make human labor more productive. New inventions may necessitate the development of new skills and proficiencies, and may require more learning and readjustment. But they do not cause unemployment. As they increase the productivity of labor and thereby reduce its costs, the demand for labor in effect tends to rise, which creates more employment opportunities.

"Automated" Water Delivery

The great benefits of "automation" are clearly visible in many examples from the distant past. It is difficult to imagine life in a city of 500,000 people, like New York in 1850, before the days of "automated" water delivery. Several times a day many residents trudged to the nearest public well or cistern where they obtained a small quantity of polluted water which, when mixed with brandy or gin, was presumed to be safe to drink. Women and children, in particular, were carrying barrels of water hundreds of yards

to their crowded tenements. Those who could afford the extra expense relied on professional water carriers who, by cart or on foot, delivered water to more affluent homes. Surely, it is no exaggeration that a hundred thousand New Yorkers labored daily to secure a few gallons of water, and that thousands of fully-employed professionals carved out a meager living from the manual delivery of needed supplies.³

During the middle of the 19th century, industry was developing cast-iron and steel pipes that came to the market at ever lower prices. Gradually the water system began to change, new techniques and methods were introduced, and modern plumbing came into existence. By the end of the century, some 3.4 million New Yorkers enjoyed an automated delivery system. The water carriers, those toilers of the ages peddling their supplies like luxuries, had disappeared, and the horse-drawn tank wagons hustling through the streets were forgotten. But there were thousands of workers manufacturing plumbing supplies, countless stores and shops handling the supplies, movers and haulers delivering them, and tens of thousands of plumbers fully employed in the task of installing and servicing them.

The "automation" of water delivery not only created many more employment opportunities, but also immeasurably improved the living

conditions of millions of people. Surely, it must have been difficult for the water carriers to adjust to the new technology. But in the end, even they benefited from the plumbing revolution.

Triple Benefits for Workers

The American labor market today is in a significant transition that is as beneficial as the plumbing revolution during the second half of the nineteenth century. There are labels for this new era. Some call it the post-industrial society, the high-technology economy, the service economy, the information economy. But no matter how you may call it, it is a new technology that is improving the lives of millions of people as consumers and producers. It is basically and fundamentally transforming the work that needs to be done. In the course of two or three decades direct manufacturing as we know it today, is likely to be restructured completely. Old tasks are disappearing and new opportunities are opening up in high technology.

It is erroneous and misleading to blame the computer technology for the chronic unemployment. The major patterns of joblessness in key manufacturing industries, such as autos, steel and construction, were visible long before the first computer appeared on the scene. There has been unemployment whenever, for any reason, the costs of labor ex-

ceeded its usefulness and value in production. Tools and equipment make human labor more productive, they do not cause "technological unemployment." Surely, new tools necessitate the learning of new skills as they make old skills obsolete. They may necessitate the movement of labor from old locations to new locations as economic changes have done from the beginning of time.

To reduce manufacturing costs and make themselves more competitive, manufacturing industries are introducing ever more productive technology. General Motors, for instance, has laid off some 100,000 workers because its cars are not selling. But in the depth of this severe depression, GM has announced plans to purchase 20,000 robots in the next 10 years. It is resorting to a massive infusion of "labor-saving" technology that may affect many of its workers. They will have to learn new skills and fill new positions. Many will have to leave the centers of change for new jobs elsewhere; only skilled technicians and those unwilling or unable to adjust will stay behind.

A Rise in Productivity

To speak of "labor-saving" equipment is to speak exclusively for those workers who need to learn new skills and pursue new opportunities for employment. When seen from the point of view of consumers and the

whole society, modern computers raise the productivity of labor and improve working conditions. They increase the supply of goods and raise the levels of living by permitting consumption of more goods. Consumers may choose to buy those goods manufactured with computer assistance or any other items and services.

Wage earners reap triple benefits from the introduction of technological improvements:

1. As the productivity of labor increases wage rates tend to rise. Economists speak of a rise in the marginal utility of every kind of labor, which is the value added to or subtracted from the value of the output by the employment or withdrawal of a worker.
2. Rising labor productivity lifts some unemployed labor whose costs up to now exceeded its usefulness above the threshold of employability, and thus creates new jobs.
3. As consumers, wage earners tend to benefit from the fall in goods prices which the rise in productivity and output tends to bring about.

All workers benefit from the general rise in the productivity of labor. But in the short run some may suffer economic losses from the necessity of retraining and relocating. They may have certain skills that are made obsolete by the technological improvements. Despite the general rise in wage rates they may earn less than before, or be unemployed if they refuse to adjust.

Technological improvements do inflict painful losses on some investors and entrepreneurs. The increase in the quantity of computer equipment tends to lower its marginal productivity, that is, the value added by the application of yet another computer, which tends to lower computer prices. Moreover, old equipment may lose in productivity and value, which will hurt the interests of those investors who, for any reason, fail to keep up with the changes.

Learning New Skills

Technological innovations necessitate adjustments not only by investors and entrepreneurs but also by workers. They all are subject to the dictates of the market where consumers, through their buying or abstention from buying, issue the orders. Consumers also determine the methods of production. In choosing between new Detroit cars or foreign imports, or just a used car, or any other item, consumers implicitly decide the issue of equipment, in particular, the continuing use of old equipment or its replacement by computerized robots.

In a changing market economy all factors of production tend to move toward those uses and locations where they attain their greatest usefulness. They are guided by price which is the consumers' signal of concern and value. Labor is guided

by wages and benefits, which are the prices paid for the factor of production, human labor. In an unhampered labor market the adjustments and movements of labor tend to equalize the wages and benefits of the same quality labor throughout the market.

Changes in the market structure always bring about new wage differences that bring forth new labor adjustments. The magnitude of the difference tends to affect directly the speed of adjustment which is a time-consuming process. A wide differential tends to hasten the adjustment, a small difference may retard it.

Retraining Costs

Many personal and institutional factors also enter into the adjustment process. The time and expense required for retraining play an important role. Schooling and training may have made a worker a specialist with special abilities for rendering valuable services. He may have invested effort, time, and money in his training, which the computer technology may have made obsolete. He is facing new expenses for retraining. His decision is likely to be difficult and painful—as all entrepreneurial decisions usually are.

The expenses incurred in retraining vary with the levels of skills that are sought. A professional person with many years of university training would face large expenditures if

he were to seek expertise in an entirely different field. An unskilled laborer who acquired his skills in a few hours of on-the-job training, may just need a few hours of instruction for a different job.

The retraining expense made necessary by the computer technology depends entirely on the level of special skill that is sought in the computer market. The professional person would have to seek many years of graduate education, the unskilled laborer a few hours of instruction. If industrial robots actually displace unskilled workers with simple on-the-job training, the retraining expenses should be rather minimal. Employers can be expected to provide the training as they did in the past.

Many companies, in fact, are offering inexpensive retraining programs that provide a possible career path from computer operator upward through programmer, systems designer, and analyst. Some are conducting evening classes for people from all types of background, from 18 to 50 years of age. After some 40 hours of instruction many become computer programmers.⁴ But such training may already exceed the demands of readjustment.

Factory workers and clerical personnel may not need to know how the computer works. They must know what the computer can do as it relates to their jobs. This type of train-

ing can be imparted anywhere, in school or on the job, to young and old alike. It is commonly known as the fundamentals of data processing, such as files and coding concepts, retrieval and accuracy, which is preparing the individual to manage data bases and building his confidence in the other end of the terminal. Young children and many disadvantaged are learning it,⁵ and factory hands, too, can learn it. They merely need to interface and interact with the computer.

Moving to Another Location

Labor adjustment may require more than simple retraining. It may impose the additional expenses of pulling up the family stakes and moving to another location. The worker may have to explore the labor market in other places, perhaps in other states. He may need to seek information provided by the news media, or avail himself of the assistance of private employment agencies serving the desired market. He may have to bear the expenses of this service, which may amount to a few percentage points of his initial wage. And after he has found his desired place of employment he may need to relocate his family at an additional expense.

If he is the proud owner of real property he will have to sell it, probably at depressed prices in a depressed community, and then, in the

new location, acquire other property, probably at premium prices in a growing community. Indeed, the economic cost of relocation may be very high. Other costs may make it even more painful. He will have to sever his social bonds with friends and colleagues, with schools, clubs and churches, and turn away from his little world he grew to love. There is always the fear of the unknown which tends to exaggerate the difficulties and aggravate the anxieties. Therefore, he may not choose to adjust and seek relocation. He may decide to resist the market pressures for change and suffer the financial consequences.

In an unhampered labor market the situation is very clear and simple. The technological changes that make certain skills obsolete tend to depress the corresponding wage rates, and thus create a visible difference between the generally rising rates and the specifically depressed rates. This difference then generates the pressures for retraining and relocating.

In a severely hampered labor market, where minimum wage rates prohibit the adjustment and powerful labor unions greatly distort the market, the situation is quite different. The technological changes meet with institutional barriers that prevent wage rate adjustments, and therefore lead to mass unemployment. The worker with obsolete skills

is not free to offer his services at lower rates. He is condemned to be unemployed and cast out of productive society. But when, in desperation, he seeks employment elsewhere he faces wage rates that may be substantially lower than those to which he is accustomed.

The unemployed automobile worker from Detroit who seeks relocation in Texas may be shocked to find the going rate for his level of skills to be one-half of his UAW rate. For him, to seek employment is to submit to lower rates, which do not appear very desirable. Only prolonged unemployment with all its woes and pains may force him to consent to relocation.

The same may be true in the case of retraining. The unemployed automobile worker who becomes a computer programmer outside his union fold, may have to acquiesce to a rate of pay that amounts to much less than his union scale. His new training apparently reduces his pay, which may not nourish his zeal for retraining.

Institutional Barriers

Labor migration from places with lower labor productivity to places with higher productivity may be impeded further by institutional barriers which interventionist governments like to erect. Many states have license and permit requirements that make it painfully diffi-

cult for newcomers to enter a given market. There may be lengthy residence requirements or difficult entrance examinations that aim at discouraging out-of-staters. Labor unions endowed with legal privileges and immunities may deny membership to workers from other states and other vocations. And if membership is actually extended, a union invariably discriminates against its "junior" members, that is, newcomers from out of state.

Institutional barriers that render migration most difficult are reinforced by institutional incentives for remaining immobile. Generous unemployment compensation for lengthy periods of time may induce an idle worker to wait for his "recall," rather than search for employment elsewhere. The compensation may be supplemented by other benefits, such as federal foodstamps and tax refunds, various employer exactions, and union aid. And in case some benefits should run out, there is always public assistance to which unskilled workers may get accustomed. It offers a very valuable benefit, "medicaid," that is, free medical services for all family members. With so many powerful disincentives, it is surprising that some workers actually do muster the courage and strength to move to other places with more employment opportunities.

It is said that older people object too much, consult too long, and ad-

venture too little. If this is true, it cannot be expected that many older workers will want to learn new computer skills or relocate in other places. It may be left to the coming generation now playing with computerized toys to achieve the necessary adjustment. In time young people may seize the opportunities rejected by their parents.

Economic Superiority or Technical Efficiency

Technological changes take time. On every level of production, from the manufacturers of the new equipment to its users and their workers, certain difficulties retard the readjustment process. The new process may be shrouded in secrecy or protected by patents. It may face the ignorance or indolence of entrepreneurs, or the lack of skilled labor that can work with the new equipment.

New computers are not applied everywhere as soon as they become available. People do not always trade in their old cars as soon as new models become available, or buy the latest computers when they first appear on the market. They are guided by considerations of scarcity and cost.

Old equipment is not scrapped in the instant new equipment becomes available. Economic calculation provides the data that permits selection of the most appropriate procedure. It searches for economic superiority by comparing the economic profitabil-

ity of the old, less efficient, and still usable equipment with the profitability of the new, more efficient computer equipment. Technological efficiency and economic superiority are two entirely different things.

The factors that enter such a calculation would include the price of the new computer, the price of "scrap value" that can be realized from the sale of the old equipment, the cost of production per unit of output by the computer, the cost of production by the old equipment, the anticipated future price of the product, the expected useful life of the computer, and the return from competing opportunities for investment. Replacement of old equipment by a new computer would be advantageous only if the savings in production cost by the computer during its expected useful life exceed its own purchase price minus the scrap value of the old equipment, and if this excess is greater than the return from other competing opportunities for investment.

A computer costing \$100,000 net, that during its useful life lowers production costs by \$100,000, is not economically superior to the old less efficient equipment. It would have to reduce production costs by an additional amount that exceeds the return from competing opportunities for investment.

In periods of rapidly changing computer technology, the useful life

of a computer may be very short. Economic calculation may once again ascertain that there is superior equipment that necessitates the scrapping of the old. And again investors and entrepreneurs may be forced to choose between economic superiority and technological efficiency. The choice may be further complicated by changes in market conditions that may result from the changes in the methods of production. Declining costs of production per unit of output, for instance, may lead to lower goods prices, which in turn tend to reduce the value of the equipment that helps to produce the goods. In short, the computer-robot may decline in usefulness and value, which may materially alter the superiority calculation.

Technological Maladjustments

The development and employment of high technology require the outlay of large amounts of capital, which must first be accumulated through corporate profits or individual savings. If, some hundred years ago, new capital had not been available for the automated water delivery in New York City, it simply would have remained a "pipe dream" as it did in many other cities of the world. New capital must be available at a rate that promises a saving in total costs.

This condition also points at the harmful effects of confiscatory taxa-

tion and union practices that consume capital rather than create it. In particular, it refutes the popular notion that union pressures for ever higher labor costs bring forth a trend toward more and more industrial automation. Squeezed by new union demands, employers are said to seek refuge in high technology in order to raise productivity and reduce costs. Higher productivity then encourages the unions to demand still higher wages that propel the industrial surge toward unforeseeable productivity.

Oh lucky land of labor unions! It is the fabled land of Aladdin's lamp. Its owner merely rubs the lamp to invoke the friendly genie. Labor unions merely rub employers for higher pay and costlier benefits, and affluent businessmen realize the dream of ever higher levels of living. The fact is that labor unions usually view all labor-saving equipment with great suspicion and seek to prevent its employment through prohibitive labor contracts.

Hidden Costs

Expensive severance pay and generous pensions for "early retirement," or supplementary unemployment benefits paid by employers, greatly discourage the introduction of labor-saving tools and machines. If, nevertheless, an employer chooses to install new equipment, its technological efficiency must be im-

New Revised Edition
DEATH & TAXES

by Hans F. Sennholz
109 pages \$5.95

Order from:
The Foundation for Economic
Education
Irvington-on-Hudson, N.Y. 10533

mense in order to justify the accompanying labor expenses. But in many cases the technological efficiency does not suffice for economic superiority, which causes unionized industries to cling to antiquated equipment. American industries with powerful unions, such as steel, automobiles, and construction, are not known for their prompt introduction of the latest high-technology equipment.

It is also conceivable that an employer may resort to some technological changes that in the absence of union coercion would not have been advisable. But this is by no means a laudable union accomplishment. The capital needed for the costly retooling must be withdrawn from other more productive uses. Other industries that were about to acquire more productive equipment are pushed back in the waiting line. They have to be content with old inferior tools and are forced to wait until more capital is accumulated. In the meantime, consumers must

pay higher prices than they would have paid in an unhampered market. In other words, the technological improvement necessitated by union coercion constitutes a "mal-adjustment" of technology, that is, a diversion of funds from more productive to less productive uses. On balance it depresses labor productivity and lowers wage rates.

A Brighter Tomorrow

Despite such obstacles to greater productivity and higher levels of living, the computer revolution affords hope for a brighter economic future for all people. We may at times despair about our political institutions that are feasting on and squandering our economic substance. Governments may be laboring diligently to maintain the status quo by erecting obnoxious barriers to change at every turn. And politicians who are aware that children have no votes may want to burden them with our

debts. But the computer revolution, this incredible achievement of American inventors and entrepreneurs, is nourishing an imperturbable faith in a brighter tomorrow. ☉

—FOOTNOTES—

¹R. W. Bemer, ed., *Computers and Crisis*, Association for Computing Machinery, 1973; also Steve Jobs, "When We Invented the Personal Computer," *Computers and People*, July-August 1981; Clarence C. Walton, "Computers—Fast Instruments and Slow Minds," *Computers and People*, July-August, 1982, p. 7 *et seq.*, September-October, 1982, p. 10 *et seq.*

²Sigvard Strandh, *A History of the Machine* (New York: A & W Publisher, Inc., 1979).

³Cf. John Duffy, *A History of Public Health in New York City, 1625-1866* (Russell Sage Foundation, 1968), pp. 209, 391; also J. Kennard, "Sanitary Engineering: Water Supply" in *A History of Technology* (Oxford, at the Clarendon Press, 1958), pp. 989 *et seq.*; Robert Ernst, *Immigrant Life in New York City, 1825-1863* (New York: King's Crown Press, Columbia University, 1949), p. 51 *et seq.*; Sigvard Strandh, *ibid.*, p. 214.

⁴R. W. Bemer, *ibid.*, pp. 23-25.

⁵*Ibid.*, pp. 8-15, 59-70.

How to Raise Wages

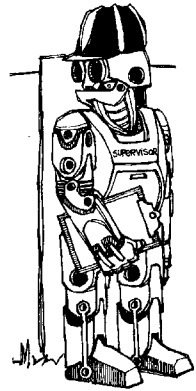
THERE is no other method to make wage rates rise than by investing more capital per worker. More investment of capital means: to give to the laborer more efficient tools. With the aid of better tools and machines, the quantity of the products increases and their quality improves. As the employer consequently will be in a position to obtain from the consumers more for what the employee has produced in one hour of work, he is able—and, by the competition of other employers, forced—to pay a higher price for the man's work.

IDEAS ON



LIBERTY

ROBOT PROTECTIONISM



Robots are nothing special. Oh, they are *wonderful* machines and the world has never seen their likes before. But in an economic sense, that's *all* they are—machines. Consequently, the almost frenetic fears we are witnessing—the fear that robots will have a devastating effect on employment, that they are “taking over” the job market—are ridiculously misplaced. Worse, these fears ignore the economic principles which apply to the introduction of *any* kinds of machines.

Fear of machines is probably as old as the wheel. I can imagine a brief prehistoric conversation which went like this:

“Gee, Ugar,” said the first caveman to his friend, “that thing you call a ‘wheel’ is really amazing, but

Mr. Ross is an Oregon commentator and writer especially concerned with new developments in human freedom.

I'm not sure the tribal council is going to allow it.”

“Why in the world not, Grug?” asked the other caveman. “Can't they see that it's helped the tribe immensely? The women can use carts to haul the water, the men to bring back heavier game, we can even carry in big rocks to build walls to fortify our caves against those pesky Neanderthals who keep stealing our flint spears! How can that be bad?”

“Yes, I know you mean well, Ugar. But I doubt that you've noticed all the ramifications. Some of us think that the wheel is making for idle hands. After all, since the wheel makes certain kinds of work easier, some of the people who used to haul things on their backs don't have anything to do now. It's causing unemployment in the tribe! I'm not sure that should be allowed.”

“But for goodness sake, Grug, that

just means those people are free to do other things!"

"Well, it seems they don't really want to, Ugar. After all, the only thing most of these people know is hauling; they've grown up with it."

"But the wheel has made us a wealthier tribe!"

"Yes, Ugar, it has. But wealth isn't everything. Job security is pretty important. The displaced haulers have demanded protection from your invention!"

At this point we leave the frustrated Ugar sputtering with rage over man's first encounter with government fiat against a machine.

The same argument circulated through history whenever *any* new machine was introduced: calligraphers objected to the printing press; blacksmiths to automobiles; handweavers to weaving machines; newspapermen to radio and television. You name it, wherever a new machine was introduced, there was one standard argument: this machine is going to throw people out of work!

In the short run, it is often true. And it *can* be quite tragic. As F. A. Hayek wrote nearly forty years ago, "That anyone should suffer a great diminution of his income and bitter disappointment of all his hopes through no fault of his own, and despite hard work and exceptional skill, undoubtedly offends our sense of justice. [But fulfilling the] demands

of those who suffer in this way, for state interference on their behalf to safeguard their legitimate expectations . . . becomes a privilege at the expense of others whose security is thereby necessarily diminished."¹

We can easily see what Hayek meant. Often the very reason producers buy machinery, such as robots, is to lower their labor costs. Labor makes up the bulk of expenses in most businesses. If a machine can produce more than a worker, then the businessman is smart to get it in order to maximize profits. And this is precisely what manufacturers the world over are doing with robots.

The Other Side

While some workers are losing their jobs to these mechanical marvels, there is another side to the story—a side which the labor-protectionist lobbyists and policymakers are conveniently ignoring: Any increase in productivity ultimately results in higher profits which are then reinvested. The reinvestment in turn ends up creating *more* jobs—although frequently of an entirely new type.

However, when policymakers pass legislation outlawing or restricting the use of robot labor-saving devices, they are granting the "privilege" Hayek was addressing—a privilege which diminishes the security of others who would have had

the new and often better jobs that the increased productivity would have eventually created.

Introducing robots and other new machinery is a crucial use of capital in a free economy. Efforts to prevent its introduction constitute what Brian Summers aptly called "capital held hostage," a condition which has stultifying economic effects. "New businesses, new products, and new jobs," Summers writes, "won't appear because the needed resources are tied up in inefficient production processes [which lead to] greater costs, higher prices, and lower real incomes."²

Despite these effects, more and more unions and industries are demanding "protection" either from the new robots themselves, or from the competition of other producers who have already installed the machines, or from those in less developed nations with lower labor costs. These demands reflect an inability³ and unwillingness to see or act far enough ahead. The protectionist cries are coming mainly "from industries in developed countries which have not modernized their production processes and find themselves unable to compete with more efficient and low-cost plants in developing countries."⁴ In addition, developing nations (or *new*, young industries in developed nations!) may have significantly lower wage rates enabling them to produce the same goods for

lower costs with the *same*, outmoded equipment that the older industries use—a clear demonstration that higher labor costs underlie much of the industrial spur to automate and robotize.

Even on "Robot Island" (Japan) where up to 80,000 robots (depending on whether one includes nonprogrammable devices) are productively cranking away, helping to keep unemployment under three percent, the workers' fears of robots are gaining foothold as "trade unions began [in 1981] raising the issue of job protection in the wake of robot automation as a clause for new contracts."⁵

Restricting Robot Use and Subsidizing Displaced Workers

If Japanese or American workers actually begin to get such job protection, aside from protection from competitors, it is likely to take two forms: (1) Restrictions on the use or introduction of robots—which could include banning robots entirely from some industries, restricting robot numbers for a particular type of job, or slowing down the pace at which they can be introduced. (2) Mandated monetary compensation—which could include lump-sum payments to displaced workers, "tie-over" funds for a specified period of months in order to allow workers time to find other work, schooling/retraining grants to allow workers to more eas-

ily obtain other jobs, or any combination of these.

Whichever of the two categories is accepted, Hayek's warning will still assert itself. *Either* restrictions on robot use or mandated compensation will inhibit profits of the companies involved, thereby slowing capital accumulation and eroding the reinvestment which would eventually result in a total increase in the number of jobs available to others (or, for that matter, to those whom the robots might have otherwise displaced!).

Interestingly, protection from competition produces the same effects. Governments must subsidize protectionist measures through taxes, inflation, or by borrowing. These subsidies crowd out capital, making it more difficult on many other businesses. When a government takes more in taxes or inflation, or drives up interest rates by increased borrowing, there is less left in the private sector for businesses which are *not* favored by government protectionism. They find it harder to save enough money out of their reduced profits for reinvestment, research, retooling, or anything else, thereby lowering *their* competitive vitality in the market.

It is one more illustration of the fact that efforts to coercively "create" or "preserve" jobs (two sides of the same coin) for *any* reason will in the long run wind up destroying more

jobs by eroding the capital base necessary for efficient (market-generated) job creation. The motive is quite irrelevant: Whether government's aim is to make new jobs or to protect existing jobs from foreign competition or from robot displacement, the result is to degrade overall employment opportunities.

Salvaging Valuable Workers

Please note that *mandated* protection of workers has a result very different from worker protection or aid programs which businesses themselves voluntarily undertake. The latter type of protection tends to be successful because the companies which decide to retrain, relocate, or otherwise help workers do so, *not* based on altruistic concerns for the workers' welfare, but rather for a more powerful reason. That reason is the self-interest of the firms themselves. If the firms find a way to make worker retraining and other "protection" profitable, they will do it.

For instance, it is well known that the giant telecommunications firm, AT&T, all through the recession, its current divestiture, and for many years before, has made Herculean efforts to protect its workers. Why? Because the company has placed a high value on the expertise and knowledge of its employees. AT&T does not wish to lose the workers whom it has spent so much time training and is confident that it can

retrain workers for new jobs. AT&T has in fact been a consistent world leader in this kind of job protection—despite all the talk about how big American companies do not understand the value of investment in employees the way that the Japanese or Swedes or Germans do!

But it is not just the reinvestment factor which robot restrictions and mandated compensations would inhibit. Robots are having the effect of “rapidly transforming business in all economically advanced societies, and most rapidly in the United States. Computers wed to robots are rapidly making it possible for mini-factories to efficiently manufacture products with far greater flexibility than has been possible, thus allowing a far greater variety in the end products.”⁶

To state it another way, robots are now a major part of a basic *restructuring* of modern business—a restructuring which affects not merely the marginal efficiency of businesses, but their very way of *doing* business. Consider: If this change is allowed to continue, it will renovate whole *areas* of efficiencies, lowering building site rental and construction costs (smaller businesses need less land and floorspace), energy bills (smaller businesses consume less electrical power and require less heating), warehouse and other storage costs (the ability to efficiently produce smaller quantities will allow the maintenance of smaller in-

ventories), and lower business taxes (smaller inventories, less energy, and more compact buildings mean a business will pay fewer taxes on these items). All of these gains—and numerous others—will be stunted, however, along with normal efficiency gains if protective labor legislation thwarts the introduction of robots. All of these magnificent gains will become the victims of the short-term “security” afforded to the “victims” of robot machinery.

Unpredictable Ways to Succeed

While it is seldom stated so openly, one major objection to the claim that robots end up creating more jobs than they displace is the following: “The claim is unscientific because no one has ever been able to point to a specific, single, exact process by which the job gain occurs. Science demands specifics. Where are they?”

It is true that in free markets there is no *single*, specific process, no magic avenue by which the economy can be assured of creating more jobs than new machines replace. But that is not how the market works. To demand that one identify such an unrealistic, specific job-creation path is equivalent to demanding that one be shown “the” way to make money, “the” way to design a refrigerator, “the” way to rise to the top in a profession. Part of the very nature of the market is its diversity, its many and often unexpected, unpre-

dictable ways of solving problems.

What we *do* know about how free markets create jobs is of a substantially higher order—the principle that liberty encourages profit-seeking, technological (machine) innovation, which results in greater productivity, and that from these qualities inevitably emerges more employment. The scientific evidence for this theory—indeed the *proof*—lies in the record of every free market in history and its comparison with controlled markets. There is specific evidence involved, but it is not of the strawman variety which the antagonists of robots and other new machinery demand. The unscientific taint of their argument lies in its denial of the nature of the market itself. It is not science, but fantasy, to demand a “proof” which lies outside the nature of a thing.

In essence, then, the fear that robots are anti-employment is an extremely short-range, irrational fear, a descent into Ludditism. Robots are a part of a man’s technological nature and his future. One cannot rationally object to their entrance into the marketplace without simulta-

neously demanding that man deny the kind of being that he is. As Jake Page concluded so eloquently in a recent issue of *Science* 82, “To moan about new technologies disrupting the social order . . . is to look at your hand and wish it were a paw.”⁷

The hand and mind of man have, through the use of ingenious machines, created all the opportunities, the prosperity, and employment of our species. Let us not reject the latest of those machines, but embrace them—for the delightfully enhanced tomorrows they can bring. ☉

—FOOTNOTES—

¹*The Road to Serfdom*, University of Chicago Press, 1944, p. 123.

²“Industrial Hostages,” *The Freeman*, December 1982, pp. 748–9.

³The inability includes government hindrances on capital gains, a situation which is fortunately being corrected in America.

⁴S. Dhanabalan, “The Protectionist Threat to the Third World,” *The Wall Street Journal*, November 22, 1982, p. 25.

⁵“Robots: Japan’s answer to Guest Workers,” *Science News*, November 6, 1982, p. 299.

⁶Jack D. Douglas, “The De-Bureaucratization of American Business,” *The Freeman*, November 1982, p. 670.

⁷“A Case of Technocide,” November 1982, p. 94.

James Madison

IDEAS ON



LIBERTY

THAT is not a just government, nor is property secure under it, where the property which a man has in his personal safety and personal liberty, is violated by arbitrary seizures of one class of citizens for the service of the rest.

Progress and Privilege

It was Earl Dunckel, now a Washington publicist but then with the General Electric Company, who first called attention to the fact that the environmentalist movement was being exploited to keep less privileged classes from rising in the world. The environmentalists, with their talk about the "population bomb," had linked themselves to the "zero population" drive. They resented new people. And, in their animus against "smokestack industry," they frequently gave the impression that they would like to repeal the whole industrial revolution.

Oddly, they found their most fervent supporters in the wealthy, who could afford to drive their Porsches and Mercedes Benzes to the edge of wilderness areas and take off on backpack vacations that were beyond the reach of the blue collars among us. The blue collars, forced by circumstances to remain close to industry in states like Michigan and Pennsylvania, were limited to rabbit shooting or deer hunting in local non-wilderness woodlands if they

wished to gratify their love for the wild.

The alliance between the Sierra Club and the wealthy demanded consecration as "liberalism." Earl Dunckel called it "reactionary." The blacks and the poor, deserting their accustomed places in the old "Roosevelt coalition," surprised the "liberals" by agreeing with Dunckel. As I found out by writing columns about Dunckel's contentions, they wanted jobs even at the risk of some pollution. Not that they were against clean water and clean air; they simply asked for trade-offs that would permit them to work and to raise and educate children in an expanding world.

The trade-off movement had no intellectual sanction until *Harper's Magazine* began printing essays by William Tucker, himself an ex-"liberal" who had made the discovery that environmentalism had been subverted by practitioners of the "politics of aristocracy." Tucker has now adapted his essays to a remarkably sensible book, *Progress and*

Privilege: America in the Age of Environmentalism (New York: Anchor Press-Doubleday, 314 pp., \$17.95).

The "have-nots" began to register their objections to environmentalism as a "no-more-growth" phenomenon at the very outset. When, on Earth Day, 1970, a group of California students buried an automobile to symbolize their renunciation of "materialism," the event was picketed by black students, who thought the car might better have been used to help improve the condition of the poor. Bayard Rustin, the veteran civil rights leader, called the environmentalists "self-righteous, elitist, neo-Malthusians who call for slow growth or no growth . . . and who would condemn the black underclass, the slum proletariat, and rural blacks, to permanent poverty." And Thomas Sowell, the black economist, remarked that "you don't see many black faces in the Sierra Club."

Preservationists

As William Tucker explains in the portions of his book that are devoted to back history, the modern environmentalists have done violence to the whole memory of Theodore Roosevelt, Gifford Pinchot and the other early-century pioneers of the conservation movement. The modern environmentalists, says Tucker, are preservationists, not conservationists. There is a world of difference between the two approaches to wil-

John Chamberlain's book reviews have been a regular feature of *The Freeman* since 1950. We are doubly grateful to John and to Henry Regnery for now making available John's autobiography, *A Life with the Printed Word*. Copies of this remarkable account of a man and his times—our times—are available at \$12.95 from The Foundation for Economic Education, Irvington-on-Hudson, New York 10533.

derness. Preservationists think of the woods as temples (see John Muir), but they want to exclude people from the temples by denying them access roads or even the right to chop firewood for camping trip cook-outs. They want no change whatsoever in the pristine environment.

The conservationists, on the other hand, are for multiple use of the national reserves. What they insist upon is orderly exploitation that is compatible with sound restoration practices. They would allow timber cutting of "ripe" trees, but with the proviso that a new tree be planted for every one that is sent to the lumber mill. "Sustained yield" is the conservationist watchword—and our big forest products companies have quite honestly complied with the philosophy of renewed growth as it

was set forth by the followers of Teddy Roosevelt.

In the case of leased coal lands, the trade-off between commercial use and long-term conservation would be to make landscape contouring and soil restoration part of the contract. And proper clean-up practices would be demanded of oil companies and any miners lucky enough to find cobalt in Idaho or molybdenum in Colorado.

The Sagebrush Rebellion


The modern preservationists lobby against a restoration of the Homestead Act and are for cancelling one-hundred-year-old leases on federal grazing land. So the old conservationist compromises of the Teddy Roosevelt era are in danger of being eroded. Tucker notices, however, that it is an East Coast and West Coast Alliance of the rich that insists on backtracking from multiple use. The people who live in the mountain and intermountain areas and in the dry regions of Arizona and New Mexico are, he says, "still looking for growth and economic advancement." They feel they are being "excluded from their land." Hence the rise of the Sagebrush Rebellion.

Tucker doesn't want to see the Sagebrush Rebellion succeed in pulling "the government out of its monitoring rule entirely." He thinks this would result in burying the original Conservation ethic. The dif-

ference between the Conservation Era and the present, he says, is that the Conservation leaders—Roosevelt, Pinchot, Powell, and the others—"were able to grasp the elements of the situation and offer effective leadership that produced a reasonable compromise. Today, most political officials and opinion leaders don't even know what they are talking about. They think conservation is preservation, and spend most of their time floundering in their own rhetoric."

Tucker is not impressed with "population bomb" fears. He notes that birthrates always tend to stabilize as industrialization proceeds. The "revolt against science" is an old story, as Tucker emphasizes in his recapitulation of the attempts to outlaw the steam locomotive and the use of alternating electric current.

The environmentalists have tried in recent years to stop genetic engineering. They are afraid that fooling with the genes might result in creating monsters. Tucker, citing recent experiments, surmises that the Frankenstein phobia expressed in books such as *Who Should Play God?* is utterly misplaced.

Tucker thinks of the Age of Environmentalism as an interlude. "We are the wiser for it," he says. But "history is calling us" and there is still much to be done for progress. "It is time," he concludes, "to begin again." 

the Freeman

VOL. 33, NO. 5

MAY 1983

- Criminal Liberty and Civil Liability:**
Can Free Enterprise Survive? **Jane M. Orient** **259**
The sad consequences when our court system fails to control crime, but attempts to control everything else.
- Hong Kong's Future Uncertain** **Henry W. Vanderleest** **266**
The prospects if control of the Crown Colony reverts to the People's Republic of China.
- Minimum Wages** **Hans F. Sennholz** **270**
How political attempts to boost wages tend to harm those most apt to be unemployed.
- Robots!** **Russell Shannon** **282**
Let us not condemn the tools that free us from drudgery.
- The Trouble with Farming** **Clarence B. Carson** **286**
A risky business at best, but now beset with the consequences of massive intervention.
- From the Mouths of Babes** **Dennis L. Peterson** **299**
By one's example do others learn the ways of freedom.
- Economists and the Future** **Lawrence W. Reed** **302**
Words of caution to those who bet heavily on the accuracy of forecasters.
- Book Reviews:** **313**
"The Strategic Metals War" by James E. Sinclair and Robert Parker
"John Dickinson: Conservative Revolutionary" by Milton E. Flower
"Stalin's Secret War" by Nikolai Tolstoy

Anyone wishing to communicate with authors may send first-class mail in care of THE FREEMAN for forwarding.



the Freeman

A MONTHLY JOURNAL OF IDEAS ON LIBERTY

FOUNDATION FOR ECONOMIC EDUCATION

Irvington-on-Hudson, N.Y. 10533

Tel: (914) 591-7230

Leonard E. Read, *President*

Managing Editor: Paul L. Poirot
Production Editor: Beth A. Hoffman
Contributing Editors: Robert G. Anderson
Bettina Bien Greaves
Edmund A. Opitz (Book Reviews)
Brian Summers

THE FREEMAN is published monthly by the Foundation for Economic Education, Inc., a nonpolitical, nonprofit, educational champion of private property, the free market, the profit and loss system, and limited government.

The costs of Foundation projects and services are met through donations. Total expenses average \$18.00 a year per person on the mailing list. Donations are invited in any amount. THE FREEMAN is available to any interested person in the United States for the asking. For foreign delivery, a donation is required sufficient to cover direct mailing cost of \$10.00 a year.

Copyright, 1983. The Foundation for Economic Education, Inc. Printed in U.S.A. Additional copies, postpaid: 3 for \$1.00; 10 or more, 25 cents each.

THE FREEMAN is available on microfilm from University Microfilms International, 300 North Zeeb Road, Ann Arbor, Mich. 48106.

Some articles available as reprints at cost; state quantity desired. Permission granted to reprint any article from this issue, with appropriate credit.



Criminal Liberty and Civil Liability: Can Free Enterprise Survive?

A lame, gray-haired contractor complains that a lumber company employee is dilatory in serving him. The burly young man thereupon shoves his customer down the stairs. The public prosecutor doesn't think it worthwhile to press assault charges, so the culprit remains unpunished.

A domestic employee decides on her own to go down to the cellar, and falls on the stairs. She claims she was not warned of some hazardous condition, and the court awards her a hefty sum, with a generous share for her lawyer.

A "sting" operation by the Tucson Police Department, costing \$60,000, led to the solution of hundreds of

burglaries and the conviction of 34 offenders. Fifteen were sentenced to prison; a few got short jail terms; thirteen received only probation, possibly with orders to pay restitution ranging from \$20 to \$1871, totalling \$5129.¹

A 22-year-old woman suffered and recovered completely from toxic shock syndrome in 1980, the first year in which this disease was widely recognized. A jury awarded her a \$10.5 million judgment against Johnson & Johnson, manufacturers of OB tampons, although the only brand implicated in causing a higher risk of this condition was Rely, which was voluntarily withdrawn from the market by Procter & Gamble. The message was supposed to be that companies should "please test their products before marketing them."²

Jane M. Orient, M.D., is in the private practice of medicine in Tucson, Arizona. She also is adjunct assistant professor of internal medicine at the University of Arizona College of Medicine.

The exact meaning of this admonition was not specified; since the incidence of the disease is approximately one in 100,000 population per year,³ no economically feasible test would have detected it. The justification for the size of the award was "to slap Johnson & Johnson's hands real good (*sic.*)."⁴

Nonproductive Versus Profitable Risks

In 1912, Isaac Adler published a treatise on lung cancer, a previously rare disease, in which he speculated that tobacco smoke might be one of the causes. A controlled study in which cigarette smoking was shown to be associated with lung cancer was published in 1939. In 1964, the Surgeon General's report cautioned that cigarette smoking appeared to outweigh all other factors in the causation of lung cancer, increasing the risk by a factor of about ten, as well as contributing to other serious health problems.⁵ No health benefits have ever been described. No suits are pending against the tobacco growers, but cigarette packages must now carry a warning on the label.

In 1907, the first report to suggest asbestos toxicity appeared, but the magnitude of the problem was not fully appreciated until the 1960s, due to the long latency period before diseases manifest themselves. Heavy asbestos exposure increases the risk of lung cancer in nonsmokers by a

factor of five.⁶ The material is widely used in construction and shipbuilding for its insulating and fireproofing properties. No completely satisfactory substitute is available. Synthetic mineral fibers proposed to replace this natural product may not be safe; they have been found to induce tumors in animals.⁷

Lawsuits against companies involved in any aspect of asbestos use (even just the paperwork) threaten many with bankruptcy. One small firm, which up until 1970 used asbestos in a few of its many insulation products, faces 13,000 suits.⁸ If continued at the present rate, asbestos litigation will amount to \$38 billion over the next 15 years, and may force large insurance companies to default, leaving their policyholders without coverage.⁹ On the other hand, school districts, which compel children to attend school in buildings in which the decay of sprayed decorative and insulative materials exposes them to the carcinogenic fibers, are not similarly imperiled. Nor is the U.S. government, which ordered substantial quantities of the material for warships.

Identifying the Agent

In a criminal case, the prosecution must demonstrate beyond a reasonable doubt that the accused intentionally committed the act. Motive, means, and opportunity must be shown. So scrupulously are the rights

of the defendant protected that if a police officer or the court makes a procedural error, even an obviously guilty prisoner may be released.

In a civil court, the defendant lacks the same advantages, and the standard of proof is far different. A property owner need have no motive for injuring a guest or employee, nor prospect of benefiting from the misfortune. Failure to prevent a calamity caused by the law of gravity and a lapse of attention on the part of the victim may be punished more severely than breaking and entering. Entrepreneurs are assumed to have a motive, the seeking of profit. An intention to do harm need not be present. That workers and customers also share in the compensatory benefits of a product appears to be irrelevant.

To prove that a certain product caused an injury may be straightforward in a few cases, such as septic shock resulting from bacterial contamination of intravenous fluids. However, guilt by association is more usual. Tampons do not directly cause toxic shock, nor do they carry the bacteria that are implicated. Probably, they facilitate in some way the growth of a strain of *Staphylococcus*, which became more prevalent in isolates from surgical wounds and burns around 1960. In 1979 or 1980, this strain underwent a genetic change, increasing its virulence. Men, children, and women who never

use tampons can also be afflicted, but tampons were associated in about 85 per cent of the reported cases. The extensive publicity accompanying the discovery (partly sponsored by Procter & Gamble), alerted potential victims, but also biased researchers.

In a criminal case, if a hypnotist suggests to a witness that he might have seen a blue car, subsequent testimony about a blue car must not be admitted. A similar fallacy pervades the epidemiological studies, which rely heavily on human memory. A prominent statistician considers the case against tampons to be still the Scottish one: not proved.¹⁰

Evidence linking occupational exposures to disease is also statistical and largely circumstantial. For obvious reasons, one cannot do a controlled experiment, in which some human beings are deliberately exposed to a suspected toxin, and others not. One must look back on situations in which this has already occurred in a "natural" experiment. Many pitfalls await investigators. Important issues are the selection of an appropriate comparison group, elimination of bias, and proper handling of confounding factors (such as exposure to other carcinogens, notably cigarettes).

Establishing Responsibility

Even if an individual is known to have committed a criminal act, he cannot necessarily be held responsi-

ble for it. If psychiatrists testify persuasively that the accused was unable to exercise free will, due to mental disease, he must be acquitted. The criminal is often portrayed as the victim of society, perhaps through having unloving parents, or experiencing poverty or social discord. Compelled by his early influences, he is not really free to choose.

In civil law, it is not necessary to identify an act that directly caused injury. Omissions (negligence) rather than commissions are generally at issue. Presumably, a manufacturer is free to choose what he will make. One might argue that a worker is free to decline employment, but apparently his freedom is to be considered impaired if he is not fully informed of all the risks (even if they are not fully known). A court must inevitably try to evaluate risks in retrospect.

A worker afflicted with asbestosis would probably say he wouldn't have taken the job if he could have foreseen his present condition. Yet, at the outset, he might have made the same decision if he weighed the risk of lung disease 25 to 30 years in the future against the drawbacks of unemployment or the chance of early violent death faced by taxi drivers. Similarly, a woman who complains *after* her episode of toxic shock might still have elected to use tampons at the point when illness was a slight risk rather than a reality, just as 70

to 75 per cent of women in the most susceptible age group continue to do, despite the warning message in the box.¹¹

Ability to Pay

Allocating responsibility is a treacherous task, but several principles seem discernible in court decisions. Ability to pay is a key qualification for assuming liability. Although hesitant to demand that lawbreakers take the consequences of actions which they perform, courts readily blame prosperous, well-insured individuals or corporations for forces over which they have little control. While the adjective "obscene" may be applied to profits resulting from useful production, it is not used in the context of profits from being a victim or representing those perceived to be unfortunate.

That the producer bears greater responsibility than the consumer, and the owner than the worker, is justified to some extent by the greater knowledge and capability of the former. However, the disproportion is increasing to the point that the producer is supposed to be omniscient, and the "little guy" feeble and stupid. For example, the desiccant in pill bottles is stamped "Do Not Eat," lest someone try to swallow it despite its large size and cylindrical shape. Although owners may be held liable for not warning workers of hazards of which even they were un-

aware, workers and union representatives are not imagined to be capable of asking a reference librarian or a competent physician for information about the dangers of the workplace.

Who Pays?

The costs of crime are borne almost entirely by the victims. The law-abiding citizens may lose their property or even their lives, and yet must also support criminals in prison and pay for the safeguards to their rights. Less obvious is the fact that the penalties for the alleged misdeeds of corporations are also borne by society. Bankruptcy may be most painful for the stockholders who lose their investment (including retired people dependent on pensions), but also means fewer employment opportunities. The costs of litigation and of increased premiums for liability insurance must ultimately be paid by customers. An incalculable cost is funds lost to research and development. How much of the legal expenses of Johnson & Johnson will be diverted from its investigations of the Staphylococcus, a widespread and lethal bacterium?

Besides the financial impact, a more serious consequence of unlimited liability for corporations is the prospect of unlimited jurisdiction for government. Added to consumers' clamoring for protection is the corporation's plea for regulation. Com-

pliance with a legislative standard neatly shifts the responsibility for disasters to the government. This dishonorable escape route may possibly be justified as self-defense. For who would voluntarily sign such a contract as is implicit in many court decisions: The employee agrees to work for a predetermined sum; but if some misfortune befalls him during his lifetime that *might* be related to the workplace, the corporation must pay whatever compensation pleases the court up to the limit of its assets.

Regulation naturally diminishes choice. The price paid for avoiding responsibility is forfeiting the right to choose. (The converse of this proposition applies in criminal law: the criminal who cannot choose is not responsible.)

Does Diminished Freedom Buy Security?

Loss of liberty might arguably be acceptable if traded for improvements in safety. Thus far, the intentions of government agencies have often had the opposite result. Herbert Spencer gives many examples: despite the exertions of the British Shipwreck Committee, the loss of lives and of ships worsened, as administrative expenses multiplied.¹² Since the legal system is designed to attribute blame, its ineptitude in analyzing the cause of problems should not be surprising. Though oc-

cupational hazards are in the limelight, "lifestyle" factors are of much greater importance.

While the federal government pays billions in compensation to coal workers whose minimal x-ray changes of black lung disease *do not* cause any impairment in lung function, the same government pays millions in subsidies to the tobacco industry, whose product *does* cause 30 per cent of the nation's cancer¹³ and most of the disabling chronic lung disease. While the Nuclear Regulatory Commission keeps a relatively safe nuclear reactor shut down in order to investigate its psychological impact, power plants which are a hundred times more dangerous substitute for its output. While being protected by the testing requirements of the Food and Drug Administration, victims of asthma and coronary artery disease have waited a decade for excellent drugs widely used in Europe.

Criminal Acts

Though regulation and litigation have not been shown to save lives, they do assign taxpaying companies the status of criminals. One small business in Tucson was cited by the Occupational Safety and Health Administration (OSHA) for lacking a covered wastebasket in the restroom used by a single employee. However, OSHA has no jurisdiction over the most common causes of fatal occu-

pational injuries, motor vehicles and firearms. In Maryland, 11 per cent of the work-related deaths were caused by shootings, mostly in hold-ups of small businesses and taxi drivers.¹⁴

Our society has frequently been characterized as risk-averse, but the label is not quite precise. Few of the people killed while driving vehicles on the job were wearing seatbelts.¹⁵ People continue to use products known to be hazardous, if they believe that pleasure or convenience outweighs the risk. Many proposed remedies have the long-term effect of actually reducing safety, both directly and indirectly in discouraging innovation. Are they favored simply through shortsightedness, or do they appeal to a deeper motive?

Courts are reluctant to hold miscreants individually responsible for their deeds. Consumers and workers deny their responsibility for products or employment they select. If misfortune strikes, whether through carelessness or chance, the primary concern is right to compensation. Those able to pay are presumed to be guilty, in striking contrast to the criminal's presumption of innocence. Individuals in our society are best described as responsibility-averse, rather than risk-averse.

In the inevitable difficulties and dangers of life, people have often lost confidence and courage, and turned to authority. Today, they make their

plea to the legislatures and the courts, despite the clearly visible consequences of surrendering their self-reliance, because not just security, but relief from responsibility, is the real goal. In the past, they referred their problems to the church, for the same reason. As the Grand Inquisitor understood: "They will be glad to believe our answer, for it will save them from the great anxiety and terrible agony they endure at present in making a free decision for themselves."¹⁶ ☉

—FOOTNOTES—

¹Mark Turner, "Burglary 'Sting' Yields over 35 Convictions, Praise from Law," *Arizona Daily Star*, Dec. 25, 1982, p. 1C.

²Carrie Dolan and Paul Ingrassia, "Toxic Shock Victim Awarded \$10.5 Million Injury Verdict Against Johnson & Johnson," *Wall Street Journal*, Dec. 24, 1982, p. 24.

³Arthur L. Reingold, Nancy T. Hargrett, Kathryn N. Shands, et. al., "Toxic Shock Syndrome Surveillance in the United States, 1980 to 1981," *Annals of Internal Medicine*, vol. 96, 1982, pp. 875-880.

⁴Dolan, *op. cit.*

⁵Robert S. Fontana, *Lung Cancer and Asbestos Related Pulmonary Disease* (Park Ridge, Il-

linois: American College of Chest Physicians, 1981), pp. 2-5.

⁶*Ibid.*, pp. 23-27.

⁷Helen A. Dickie, "Asbestos and Silica: Their Multiple Effects on the Lung," *Disease-a-Month*, vol. XXVIII, Sept., 1982.

⁸Laurel Sorenson, "A Small Firm's Answer to Suits Over Asbestos," *Wall Street Journal*, Sept. 24, 1982, p. 27.

⁹W. Keith C. Morgan, "The Adversary System: Cui Bono?" *Annals of Internal Medicine*, vol. 97, 1982, pp. 919-921.

¹⁰Mary Harvey, Ralph I. Horwitz, and Alvan R. Feinstein, "Toxic Shock and Tampons: Evaluation of the Epidemiologic Evidence," *Journal of the American Medical Association*, vol. 248, 1982, pp. 840-846.

¹¹Michael T. Osterholm, Jeffrey P. Davis, Robert W. Gibson, et. al., "Toxic Shock Syndrome: Relation to Catamenial Products, Personal Health and Hygiene, and Sexual Practices," *Annals of Internal Medicine*, vol. 96, 1982, pp. 954-958.

¹²Herbert Spencer, *The Man Versus the State* (Indianapolis: Liberty Classics, 1981), p. 95.

¹³Office on Smoking and Health, "Smoking and Cancer," *Morbidity and Mortality Weekly Report*, vol. 31, 1982, pp. 76-80.

¹⁴Susan P. Baker, Judith S. Samkoff, Russell S. Fisher, et. al., "Fatal Occupational Injuries," *Journal of the American Medical Association*, vol. 248, 1982, pp. 692-697.

¹⁵*Ibid.*

¹⁶Fyodor Dostoyevsky, *The Brothers Karamazov* (New York: Modern Library, n.d.), p. 269.

The Abandonment of Responsibility

IDEAS ON



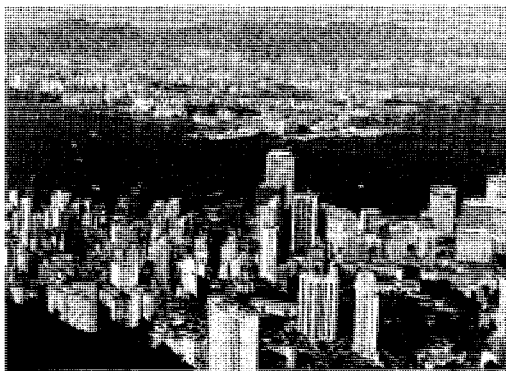
LIBERTY

IN proportion as each individual relies upon the helpful vigilance of the State, he learns to abandon to its responsibility the fate and well-being of his fellow-citizens. But the inevitable tendency of such abandonment is to deaden the living force of sympathy, and to render the natural impulse to mutual assistance inactive.

WILHELM VON HUMBOLDT

Henry W. Vanderleest

Hong Kong's Future Uncertain



Hong Kong Tourist Association

View of buildings in Central District (foreground) and the Kowloon peninsula from Victoria Peak.

THERE is presently much concern among those involved in international trade that the People's Republic of China will decide against renewing Great Britain's lease over Hong Kong when it expires in 1997. A decision by the PRC to reclaim a major portion of Hong Kong will undoubtedly lessen the Crown colony's premier status as a free port and world trading center.

Uncertainty surrounding the upcoming decision has already shaken the confidence of many Hong Kong business executives and governmental officials. Economic indicators, for example, as well as prices

on the Hong Kong stock exchange have dropped markedly during the past year. In addition, property values in Hong Kong have declined on an average of nearly 30 per cent in the last twelve months.

Another indicator of Hong Kong's uncertain future is that private investors and government officials recently decided not to spend \$8 billion on a badly needed new airport. Both corporate and public investors feel a sense of urgency for a final decision because most loans are arranged for fifteen years and would be jeopardized if signed after July 1, 1983. As the result of Hong Kong's uncertain financial climate, many local and international firms are channeling their investment capital to the United States as well as to

Dr. Henry W. Vanderleest is Professor of International Marketing at Ball State University, Muncie, Indiana, and a general partner in a firm of international marketing consultants.

other developing Asian trade centers such as Singapore.

Great Britain obtained Hong Kong, an area consisting of approximately 400 square miles and a population of about 5.5 million, from China after Opium Wars between the two nations in the early 1840s. Hong Kong Island and the tip of the Kowloon Peninsula on the mainland of China were ceded in perpetuity by China to Britain by the Treaty of Nanking in 1842. By 1895, the British had also obtained control over additional land on the Kowloon Peninsula, referred to as the New Territories, which also became part of the Crown Colony. It is only the New Territories section of Hong Kong which is scheduled to revert to the PRC under terms of a 99-year lease signed in Peking in 1898.

Complex Political Issues

Of critical concern to Hong Kong's current Governor who is appointed by Britain's Parliament is that the New Territories accounts for nearly 90 per cent of Hong Kong's land area and contains the commercial lifeblood of the colony. The area which would be left to Britain contains no airport, no agricultural land and virtually no industries. A related problem is that if the New Territories is reclaimed, the remaining part of Hong Kong would be largely dependent upon China for food and water.

Chinese Vice Chairman Deng Xiaoping has repeatedly told business leaders throughout the world that China would prefer to retain the *status quo* for the near future and deal with the Hong Kong problem when the "time is ripe," that is, when she is ready. The time is not yet ripe for two reasons. In the first place, China regards Taiwan as the "problem" which she wishes to settle before deciding on the Hong Kong situation. Secondly, and more important, is that the economic benefits generated by the existence of Hong Kong in its present form are immense. The British colony, for example, accounts for approximately 35 per cent of China's annual foreign exchange earnings. China also benefits from Hong Kong's financial services, port facilities, international contacts, and skills in marketing Chinese-made products.

The situation is made more bizarre by the fact that many of Hong Kong's leading businessmen, owners of ships, banks and department stores, for example, are Communists. What currently exists in a large sector of the Hong Kong business community is a massive paradox; administered capitalism in the service of the People's Republic of China. China would have everything to lose and little to gain by absorbing Hong Kong. PRC leaders particularly recognize the potential difficulty of having to govern and feed Hong

Kong's westernized Chinese residents who are long accustomed to British influences.

From a political standpoint, some Chinese leaders do not agree with Deng's *status quo* position. They believe that it is imperative that Hong Kong revert to the PRC in 1997 so it does not appear that modern China has "sold" out to foreigners as the Ching Dynasty did when the original lease was signed. It is feared that other Asian and African nations would look down upon any type of compromise, causing the Chinese to lose face. Many Chinese have never acknowledged China's relinquishment of Hong Kong and have always considered the colony to be a part of China. Others believe that the British are in Hong Kong to simply administer a part of China, with no more than a very technical sovereignty. There are also those who maintain that the treaties signed in the 19th century between China and Britain were "unequal" because the terms were dictated to a weakened China by an aggressive imperialist power.

Despite the fact that Hong Kong is spiritually and emotionally Chinese, the vast majority of its residents also support the *status quo*. Although most do not philosophically support their colonial status, they recognize the economics of the situation. Hong Kong residents have grown to appreciate that the fast-

paced *laissez-faire* business environment that exists in the colony has allowed them to enjoy one of the highest standards of living in Asia.

Alternative Solutions Likely to Be Considered

Although it is expected that many formulas will be considered before Hong Kong's international future is determined on or before July 1, 1997, several alternatives short of a *status quo* merit attention:

1. London could acknowledge Chinese sovereignty over all of Hong Kong. It could do so by accepting the position that the original treaties were invalid. In return, China would agree to allow Great Britain to continue administering the territory. This alternative appears to be especially workable because it would save the political face of both Britain and China but still allow both nations to have a stake in Hong Kong's supercharged economy.

2. Short of reclaiming Hong Kong, China could declare the New Territories to be a special economic zone with British administrators hired to run it. Although this alternative is met with some enthusiasm by most Chinese leaders, the plan is unacceptable to Parliament because Britain does not want to be involved in mercenary operations. It is believed that Britain will not allow it-

self to be politically humiliated and would probably sever all ties to Hong Kong before agreeing to such an arrangement.

3. Perhaps the most radical alternative would be for China to include a clause in its new constitution that would allow for special administrative regions outside of the current boundaries of the PRC. Hong Kong, Taiwan, and the nearby Portuguese colony of Macau whose population is also predominately Chinese could fall into this category. This could be a politically expedient, although economically damaging, move since China would be able to incorporate all its "problem areas" simultaneously.

4. Possibly the most logical move would be for China to expand its newly created Western oriented Shenzhen economic zone across the border to absorb Hong Kong. This would be a logical extension of an

experiment in capitalism that has proven to be phenomenally successful since beginning two years ago.

Hong Kong is presently a political pawn in the game of Chinese power politics. In fairness to both parties of the original lease agreement, however, it was extremely difficult to imagine what the situation might be a century later. For those who negotiated the lease in 1898 with a terminal date in 1997, future events were so far away as to be of relatively little concern. It is certain that there will be changes in Hong Kong's relationship with China after 1997. Although the specifics are not clear at this time, it is suspected that they will not be so drastic as to undercut Hong Kong's usefulness to China. Unless the colony's long term future is quickly settled, however, the confidence and trust that has made Hong Kong one of the most aggressive and successful trading centers in the world will disappear. ☉

Rule of Succession

AN economic "rule of succession" prevails in states where competition is free. Imaginative and efficient managers are constantly rising to the top, and being elected by customers to larger constituencies, while less imaginative and efficient managers are voted out. But the management of a nation's economy by civil servants discourages imagination, and has no "built-in" mechanism for selecting the most efficient. The bestowal of honors, it is sometimes argued, takes the place of the money incentive of private gain. But there is a vast difference. Honors are bestowed from *above*, by the "ins." They favor the conformist "Organizational man."

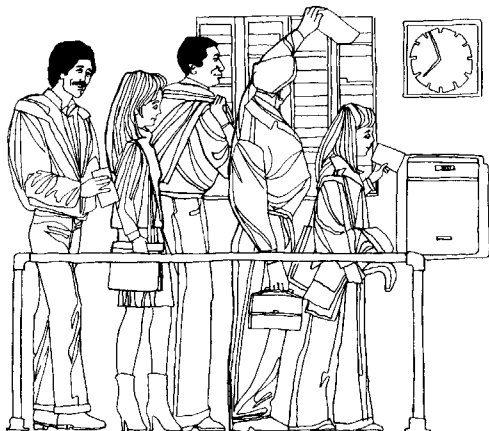
HAROLD FLEMING, *States, Contracts and Progress*

IDEAS ON



LIBERTY

Minimum Wages



IN simple language, a minimum wage law is nothing more than a government order that workers must not work unless they find jobs paying at least the stated minimum. It is an order to employers that they must pay workers the minimum, or not employ them at all. It is a direct order that is enforced by the coercive powers of the state.

The minimum wage movement came into existence, in concert with the union movement, as a consequence of severe criticism of "sweat shops" in the home-work system, which permitted employees to perform manufacturing services at home

rather than in a factory. The system, which enabled women and children to participate in simple production, constituted a major threat to the union movement. To eradicate this threat and all other competition from low-cost labor, labor unions, since their very beginning, have called for government intervention.

Minimum wage legislation originated in New Zealand in 1894 and came to England in 1909, when Parliament established trade boards with the power to fix minimum rates. In the United States, the movement at first was confined to state legislation applicable to women and children only. The federal government entered the field during the 1930s when it passed labor laws with limited application, such as the Bacon-

Dr. Sennholz heads the Department of Economics at Grove City College in Pennsylvania. He is a noted writer and lecturer on economic, political and monetary affairs.

Davis Act of 1931, the Walsh-Healey Public Contracts Act of 1936, certain provisions of the U.S. Housing Act of 1937, the Sugar Act of 1937, and the Civil Aeronautics Act of 1938. In the same year, the Fair Labor Standards Act provided much broader coverage and established a minimum wage level of 25¢ per hour, covering employees of all businesses engaged in interstate commerce or in the production of goods for such commerce. Later amendments to the F.L.S.A. raised the minimum wage to the present level.¹

There is an infinity of political errors which, once adopted and enacted, become principles of statesmanship. Labor legislation summarily disposed of the homework system and then set out to raise wage rates and improve working conditions by political force. To most political parties this is supreme statesmanship that takes precedence over all other considerations. But unfortunately, it is also the root cause of mass unemployment that is inflicting immeasurable harm on millions of innocent victims.

An unhampered labor market offers opportunities to anyone seeking employment. The pressures of competition by both workers and employers establish a wage rate at which everyone eager to work can find a job, and every employer eager to hire more help can find more workers. But when government sets

out forcibly to lift wage rates above those set by competition, chronic unemployment emerges. It causes countless economic distortions, reduces economic output, lowers personal incomes, and aggravates the plight of the poor.

A wage rate set above a person's own productive contribution causes his unemployment, pricing him right out of the labor market. Surely, minimum wage legislation does not directly affect a worker whose training and skills earn him a wage in excess of the minimum. But it seriously jeopardizes the employment of all those unskilled workers who produce and consequently earn less than the minimum. In the United States, minimum wage legislation does grievous harm to millions of unskilled laborers, especially among the racial and ethnic minorities—Blacks, Puerto Ricans, Chicanos, Mexicans, and American Indians.

The Victims

Most critics of minimum wage legislation do not concern themselves with the propriety and morality of political intervention with the production process. They accept the rationale of political supremacy and government power, but lament the evil effects of unemployment on some highly visible groups of victims, such as young people, especially black teenagers. Therefore, they are designing special programs for teen-

agers and other groups, calling for massive government expenditures on their behalf. Unfortunately they are overlooking most of the affected population.

Recent research confirms that only about one-third of low-wage earners are teenagers, almost one-half are twenty-five to sixty-four years of age. Two-thirds of the low-wage population are believed to be female, and some ten per cent are individuals sixty-five years old or older. Altogether they comprise some ten per cent of American labor. Other estimates are even higher. Of course, these workers who are earning the minimum or near-minimum wages are the very workers who tend to be, or are in danger of being, displaced by wage legislation.²

It is an unfortunate fact that many minority youngsters with lower levels of education, training, and experience than white youngsters, are often less productive. In an unhampered labor market they would not be able to earn as high a wage as their more productive competitors, but would find employment at lower rates. When the minimum is raised above their productive ability, they are likely to be dismissed, or not to be hired. This explains why the unemployment rate of black youth in recent years has ranged between 40 to 50 per cent, which is double the rate of white teenagers. If we add those individuals who in frustration

and desperation have given up their search for employment, the unemployment rate among black youth may, in our estimate, exceed 70 per cent.

Submarginal Workers

Other workers with similar limitations find it equally difficult to find employment at the minimum rate. Unskilled women, students seeking summer employment, and especially unskilled service workers in hotels, restaurants, hospitals, laundries, automotive service stations, are living continuously with the dangers of unemployment due to minimum wage increases. It is true, not every minimum wage worker loses his employment when the minimum rate is raised. Employers may seek to offset the boost with economies in other labor expenses or through exaction of greater effort and performance by the covered workers. Wherever such adjustments are impractical the submarginal workers are laid off, that is, all those workers whose costs exceed the anticipated price of the incremental goods produced or services rendered.

Obviously unemployment is more severe in industries employing a great many unskilled workers than in other industries relying mainly on professional and highly skilled labor. And it is more keenly felt in cities with concentrations of unskilled labor than in prosperous

suburbs. For the South with its millions of unskilled black workers every minimum wage boost is a calamity. In Puerto Rico it is an unmitigated disaster.

But no matter how tragic the economic effects may be on certain groups of victims, we must not overlook the psychological harm and the moral wrong that are inflicted on them. Condemned to idleness and uselessness in a highly productive society and barred from making their own contributions, many in desperation are turning to vice and crime. The inordinate national crime rate attests to a moral decay that is working evil in the centers of unemployment and public assistance. And let us not forget the productive members of American society who not only must forgo the valuable services which the disemployed workers could render, but also are forced to support them through taxation and other exactions. In return, they are compelled to live in constant fear of crimes against their persons and property.

Benefits for a Few

It is true a few minimum-wage earners actually benefit from a mandated increase. The law that raises the minimum renders submarginal all those workers who produce and earn less than the new minimum. It withdraws them from productive employment and de-

prives economic production of their services, which affects the labor market just like the conscription of millions of young men into military service. Their withdrawal from productive employment raises the marginal productivity of the remaining workers and, therefore, increases their wages. It also lifts some submarginal labor above the threshold of employability. If the minimum is raised from \$5 to \$5.50, the most productive among the excluded workers will be lifted to the new minimum in a declining order of productivity, that is, first workers who were earning \$5.49, then others earning \$5.48, \$5.47, and so forth. But consumer reluctance to bear the higher labor costs usually sets a narrow limit to the lifting process, which consigns most subminimum workers to the new army of the unemployed.

Political force may disrupt economic activity and forcibly benefit some workers at the expense of others. It cannot stimulate production and promote universal well-being by withdrawing millions of able workers from economic production. If by law or decree a government actually could raise the wages and improve the working conditions of all workers, it would be cowardly and irresponsible to be content with \$2, or \$3, or \$4 minimums. Let us make it \$10 per hour, or better yet, \$100 an hour.

If a minimum wage law actually could improve the working and living conditions of all people, let us urge the governments of undeveloped countries to imitate our example. Surely, it would alleviate the poverty and suffering of the masses of India, China, and many African and Latin American countries. Actually, it would create horrendous unemployment and jeopardize the very survival of the poor. Neither the U.S. government nor foreign governments can improve general working conditions by law or decree; only rising production can bring it about.

Fringe Benefits

Nor can a government grant social benefits that do not reduce the workers' take-home pay. The incidence of any and all benefits falls on the wage earner. For an employer the worker's take-home wage is just another component of the total price he must pay for the services of a worker. He would not be an employer for long if he were to ignore all other employment costs, such as retirement and pension costs, paid holidays and vacations, healthcare insurance, profit-sharing plans, welfare funds, or any other fringe benefits. And it does not matter to him whether he may deduct the fringe benefit costs from the worker's pay or must make direct payment to third parties. In both cases the burden falls

on the employee. The employer is concerned only with the total price he must pay for the services of a worker.

The minimum wage as set by government must not be confused with the total employment costs of a worker, which in every case greatly exceed the former. Corporations that offer equal benefits to all their employees may grant fringe benefits that amount to 35 per cent of executive pay and to 100 per cent or more of a minimum-wage-earner's pay. But even without any such contractual privileges, the benefits mandated by government do add considerably to total costs. There are Social Security exactions and heavy levies for unemployment and workmen's compensations. The \$3 minimum wage may actually amount to \$5 minimum cost, and the \$5 minimum wage to \$10 minimum cost. It is, therefore, misleading to speak of a "small" boost of the minimum wage rate as if the mandated and contractual benefits would remain unchanged. The small minimum boost may actually amount to a sizable increase in total labor cost.

For an employer it is irrelevant whether he allocates 5 per cent of employee wages to fringe benefits or 95 per cent. His only concern is the total price he must pay to secure the services of a worker. If government forces him to pay more than the worker is expected to contribute to

production he can be expected to dismiss the worker. And again it does not matter whether government mandates an increase of take-home pay or of fringe costs. A \$1 boost in the rate of minimum wages has the same ill effect on employment as a \$1 rise in the levies for Social Security and workmen's compensation.

Through their labor, workers pay for all of the fringe benefits they are receiving. They also make good for their on-the-job training by receiving low wages that allow for the expenses of their training. When the minimum wage is raised employers may react to the boost in labor cost by reducing their expenditures on benefits. In particular, they may respond by reducing the amounts spent for on-the-job training.

The Opportunity to Acquire Skills and Knowledge

For young people the most important fringe benefit is the opportunity to acquire new skills and knowledge, which enhances their productivity in the future. Most jobs offer an opportunity to learn through formal training programs or informal learning by experience. On-the-job training not only imparts basic skills, but also stimulates motivation, nurtures a sense of responsibility, and generally prepares young people for rewarding roles in productive society. If they fail to acquire the experience, training, com-

petencies and credentials in their formative years, they will have difficulty holding regular jobs in their adult years. Any barrier to on-the-job training inflicts serious harm on them.

Millions of young workers who are disemployed by the minimum wage may never acquire the general training and specific skills that make them useful members of society. They may never learn the basic discipline and ethos of labor that are so essential in our society. Instead, prolonged unemployment so early in life may prepare them for a precarious and bitter existence on public welfare. More millions may remain employed at or near the minimum, but their on-the-job training may be reduced or eliminated as a result of mandated minimum increases, which may keep them marginally productive throughout life. And their more creative fellowmen not only must forgo their valuable cooperation, but may even be called upon to assist them and their dependents.³

Extension of Coverage

Federal minimum wage legislation had its beginning more than forty-five years ago as part of the 1938 Fair Labor Standards Act. From its very inception it erected insurmountable barriers to the employment of unskilled workers, especially in the South and in Puerto Rico. Since then it has grown into

the most calamitous instrument of government intervention that denies productive employment to millions of willing and able Americans. No other policy conducted by the U.S. government has more tragic effects on the daily lives of so many people than does this legislation.

Several amendments to the Act not only pushed the rate to ever more restrictive levels, but also extended the coverage to include ever more employees. At the beginning the basic minimum as a percentage of average manufacturing wage was estimated at 41.7 per cent; for 1981 it amounted to 51.9 per cent. In 1938 the percentage of covered workers stood at 43.4 per cent; in 1981 it was estimated at 83.8 per cent.⁴ If the coverage provided by various state laws is added to the federal coverage, the combined rate may exceed ninety per cent of all non-supervisory workers.⁵

It is rather natural for government to expand its sphere of control and power. If it is called upon to secure minimum wages for some workers it may want to extend the benefits to all workers. If government can serve the public good by setting the wage rates for some workers it may serve it better yet by setting the wage rates for all workers. The ninety-per cent coverage, therefore, can only be an interim step on the way to total coverage.

Unfortunately, this gradual ex-

ension of coverage tends to multiply the unemployment effect until, with full coverage, it invokes the maximum rate of unemployment. As long as the minimum applies only to a small number of occupations, the workers displaced from covered jobs can seek employment in uncovered production. They shift to uncovered industries and employers, which tends to depress those wages through increased job competition. When the coverage is extended, the shift accelerates from covered unemployment to uncovered jobs, which widens the wage differential in direct proportion to the coverage. A small coverage generates a small difference in wage rates, a large coverage brings forth a large difference. Total coverage obviously eliminates the difference, but creates maximum unemployment.

Minimum wage legislation provides a beautiful example of the principle that government intervention not only makes matters worse, but also tends to breed ever more intervention. The minimum wage covering a few workers causes wage rates to decline in uncovered employment, which invites the extension of coverage to more workers, which in turn brings forth ever wider wage differences calling for more coverage, until all workers are covered and the difference is eliminated. Unfortunately, total coverage guarantees maximum un-

employment, which brings forth the greatest conceivable income difference—between the workers still employed and the army of unemployed.

Indexing the Minimum

Minimum wage legislation can be harmless if the rates are set below the unhampered market rates. But that, after all, is not the intent of its political sponsors who seek to interfere with the market process. And yet, the ominous effects of minimum wages set above the rates established by the market may be alleviated by two other factors: rising labor productivity which may lift more workers above the minimum barrier, and soaring inflation which lowers minimum wages in terms of purchasing power. The former may have lessened the impact of the legal minimum during the 1960s when labor productivity managed to rise a little. But it began to aggravate the restrictive effect of the legal minimums during the 1970s when U.S. government deficits consumed productive capital en masse and real labor incomes began to decline.

Throughout this period soaring inflation greatly lowered the real costs of labor, including the real minimums, which permitted the temporary employment of some workers who previously had been unemployable. The opposing effects of legislative mandates raising the minimum and the inflation depre-

ciating it, is causing large swings in the effective minimum. According to Finis Welch, they ranged between 30 per cent of the manufacturing-wage average in 1949 and 55 per cent in 1968.⁶

Observing the depreciation of their mandated minimums the sponsors deem it necessary frequently to readjust the minimum to soaring goods prices. From 1961, when inflation began to accelerate in earnest, until 1981 Congress enacted eleven adjustments which raised the minimum from \$1 per hour to \$3.35 an hour. To simplify the adjustment process and prevent the silent nullification of Congressional efforts by inflation, some sponsors propose to index the federal minimum by tying it permanently to the average industrial wage. The 1977 amendment, which established a Minimum Wage Study Commission, therefore called for an investigation of minimum wage indexation.

Indexing wages, rents, interest rates, and goods prices obviously means government control over wages, rents, interest rates, and prices. It aims at freezing present conditions, preventing all future changes and adjustments unless approved by political authority. Minimum indexation would seek to preserve the Congressional effort by freezing the real minimum at 55 per cent and thus eliminating the inflation swings. This means, unfortu-

nately, that unemployment would be stabilized at its highest possible rate determined by the minimum. It would permanently deny millions of unemployed workers a longed-for reprieve provided temporarily by inflation.

Offsets

In a sagacious monograph⁷ Walter J. Wessels makes the cogent point that employers tend to react to minimum wage increases by seeking to offset the added expenditures through reductions in other labor costs. They may cut year-end bonuses, re-define the worker's share in profit sharing, and reduce commissions and work guarantees. They may moderate non-wage expenditures, commonly called "fringe benefits," such as paid vacations and sick leave, pensions and other retirement benefits, life, accident and health insurance, or training programs and educational allowances. They may even reduce expenditures on proper supervision and management, which tends to impair and aggravate working conditions. They may insist on more effort and application. As fewer jobs are available, employers may exact greater production from their minimum-wage workers. They may assign less desirable working hours and conditions for which they otherwise would pay higher rates. In short, they can be expected to react by making ad-

justments in order to offset the minimum-wage boost.

But even if some employers should be able to offset the higher costs of a mandated minimum, Wessels argues, it nevertheless impairs the conditions of all covered workers. They may have preferred the fringe benefits over the pay boost, the paid vacations or the major medical insurance over the cash payment mandated by Congress.

Where employers are unable to offset fully a minimum wage boost, which tends to lead to disemployment, the idled workers will seek jobs that are not covered by the minimum wage. Or they may join the "underground economy" where labor summarily ignores the law by working for wages below the minimum. But their appearance on the uncovered labor market or the underground market, which economists estimate to exceed 30 per cent of minimum wage labor,⁸ tends to reduce further those wages. All affected labor, therefore, tends to be worse off than before.

Surely, employers do react to mandated minimum wage increases. But we must not underestimate the great difficulties they encounter in lowering other labor costs. Once benefits have been granted it is nearly impossible to rescind them. To reduce benefits is to invite universal resistance and hostility, which may impair labor productivity and

thus raise production costs. Moreover, it is virtually impossible in the allocation of fringe benefits to discriminate against minimum wage labor. This is why most employers offer identical benefits to all their workers regardless of position and income. To ignore minimum wage labor, or even slash its given benefits, is to invite resentment, conflict and strife. It is generally much easier and also more economical to dismiss the labor made submarginal by the mandated minimum boost than to seek adjustment through fringe-cost economies.

Inspiring Performance

For superior management it may be possible to lead and exhort labor to higher productivity. There is an untapped reservoir of productivity even in the best-run office and plant. Brilliant management seeks to tap this reservoir through guiding and teaching by example. It imparts the love of work and inspires enthusiasm for work well done. And, above all, it exemplifies that there is no work so base that man may not exalt it, no work so dull that he may not enliven it. There is no minimum labor that may not lead to maximum position and income.

Most business managers, unfortunately, are incapable of exacting more effort and application from their employees, which is casting doubt on their ability to offset mandated wage

boosts. But even if they were able to adjust, the number of affected workers would be rather small. Offsetting adjustments cannot create jobs for those millions of unskilled workers whose usefulness and productivity lie below the legal minimum. The high school dropout from The Bronx who may contribute one dollar per hour of work remains unemployable at \$3.35 per hour no matter how diligently employers are readjusting their labor expenses.

Offsetting adjustments do not affect the vast majority of American workers who are presently earning more than the minimum. They may at best involve only a small number of people who are presently earning the legal minimum and are contributing an amount sufficient to cover this minimum and other employment-related costs. In many cases these other costs are also mandated, which clearly makes them unadjustable. In fact, they actually rise together with the minimum wage.

Employer contributions to Social Security and Workmen's Compensation do rise and further raise the costs of the minimum wage boost. They may also add to the administrative expenses of accounting, withholding, declaring and disbursing the additional funds to the appropriate government authority. While such costs may be negligible in a smoothly functioning accounting department, they are very bur-

densome and highly disruptive for a small businessman considering the employment of a few minimum-wage laborers.

The offset possibilities must not be overstated. They are narrowly limited to contractual benefits that may be adjusted by agreement between the contract parties. But in some cases these benefits are negligible. They may be less valuable than a mandated wage boost together with the mandatory fringe adjustment, which precludes any offset. If they are equal to the ordered raise, all contract fringes would have to be eliminated in order to effect any offset. But such a withdrawal of all contract fringe benefits would be even more detrimental to amicable labor relations than their mere reduction. It surely would impede labor productivity and raise production costs.

From the World of Politics

Every well-known economist has voiced his concern about minimum wage legislation,⁹ and yet, it is surviving sober reasoning and cogent arguments and living on in the sphere of political incentives. Few Americans actually believe that minimum wage legislation is truly in the workers' interest, that it increases purchasing power and reduces poverty. And yet, many support it for political reasons. Labor unions and their members benefit

significantly from a legal elevation of wages paid by competing industries using low-productivity, low-wage workers. It hampers their competition with union labor and limits consumer preference for goods produced and services rendered by low-wage labor. Similarly, capital-intensive industries using relatively skilled labor may want to redirect consumer choices by raising the costs of low-wage industries.

Most of the support for minimum wage legislation comes from groups that are fully aware of its unemployment effects. Many Americans in the industrial states of the North and Northeast use it knowingly as a barrier to the industrial migration from their states to the South. Since World War II many companies have left the North to take advantage of lower labor costs and other advantages in the South. To prevent this industrial migration and to stifle emerging Southern competition the Northern politicians usually favor high minimum wages.

Other supporters who are aware of the harm done to unskilled workers are convinced that the beneficial effects, as they see them, tend to outweigh the ill effects. Their blind faith in political action leads them to believe that the ill effects can be alleviated by new governmental efforts, such as neighborhood youth corps, job corps, public works programs, and the like.

But the most vociferous support of minimum wage legislation comes from the professional spokesmen of the poor. Some may actually welcome unemployment among minorities because it breeds other political and economic effects and, above all, creates a political power base for the minority champions. When jobs are scarce they are likely to be rationed and allocated according to government plans and programs. Rationing bestows benefits to political constituents and thus confers prestige and power to the program proponents.¹⁰ Some are also aware that unemployment tends to give rise to new demands for radical government intervention, for central control and planning, which may pave the way for an all-round political command system, called socialism. Mass unemployment, they are hoping, will lead voters to support their ultimate objective. ☉

—FOOTNOTES—

¹For a detailed chronology of minimum wage legislation from thirteenth century France to the 1930s in the U.S., cf. E. R. Nichols and J. H. Baccus, *Minimum Wages and Maximum Hours*, H. W. Wilson Co., New York, 1936, p. 41 *et seq*; for an American history, cf. U.S. Dept. of Labor, *The Development of Minimum Wage Laws in the United States, 1912 to 1927*, Washington, 1928.

²Cf. Finis Welch, *Minimum Wages*, American Enterprise Institute, Washington, D.C., 1981, p. 13; also Edward M. Gramlich, "Impact of

Minimum Wages on Other Wages, Employment and Family Incomes," *Brookings Papers on Economic Activity*, 2, 1976, pp. 409-451.

³Cf. Masanori Hashimoto, *Minimum Wages and On-the-Job Training*, AEI, Washington, 1981.

⁴Cf. Finis Welch, *ibid.*, p. 3.

⁵Most states have complex minimum wage legislation of their own, with rates typically below the federal rate. In a few states—Alaska, California, the District of Columbia, and New York—the rates usually exceed the federal minimum. In other states the differential has been shrinking in recent years.

⁶*Ibid.*, p. 6.

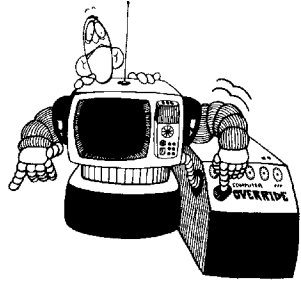
⁷Walter J. Wessels, *Minimum Wages, Fringe Benefits, and Working Conditions*, American Enterprise Institute for Public Policy Research, Washington, 1980.

⁸Orley Ashenfelter and Robert S. Smith, "Compliance with the Minimum Wage Law," *Journal of Political Economy*, April 1979, pp. 333-350.

⁹Ludwig von Mises, *Human Action* (1949), 3rd ed., Henry Regnery Co., 1966, pp. 769-777; Arthur Burns, *The Business Cycle in a Changing World*, National Bureau of Economic Research, New York, 1969, pp. 216-219; Martin Feldstein, "The Economics of the New Unemployed," *Public Interest*, Fall 1973, pp. 14-16; Milton Friedman, *Capitalism and Freedom*, University of Chicago Press, 1962, pp. 180, 181; George J. Stigler, "The Economics of Minimum Wage Legislation," *American Economic Review*, June 1946, pp. 358-365; Walter Williams, *Youth and Minority Unemployment*, Report for the Joint Economic Committee, July 6, 1977; even Paul Samuelson must admit that minimum wage rates "often hurt those they are designed to help." Cf. *Economics*, Eleventh Edition, McGraw-Hill Book Co., New York, 1979, p. 369.

¹⁰Keith B. Leffler, "The Unanswered Question: Why are Minimum Wages Popular with the Poor?" in *The Economics of Legal Minimum Wages*, AEI, Washington, 1981, pp. 531-534.

ROBOTS



ALONG many modern assembly lines, agile arms reach deftly out to solder metal parts, hang heavy doors on slowly moving auto frames, and accomplish a myriad of other tasks required to fabricate an automobile. One can readily imagine Henry Ford looking proudly on, observing with a smile that the process he began nearly 80 years ago still flourishes.

But, of course, one element has radically changed. Those arms performing intricate assembly operations are not all human; more and more they are mechanical. Steel has replaced sinew; electricity substitutes for blood. Where once men and women toiled and perspired, gleaming robots now hum and whirr.

Managers may rejoice that their robots don't take coffeekbreaks, strike, or go on vacation, but others take a different view. They lament the plight of workers whose jobs have all been "lost." High and rising un-

employment rates seem to demonstrate that many loyal workers are being ruthlessly replaced.

So people start to wonder, as the machinery is oiled and dusted, who will feed and clothe the American workers and their families? Just as we've already done with women, blacks, and other smaller groups, will it now become necessary for us to institute an affirmative action program to assure equal employment opportunities for human beings?

President Mitterrand of France addressed concerns about technological displacement at last year's economic summit at Versailles. And Hobart Rowen, economics writer for the *Washington Post*, has stressed the "need for governments to play a major role in integrating new technology with the working population and society in general."¹

For those who worry that robots may ultimately eliminate our chance to work, it is worth noting that the word "robot" itself became pop-

Professor Shannon teaches in the Economics Department, Clemson University.

ular largely due to a play called "R. U. R." (for Rossum's Universal Robots) written in 1920 by the Czech playwright Karel Capek. And "robot" is the Czech word meaning work.²

In the play, Rossum's robots—which are rather more human than their current counterparts—become overproduced to the point that they rise up to overthrow human civilization. During the last act, the managers of the robot factory, contemplating their plight, manifest their motives.

One character, the clerk of the plant, blames science and engineering. But they are benign, inanimate tools, as incapable of purposive, malicious designs as assembly-line equipment. The underlying fault, the clerk suggests, is surely human greed. "We're all, all guilty," he cries. "For our own aggrandisement, for profit . . ."³ In this charge he echoes Karl Marx, who saw the lure of profit as a fatal peril.

Such profit—which Marx called "surplus" and which he believed rightfully belonged to workers—was spent by capitalists to acquire more and more equipment. It would inevitably be used, Marx forecast, to replace labor, so it engendered a growing "reserve army of unemployed" which spelled capitalism's doom.⁴ Not anticipating a robot rebellion, Marx predicted that the exploited, alienated, and unemployed workers would

rise up to overthrow the capitalist system.

Of course, Marx, while perhaps partly perceptive about the purpose of profits, was largely a flop as a prophet. Certainly, today we do have increasing numbers of machines. But we also have more and more jobs, as shown not only by the general growth of population but also by women's spectacularly increased participation in the labor force.⁵ Whatever its defects, the pursuit of profit by "greedy" entrepreneurs has demonstrably not been detrimental to the overall level of employment.

In fact, another character in Capek's drama takes a dramatically different view. The managing director of the robot plant asks: "Do you suppose that the manager controls the output? It's the demand that controls the output. The whole world wanted to have its Robots. Good Lord, we just rode along on this avalanche of demand . . ."⁶

The manager sees producers such as himself simply as servants. True enough, profit may be their personal goal and gain, but don't they earn it by satisfying the expressed desires of society? If they are guilty of anything, isn't it that they are just responding to the wishes of their customers? This is what Adam Smith meant back in 1776 when he said an "invisible hand" causes each producer "to promote an end which was no part of his intention."⁷

In an equally perceptive but less publicized remark Smith wrote in *Wealth of Nations*, "It is not the multitude of ale-houses that occasions a general disposition to drunkenness among the common people; but that disposition arising from other causes necessarily gives employment to a multitude of ale-houses."⁸ One may well question the social desirability of having people purchase ale or robots—or handguns or abortions, for that matter. But one must also grant that, just as it takes "two to tango," it takes both buyer and seller to make a voluntary transaction. The motive of the seller is but one element. Concert pianists and brain surgeons may be wracked by greed, while pot peddlers may believe they provide humanity noble services. We should neither condemn nor applaud an act based on the seller's motives alone.

Relief from Drudgery

In fact, so far as robots are concerned, the motives of both producers and purchasers may be very high, indeed. Though it was Adam Smith himself who touted the virtues of assembly-line production, he also recognized specialization's drawbacks. Toward the end of *Wealth of Nations* he laments that "the man whose life is spent in performing a few simple operations . . . generally becomes as stupid and as ignorant as it is possible for a human creature to be-

come. The torpor of his mind renders him, not only incapable of relishing or bearing a part in any rational conversation, but of conceiving any generous, noble, or tender sentiment, and consequently of forming any just judgment concerning many even of the ordinary duties of private life."⁹

Seen from this perspective, robots become a boon. They are relieving us from unwelcome work. Women are no longer slaves to their households nor men to their machines. That is the beneficent view of a central character in Capek's play. "It was not an evil dream," he says, "to shatter the servitude of labor. Of the dreadful and humiliating labor that man had to undergo. The unclean and murderous drudgery."¹⁰ Who can argue with that? Any person who would abolish robots to assure work suggests implicitly that we would also be better off without vacuum cleaners, refrigerators, and toasters! Or without lathes, ladders, and linotype machines.

It is also enlightening to recall that, after all, robots aren't free. Their prices run well into the thousands of dollars. What justifies their cost to producers? Labor's cost has risen, so workers have now become relatively even more expensive. Why did that occur?

Obviously, workers now find more and more that they can escape assembly-line drudgery and move to

more meaningful and remunerative work. They are no longer tied to jobs that induce "torpor" in their minds. So employers discover they must pay more to retain their workers—or else resort to robots.

There is, of course, the possibility that the use of robots may induce some technological unemployment. But John Maynard Keynes, in his essay on "Economic Possibilities for Our Grandchildren," predicted in 1930 that such unemployment would be "only a temporary phase of maladjustment."¹¹ He foresaw that, in the end, the new machines would so enhance our productive capacity that mankind would eventually solve the fundamental economic problem of scarcity. Then, Keynes said, people would have to worry only about how to use their leisure. Keynes clearly did not foresee the advent of video games!

Perhaps Keynes took too blithe a view. But the characters in Capek's play, along with the arguments of Smith, Marx and Keynes, all make one fact abundantly clear. The attitude we take toward our metal workers depends very much on our mental framework. Rather than attack robots for making work impossible, why not welcome them for making it unnecessary? Instead of being doomed to engage in endless drudgery, men and women have become increasingly free to cultivate their artistic talents and enjoy more

and more of what we call the "finer things in life."

The assembly line that Henry Ford inaugurated may have undergone a radical change. But the end result of its process is basically the same. It is a machine which replaces both horse power and human power. Rather than rickshaws, we ride in Reliants and Renaults. Instead of Conestoga wagons, we cruise in Capris and Caprices. Next time you're driving to your job in an air-conditioned, automated office, or rolling along the highway toward a weekend at the beach, think about that! ☺

—FOOTNOTES—

¹Hobart Rowen, "We Need to Deal with Technology," *Greenville News*, June 10, 1982, p. 4A.

²Robert W. Corrigan (ed.), *Masterpieces of the Modern Central European Theater* (New York: Collier Books, 1967), p. 217.

³Karl Capek, "R. U. R." in Corrigan, p. 276.

⁴Karl Marx, *Capital* (New York: Modern Library, n.d.), Chapter XXV, esp. pp. 689ff.

⁵Civilian employment as a percent of our total noninstitutional population rose from 54–56 percent in the period 1950–1960 to 59.3 percent in 1979. *Economic Report of the President* (Washington: U.S. Government Printing Office, 1981), p. 267.

⁶Capek, p. 279.

⁷Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (New York: Modern Library, 1937), p. 423.

⁸*Ibid.*, p. 343.

⁹*Ibid.*, pp. 734–35.

¹⁰Capek, p. 274.

¹¹John Maynard Keynes, "Economic Possibilities for Our Grandchildren," reprinted in *Essays in Persuasion* (New York: W. W. Norton & Co., 1963), p. 364.

Clarence B. Carson

THE TROUBLE WITH FARMING



THIS past December, I traveled with my family through north central Mississippi and across the river northwestward into south central Arkansas. The portion of the trip that made the deepest impression on me was that which took us through what is called the Mississippi Delta.

The Delta stretches for the better part of 100 miles inland on either side of the Mississippi river in this area, though somewhat wider on the Mississippi than the Arkansas side. The land is table flat, and the road we were on was arrow straight, bending only so much as was necessary to put it through the next town.

Dr. Carson has written and taught extensively, specializing in American intellectual history. He is the author of several books and is working at present on *A Basic History of the United States* to be published by Western Goals, Inc.

The road was raised three or four feet above the surrounding countryside, which was fortunate for us. The countryside was flooded by unusually heavy winter rains, and the flooding was enhanced by a blinding rain squall as we drove through one of the more remote regions. When the ground is too full to soak up the water, there is no place handy for it to go.

This is farming country, though it was dormant at this season. More, it is row-crop farming country. Few, if any, cattle or hogs were to be seen, and woodland was rare. Twenty-five or thirty years ago, it was predominantly cotton country. Cotton is still grown extensively—many stalks were still standing, with traces of lint hanging from the empty bolls—but the growing of grains, especially

soybeans, has widely supplanted cotton.

The Mississippi Delta belongs geographically to a much vaster farming region, extending from Minnesota in the north to Louisiana in the south and from western Ohio in the east to eastern Colorado in the west. It is a vast fertile region, much of it low lying to flat country with deep soil, well-suited in this age to commercial farming.

It is the Mississippi valley, the low lying area through which the waters which begin in the western Appalachians and the eastern Rockies flow into the Mississippi, and thence to the sea. The region of the valley narrows from north to south as the mountains recede in height and fan out into foothills which channel the water along other courses to the Gulf of Mexico. The Mississippi valley is sometimes called the heartland of America. It is certainly the breadbasket, for most of the grain that feeds America is grown there.

The Mississippi Delta through which I traveled has undergone a major change in the past two or three decades, a change that was very nearly completed by 1970, say. Although vast acreages of land are under cultivation now, the country is sparsely inhabited. Houses are usually located a considerable distance from one another; often, they are separated by a mile, or more, of farmland. Usually, a single family

dwelling sits alone, with the mechanical equipment for farming nearby.

An Agricultural Revolution

Twenty-five or thirty years ago it would not have been possible for such a small number of farmers to till these great acreages. This Mississippi Delta was one of the major centers of cotton growing in the United States. Cotton required intensive cultivation—it had to be hoed several times by hand—and many human hands to harvest any considerable amount of it. Two major developments altered these requirements. One was the development of herbicides to get rid of unwanted weeds and grass. The other was the development of a mechanical cotton picker. Along with this, there was increasing use of mechanical planters and fertilizer distributors which could be extended across a wide carrying frame to plant many rows. There also were larger cultivators. The reduction of hands used was further accelerated in the 1960s by the extension of the minimum wage to cover farm laborers.

So it is that a countryside once dotted with houses of small landowners, tenants, and dwellings for hired laborers is now sparsely settled by farmers who rely almost exclusively upon heavy equipment to do the work. I looked in vain for relics of these buildings. I noted none.

There were reports in the 1960s that they were burned to be rid of them.

A similar change or transformation has occurred in farming throughout the United States, though less dramatic than in cotton farming in most instances. Here and there are still enclaves of farming which require intensive human care and human hands and decisions in harvesting, such as in tobacco growing or in the production and harvesting of some fruits and vegetables. By and large, though, the extensive use of machines, the shift away from intensive use of labor, and the cultivation of large acreages by single farm families has been the trend throughout most of American agriculture.

Fewer Farms—and Farmers

Statistics tell much of the story in abstract terms. According to census figures, the total number of farms in the United States has declined from 6,102,000 in 1940 to 2,808,000 in 1980. The most drastic decline for any decade was in the 1950s, when the number of farms dropped from 5,388,000 in 1950 to 3,962,000 in 1960. The number of farms appears to have stabilized over the past decade or so.

The total farm population declined from 30,547,000 in 1940 to 8,864,000 in 1980. Again, the largest drop in farm population occurred in the 1950s, when it declined from

23,048,000 in 1950 to 15,635,000 in 1960. The number of hired farm workers (average) in 1920 was 3,391,000; in 1940, 2,679,000; in 1980, 1,303,000. The largest drop in hired farm workers occurred in the 1960s, which coincides with the application of the minimum wage to them. Farms have been increasing in size over the same period, of course, and it might go without saying that they have generally been increasing precipitately in value.

The main conclusion to be drawn from these facts is that fewer and fewer people are farming more and more land (per farmer) by the use of more and more equipment. Or, in formal economic terms, there has been a dramatic shift away from labor in the economic mix to land and capital, especially capital.

Moreover, not only are fewer people farming more land with more equipment, but also they are producing more of many commodities than ever before. For example, here is a description of production in 1981:

The corn crop of 8,080,000,000 bushels, or 205 million metric tons (t), was the largest on record and 22% greater than the 1980 crop. All feed grain production . . . was 240 million t, up 21% from . . . 1980. Also the soybean crop of 2,110,000,000 bushels was the second largest crop on record and . . . 18% larger than the 1980 crop. The U. S. wheat crop was a record 2,750,000,000 bushels . . . , 377 million bushels more than in 1980.

Cotton production of 14.8 million bales was 33% greater than in 1980. Hay production increased 5% over 1980, while pasture and range conditions were 22% better than in 1980. Due to lower livestock prices during the first half of 1980, the number of hogs raised, the number of cattle fed for beef, and the number of chickens raised were down slightly. (*American Annual* [Grolier, 1982], p. 78)

The production achieved by American farmers by way of this heady shift to capital is surely little short of being one of the wonders of the modern world. Moreover, the prices of farm products to consumers should generally be reckoned as a bargain, compared to the prices of many other goods in an era of rising prices.

Signs of Distress

But there is a rather large worm in the apple of this farming Eden, which brings us to the subject of this essay, the trouble with farming. Discontent among farmers has been widespread and, perhaps, increasingly strident in recent years. There have been tractorcades to some state capitals and to the national capital, confrontations with sheriffs at foreclosure sales, and dark threats of violence if something is not done to help farmers.

The most common complaint is that farm prices are so low that large numbers of farmers cannot make ends meet. Stories surface after each crop year of farmers who lost large

sums of money. Nor are the difficulties restricted to farmers in any one section of the country or producers of particular farm goods. They range from dairy farmers to chicken and egg producers to grain and fiber farmers to cattle growers.

Farmers are not noted, of course, for boasting about their great profits. Who is? Those who work and produce rarely complain that they are overpaid or admit that they are adequately compensated for their efforts. It could be, too, that when farmers gather in the winter, bragging rights sometimes belong to the farmer who had the largest losses during the year. But there is naught of exaggeration or humor in the inability of farmers to make payments on their debts or the ensuing bankruptcies and foreclosures. These last are widespread and increasing by all accounts. Moreover, precipitately mounting farmer indebtedness signifies something of the extent of the difficulties.

Total farm real estate debt outstanding stood at slightly over \$7 billion in 1953. At the end of 1981, it stood at over \$92 billion. There was a steady, though not particularly dramatic, rise in farm real estate debt during the 1950s and 1960s. It began taking off in the 1970s and almost doubled between 1975 and 1981. Closer analysis shows, too, that the least well secured—most precarious—portion of the indebtedness was

increasing even more rapidly. Indebtedness to the Farmer's Home Administration, the lender of last resort for farmers, almost doubled in the period 1979-1981. These figures do not include the indebtedness for shorter terms secured by farm equipment or "rollover" debts, not completely retired from year to year because the proceeds from the sale of produce were insufficient. These add substantially to the overall debt.

Contributing Factors

A good many contributory reasons can be enumerated for short term difficulties of farmers in general and those of individual farmers here and there in particular. Most likely, some farmers who go bankrupt or have their farms foreclosed are ineffective managers. Some are what economists call marginal, or on their way to becoming sub-marginal, farmers.

More broadly, there have been fluctuations and changes which had an impact on farmers generally. One was the oil embargo of the Arab countries and the subsequent steep rise in oil prices. This development not only drove fuel prices up but also the prices of such things as fertilizer, pesticides, and herbicides. Another development has been the sharp rise in interest rates in recent years. Embargoes on grain shipments to communist countries have aggravated the situation for grain growers also. It can be added that,

of course, farming is a risky business, and the vagaries of weather, of pests, and diseases contribute to the fluctuations in farm production.

These, and like, explanations might suffice if the trouble with farming were temporary or episodic. But some of the signs, especially mounting indebtedness, point to persistent and increasing difficulty. Moreover, if it were simply a market phenomenon, we might expect that farmers would make the necessary adjustments of production to demand to get prices that would enable those who stayed in the business to prosper. But it is not simply a market phenomenon, certainly not of the free market anyway. None of the developments discussed above were simply responses to the free market: not the dramatic shift from extensive labor toward capital, not the enlargement of farms, not the buying of ever larger and more expensive farm equipment, not the mounting indebtedness.

All these occurred in a framework of government tampering, intervention, restriction, subsidization, and tacit inducement. Farmers have been propelled, as it were, in the direction they have taken, including producing more than could be profitably sold, by government programs over the years. That is not to say that some of the developments, such as the shift toward capital by the use of large and specialized machines,

would not have taken place, sooner or later, without the intervention. But it is most unlikely that the changes would have occurred so swiftly, so dramatically, or so extensively if the market had been the sole prompter of them. That is a way of saying that it is most unlikely that farmers would have been caught in their present bind by the workings of a free market. At any rate, that is *not* the way it happened.

Although there have been many government programs over the years which affected farming more or less in a variety of ways, I want to focus on three categories of programs which have the most direct bearing on the present situation. They are: price supports, crop and production restrictions, and easy credit. While easy credit is at the heart of the present farmer difficulties, other programs provide an essential part of the background and highlight some of the fallacies which underlie them.

Price Supports

Farmers have long and often believed that their problems, when they became acute, were caused by low prices for their production. Over the past century, they, or those who claimed to speak for them, have identified a number of villains who either contributed to or caused the low prices. Among these were high transportation costs, extortionate

rates for storage facilities, money shortage, the fact that farmers often sold their crops at the time when prices were lowest, protective tariffs on manufactured goods, middleman profits, and, belatedly and occasionally, their own overproduction. Coupled with this has been a sentimental attitude toward farmers and farming, which goes back at least to Thomas Jefferson and was vigorously intruded into the political scene by William Jennings Bryan in the late 1890s. There were sporadic political attempts to "aid" the farmer by making easier money available and regulating rail rates over the years.

However, it was not until the 1930s that the federal government made a concerted effort to raise farm prices. The New Deal devised a variety of programs designed to accomplish this result. Among them were programs to increase the money supply, make loans on crops stored in warehouses until prices rose, subsidies, government guarantees, and government bidding up of prices. Some one, combination, or all of these efforts did succeed in raising farm prices, or some of them.

It happens, however, that one of the most important economic functions of price is to signal what is wanted. Higher farm prices tend to spur farmers to produce more of the goods for which prices are rising. (Not all farm products had price sup-

ports.) If the New Dealers did not know this at the beginning, there would soon be bountiful evidence to prove it. In any case, they were intent on raising prices, and they did understand that the way to do that was to reduce the supply on the market. Sometimes, they, or their successors in government, limited the amount of particular crops that could be sold at support prices. But the main device by which government tried to limit production over the years was by acreage restrictions on controlled crops. Farmers were assigned crop allotments for crops that had price supports, usually for their commercial or "money" crops.

Distorted Signals

The combination of price supports and acreage (or production) restrictions bent or distorted the market in opposite directions. On the one hand, price supports, so far as they succeeded in raising prices above what they would have been on the market, signaled farmers to increase production. On the other hand, acreage allotments limited the amount of land that could be planted to those crops. That did not mean that farmers gave up in their efforts to increase production of supported crops. It did mean, however, that they would have to shift the economic mix from labor toward capital. In theory, they might have cultivated the commercial supported crops more in-

tensely in the hope of increasing production. But that was hardly possible, even if it would have worked.

The government program was set up in a way that discouraged the concentration of labor on the controlled crop. Allotments were based on the total amount of land under cultivation on a given farm. (Government favored diversified farming.) Thus, on a farm, only an established percentage of the land could be planted to the controlled crop. In order to get his maximum allotment, a farmer had to keep a maximum amount of his land in cultivation. He could, of course, concentrate his capital expenditures for fertilizer, improved seeds, pesticides, and the like, on the commercial and controlled crops. Many, probably most, farmers did. More, when they could, farmers increased their capital expenditures for these over what they had done, for it was a route to increasing production.

Beyond that, however, farmers who survived generally had to bring more land under cultivation, rent it or buy it (or buy allotments, as was sometimes done in the 1950s and 1960s) to make a living. The record is clear that most of those on small farms could not make a go of farming. The mass exodus from farming got under way in earnest in the mid-1930s and continued to the late 1960s, when farm population tended to stabilize.

The main path taken by farmers was to increase farm holdings. Since the number of hired farm workers was generally declining during this period, the main approach taken to the cultivation of these larger acreages was to buy mechanical farm equipment, i.e., tractors, trucks, planters, cultivators, and harvesters. Thus, the shift from labor toward capital was completed, so far as it has been.

From Whence the Capital?

Where did the farmers get the capital? More bluntly, where did they get the money to buy the machines, the fertilizer, the pesticides, the herbicides, the improved seeds, irrigation systems, and the like? In addition, where did they get the money to buy or rent additional land? There is no need to generalize too broadly here.

Most likely, there have been farmers who financed their expansion over the years in a business-like and sound financial way. They extended their land holdings from profits, savings, inheritances, and so forth, and bought additional land only as it became available at attractive prices. Such people might well have bought new and larger equipment from similar sources, supplemented by prudent borrowing. If so, and if they have managed well, they are probably succeeding in farming even today. In any case, we are looking for the sources of the

difficulties of farmers in trouble. More, we are looking for what, in addition to support prices, has enabled farmers to get the capital to produce in such quantity that they cannot survive in farming with such price supports as still exist.

The source of much of the money for farm capital and land is no great mystery. It has been borrowed. It has been made available by *easy credit*. The easy credit is a result of the policies and programs of the United States government. The farm movement that got underway in the latter part of the nineteenth century was early penetrated with the idea that easy money, or inflation, was a panacea for the problems of farmers.

This easy-credit idea achieved political expression in the Greenbacker and silverite movement, was propounded by the Populists in the 1890s, and entered the Democratic party by way of William Jennings Bryan and his followers in 1896. It began to bear fruit when the next Democrat, Woodrow Wilson, was elected to the presidency in 1912. The Federal Reserve Act was passed in 1913. The banks authorized under it were to become engines of inflation, for they were empowered to issue currency on the security of commercial and *agricultural* paper. That is, they could expand the credit by re-discounting notes held by banks, thus making more money and credit available.

The Federal Reserve system, then, has been the main fount of easy credit in the United States generally since that time. It is important to emphasize, however, that farm credit is a breed all its own. Otherwise, it might be supposed that farm financing is done in the same way as for other businesses. True, commercial farming is a business, and farm enterprises are often referred to as agribusiness. But much of farm financing is not done under such restraints as apply to business concerns. Farming is an especially risky business, yet much of the risk capital is obtained as loans rather than from investors who knowingly share in the risk. Also, much of farm land is financed by borrowing.

The Farm Credit System

How has this come about? Mainly by the operation of what has come to be called the Farm Credit System. Since little is known about this system generally, and since those who know of one or more of its agencies may not be aware of the government connections or the strange organizational modes, some little explanation of it may be in order.

First, the Farm Credit System was government inspired, government authorized, has had initial and occasional government financial help, and is government controlled! The basic system was authorized by the Federal Farm Loan act of 1916. The

Federal Land Banks, probably the best known of the organizations, were first organized in 1917, pursuant to this act. There have been changes in the system from time to time by congressional acts. The following remarks are about the system as it was authorized by the Farm Credit Act of 1971.

According to the U.S. Government *Manual*, the system is organized in this way:

The Farm Credit Administration, an independent agency, supervises and coordinates activities of the cooperative Farm Credit System. The system is comprised of Federal land banks and Federal land bank associations, Federal intermediate credit banks and production credit associations, banks for cooperatives. Initially capitalized by the United States, the entire System is now owned by its users.

Some of the above information could be misleading, however. The Farm Credit Administration is "independent" in the sense that it does not fall under the authority of any regular department of the government. Otherwise, it is a government agency, as are all the others under its authority, and the governing board is politically appointed: 12 members by the President of the United States and one by the Secretary of Agriculture.

This is a nationwide system of credit for farmers, the central banks being distributed about over the

country in much the same way as are Federal Reserve banks. The Federal Land Banks make long term (5 to 40 year) loans to farmers secured by real estate. Although portions of the loans may be used for other purposes, they are made basically for the acquisition of farm land. The Intermediate Credit Banks are discount banks, serving mainly Production Credit Associations. Their main purpose is to discount intermediate term notes, such as would be needed for the purchase of farm equipment. Production Credit Associations make mainly what should be called risk capital loans to farmers. The loans may be for periods of up to 7 years. Banks for Cooperatives are, as the name implies, banks for associations of farmers.

Specialized Loan Companies

None of these organizations are banks in the usual meaning of the term. They are neither depositories of money nor issuers of currency. They might better be called loan companies, for that is their function, loan companies established by the United States government. But the word "company" may be misleading, if by that term we mean an organization owned and operated by investors for profit. The organizations in the Farm Credit System do not fit that description. The investors have no control over the organizations; investment is separated from own-

ership; hired managers operate them; and the profits, if any, go to the borrowers. Basic policy is set by political appointees or by law. Financing came initially from the Federal government, and ongoing financing comes from consolidated bonds sold to investors and backed by the notes from borrowers. (The United States government does not guarantee these bonds, but that may be only a technicality.)

The borrowers hold the voting stock in the basic organizations for the duration of their indebtedness. They are required to purchase the stock in order to obtain loans, and when the loans are repaid they must either relinquish the stock, or, in some cases, accept non-voting stock in return. The voting stock serves basically as a means of choosing the members of the committee which approves or disapproves loans. Such profits as may be made are, in effect, paid out as reductions of interest rates to current borrowers.

The point of these arrangements may be easier to get by conceiving the matter in figurative language. The government has contrived to bring into being and caused to be planted and grown a vast cabbage patch, i.e., credit, for rabbits, i.e., farmers. The rabbits have been placed in charge of distributing the cabbages under guidelines laid down by politicians or their appointees. My point is that a vast system of easy

credit to enable farmers to buy land and get risk capital has been made available by government. But to round out the account of credit institutions one more needs to be included. It is the Farmer's Home Administration (known as the F.H.A. in rural circles).

The F.H.A.

The Farmer's Home Administration is a backup organization to provide easy credit, mainly for farmers, who cannot meet the requirements of other lenders. (Applicants for loans are usually expected to submit evidence that they have been turned down by other lending institutions.) Its basic authority stems from an act of Congress passed in 1921. It operates within the Department of Agriculture, and it is financed by proceeds from the sale of Treasury certificates. It makes loans to "pay for equipment, livestock, feed, seed, fertilizer, other farm and home operating needs; refinance chattel debts; provide operating credit to fish farmers;" for the purchase of land, houses, and other sorts of things for rural inhabitants and farmers. Terms of repayment and interest rates are adjusted to the financial situation of the borrowers.

None of this is meant to suggest that farmers borrow exclusively from government agencies. They, or some of them at least, borrow from regular banks, from insurance compa-

nies, from equipment dealers, and from private as well as other public sources. But there is every reason to believe that the major source of the easy credit which has many of them now swamped with debts are the government agencies.

While I was in the midst of writing this article there was an account on television of a farmer in Ohio who was trying to prevent the auctioning of his farm to pay his debts, or at least those secured by it. According to the television announcer, the man had 199 acres of land, and he owed \$400,000 to a Production Credit Association and \$200,000 to a Federal Land Bank.

Much more generally, the breakdown of the lenders to whom were owed the more than \$92 billion outstanding farm real estate debt in 1981 confirms the preponderance of these agencies. The largest portion, nearly \$36 billion, is owed to the Federal Land banks. Nearly \$8 billion is owed to the Farmer's Home Administration. Life insurance companies had loaned nearly \$13 billion, and commercial banks somewhat under \$9 billion. The other lenders were not enumerated.

Here is a synopsis of an Associated Press release (published in the *Birmingham News*, January 2, 1983, p. 21A) which illustrates the ease with which farmers could borrow money and the consequences of debt for one man. It is about a man who

was a farmer in Missouri. He began farming in 1965 with 68 acres of land and \$600. By 1970, he was planting 900 acres and feeding several hundred hogs. This expansion was built upon a mountain of debt; it eventually totaled nearly \$400,000. Drought, a disease which decimated his hog population, and inadequate prices drove him to the wall. The Production Credit Association, which had been supplying the risk capital for his operation, could carry him no longer. He turned to the Farmer's Home Administration, but that aid did not last long. His farm was sold at auction, but many of the debts remain unpaid.

In retrospect, this farmer understands what happened to him this way. He believes

he still would be farming had he not expanded with such zeal. Had his appetite for money not been so voracious. Had that money not been dished out so readily.

"They made a feather bed for me to lie on . . ." [he] said of the lenders. "You know, I could basically sit down at my kitchen table and write out a loan. It was just too simple."

"The road to hell," it has been said, "is paved with good intentions." The road to trial and tribulation for farmers is paved with government programs. Undoubtedly, farmers would have a full quota of trouble if there were no government intervention. Commercial farming is a business, and it is beset with all the pit-

falls of other businesses. Some businesses prosper, others fail. That is the story of all business in good times and bad, and especially in bad. Beyond that, farmers face some risks peculiar to their undertaking. Thus, however unfortunate it may be, farming is unlikely ever to be a universally prospering undertaking for all who venture into it.

Conclusions


But the conclusions toward which this article has been moving are these. Government intervention has greatly aggravated the lot of the farmers. Price supports induce farmers to produce more. That, plus crop restrictions, promoted the expansion of land holdings and the shift from labor toward capital. Despite the fact that this was risk capital, the government set up a vast credit mechanism to supply much of it.

Price supports, crop restrictions, and easy credit sent misleading signals into the market. The crop restrictions have generally been abandoned over the past couple of decades, not, however, before millions of people had been driven from farming and the pattern had been set for those who remained to expand their land holdings and rely more and more on capital. Price supports, while not so obtrusive as they once were, still serve to stimulate production. Meanwhile, farmers go deeper and deeper in debt in a desperate effort

to produce more and more in the hope that they can pay off the debts which are threatening to crush them. Many are falling by the way. Others, perhaps most, are having a hard time due to the lower prices resulting from the increasing production.

Many farmers are raising the cry for government aid once again. But the hair of the dog that bit them will no more solve their problems than it will cure alcoholism. Neither economic theory nor historical experience support any such notion. It is government intervention which has bent, strained and distorted the market to produce the current mess,

as well as a number of earlier ones.

The unhampered market provides the guides for how much to produce in order to survive in an undertaking. The free market price is the surest guide to what to produce and in what quantity. When credit is only available from those who hope to profit from lending the scarce money available, there is little likelihood of overexpansion of landholdings or overcapitalization. Not so long as these are dependent on credit. And the farmers who are in desperate straits today are those being crushed by a mountain of debt. 

Government Lending

IN the sense that each borrower undertakes to repay out of the revenues produced by his work, all government lending is lending to finance enterprise. Where there is no enterprise, there is no prospect of repayment. In this broad sense, where enterprises and enterprisers are discussed in these general comments, the terms are used to apply to farmers and working people as well as to businessmen, partnerships, and corporations.

The theory of government lending is that it produces economic activity which otherwise would not occur. This means that if the government offers to pay the bills, now or later, homes will be built, factories will be constructed and outfitted, minerals will be mined, crops will be grown, electric power and telephone lines will be erected, goods will be exported for sale abroad, employment opportunities will be created, and many other business transactions will be undertaken, even if in each case it would have been unattractive or financially impossible for the people concerned to undertake the transaction unassisted.

(Extracted from the February 1955 report by the Task Force on Lending Agencies, prepared for the Hoover Commission on Organization of the Executive Branch of the government.)

IDEAS ON



LIBERTY



From the Mouths of Babes

I sat at my desk in the classroom, mulling over a stack of bills written by the students in preparation for our Mock Congress. As I glanced at each one, checking for proper format, neatness, and appropriateness of the action proposed, a wave of discouragement swept over me.

Only two units earlier we had spent several days discussing the principles of the Declaration of Independence. I had tried to explain in simple terms the formal writing of Thomas Jefferson. I had placed special emphasis on the importance of the truths deemed “self-evident to all men.”

Even as the discussion proceeded, I had begun to detect that these self-evident truths and inalienable rights were indeed foreign to many of the youngsters. The very idea that the main purpose of government was the defense of individuals’ lives, liberties, and properties seemed entirely

new to many of them. This was confirmed when I rhetorically asked, “What is the purpose of government? Is it to provide jobs? Set prices? Build homes?” The overwhelming response was, “Yes, that is government’s job.”

The explanation that followed corrected their fallacious thinking—or so I thought. They even did well on the test, parroting back the freedom philosophy I had so expertly taught them.

Now, as I read the bills they had proposed for their Congress, I realized the truth—they had not really learned the philosophy of freedom. The big brother philosophy was firmly and unmistakably embedded in their young minds.

Two bills proposed severe international trade restrictions. Two others demanded long-term, low-interest loans for farmers and students. Another mandated involuntary auto seat restraints. Still another recommended a guaranteed annual in-

Mr. Peterson of East Greenville, Pennsylvania, teaches economics and history in junior high school.

come. One even suggested that the government enter the fruit-growing business.

It is true that one could simply dismiss such proposals as the unthinking work of junior high school students. But it is not that simple. From these bills I quickly realized that the students were learning well the philosophy of government so prevalent today. Their bills merely reflected proposals they hear discussed on television. Their bills, with a little spit and polish, refinement, and professional legal terminology, are the very issues being debated in the halls of Congress.

These students knew of nothing else to propose. Throughout their lives they have been hearing adults, especially the government "experts," discussing the efficacy of government regulation and intervention. Practically every proposal offers some form of government control. And usually such proposals are designed to benefit some unfortunate individual or group, thus appealing to their desire to help others in need.

Many of the students had attended public school for several years, where they had received the government's philosophy of control under the guise of preparing them for freedom. Those who had attended private school had either not been exposed to the freedom philosophy or had not truly come to accept it for

themselves. None of them had read literature written by proponents of limited government.

As I sat at my desk, dejected and defeated, I thought back to my own early schooling. Even then several social studies teachers had espoused collectivist ideas. The literature was filled with them. But at home I saw in my parents hard work, rugged individualism, sound personal economy, and a fear of government interference. It was about that time that I began receiving *The Freeman* and "Notes From FEE." I still recall my excitement when a book written by Leonard Read arrived in the mail and the elation I felt upon turning to the dedicatory page and reading, "To Frederic Bastiat. . . ." Hand-penned following these printed words were, ". . . and Dennis L. Peterson." It was autographed by Mr. Read. At that time I knew of no greater honor. It encouraged me in learning more fully the freedom philosophy.

Slowly I have realized that the freedom philosophy is not something that can be taught in a few class periods. It cannot become a part of one's life through a mere introduction in school. It must be constantly nurtured, strengthened, and sustained. It must be shown to work on a day-to-day basis. It must be reinforced in real life in the home, in the church, and in the very halls of government. In short, it is something that can be discouraged and

destroyed or encouraged and strengthened by others, but it must be learned through self-discovery.

The way of freedom must be taught, not by deriding the socialistic fallacies, but by accentuating the righteousness of freedom. As Mr. Read so clearly stated in *Accent on the Right*, "When we accent what is right, we put ourselves in the realm of the positive; our message becomes attractive, for it is one of hope rather than despair. This approach also strips the wrongdoing of its plausibilities and without any declamation on our part—leaves it bare, naked, and exposed."

A Lifetime Challenge

In reflecting on the lessons learned from my students, I now understand that teaching freedom to others is not the work of a semester, but rather the work of a lifetime. It will require many lessons, not one lecture; much reinforcement, not mere regurgitation.

A proponent of freedom should be a perpetual student. No one can be a teacher who is not at the same time a student himself. "Everybody is ignorant," Will Rogers said, "only on different subjects." Students will advance in their learning only to the degree their teacher is advancing in his own education. Samuel Smiles summed up this point in his book *Thrift* when he wrote, "Every man's first duty is to improve, to educate,

and elevate himself, helping forward his brethren at the same time by all reasonable methods."

He should live his life in such a way that others will see the desirability of individual freedom. He should beware of developing a reputation as a ranting fanatic who is always negative in his attitude. Rather, he should be an exemplary proponent of the positive, emphasizing the benefits of freedom. He should illustrate how good freedom is, not how bad collectivism is.

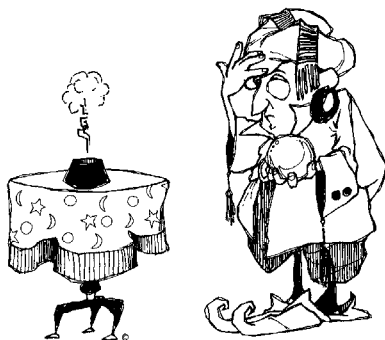
Now I am asking myself what others are seeing in me. Will my young daughters learn the freedom philosophy from my life the way I learned it from my parents? If they do not, I have only myself to blame. ☉

Special Issue of *The Freeman* on **The Renewal of Freedom**

Reprints of historic documents and other suggested readings on Constitutional Government in America.

Copies of this July 1981 issue available in quantities of 10 or more at \$.25 each. (Minimum order 10 copies.)

Order from:
The Foundation for Economic
Education, Inc.
Irvington, New York 10533



Economists and the Future

In September, 1981, an economist from a major university in Michigan made known his economic forecast for 1982. His prognostications were widely publicized; perhaps some business or government decisions were based on them. According to the economist, the sluggish conditions of 1981 would give way to recovery early in 1982. Auto sales would improve to an annual rate of 9.7 million vehicles by the second quarter. Unemployment would “stabilize” at about the 8 per cent level. Economic expansion would spread to all major sectors, with the overall “rate of growth” doubling by the end of the year. Price rises would remain about as strong as they were in 1981. Many of his predictions were expressed in precise mathematical quantities.

What a difference a few months can make! Anyone who was awake

last year knows that this particular forecaster entirely missed the mark. And yet, he employed one of the most sophisticated mathematical models money can buy.

What does an economist do, having erred so grievously? Quietly retreat into the shadows of academe? Not at all! Undaunted, he will wipe the egg from his face, resume his place in the crowded fraternity of economic soothsayers, and begin work on next year’s prediction for Gross National Product—to the nearest tenth of a per cent. In the welter of fallacious forecasts, hardly a soul will single him out anyway.

The dismal record of the forecasting profession led one economics professor at the State University of New York to conclude recently that

Mr. Reed is Chairman of the Department of Economics at Northwood Institute in Midland, Michigan, and Director of the college’s annual Freedom Seminars.

non-economists on balance are better at seeing the future than are the professional forecasters. Perhaps it is time for the professional soothsayers to re-examine their premises and methods.

What is it about the future that makes it so hard to describe? The answer is at once both simple and profound: *it hasn't happened yet!*

Human hindsight is often "20-20" but it is beyond human mental limits to really know with much precision what tomorrow will bring. No palm reader, no fortune teller, no astrologer, no forecaster, not even an econometrician, can ever dispel the uncertainty of the future. Austrian economist Ludwig von Mises, in *Human Action*, tells us:

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. What people expect from the economists is beyond the power of any mortal man.¹

So it is that the existence of uncertainty is a commentary on the nature of the human condition itself. It is what Murray Rothbard terms "a fundamental implication derived from the existence of human action." In his monumental work, *Man, Economy, and State*, Rothbard expounds:

This must be true because the contrary would completely negate the possibility of action. If man knew future

events completely, he would never act, since no act of his could change the situation. Thus, the fact of action signifies that the future is uncertain to the actors. This uncertainty about future events stems from two basic sources: the unpredictability of human acts of choice and insufficient knowledge about natural phenomena. Man does not know enough about natural phenomena to predict all their future developments, and he cannot know the content of future human choices. All human choices are continually changing as a result of changing valuations and changing ideas about the most appropriate means of arriving at ends. This does not mean, of course, that people do not try their best to estimate future developments. Indeed, any actor, when employing means, estimates that he will thus arrive at his desired goal. But he never has certain knowledge of the future. All his actions are of necessity *speculations* based on his *judgment* of the course of future events. The omnipresence of uncertainty introduces the ever-present possibility of *error* in human action. The actor may find, after he has completed his action, that the means have been *inappropriate* to the attainment of his end.² (emphasis Rothbard's)

There Is a Need to Judge What the Future May Bring

To say that the future is uncertain, however, does not mean the end of the matter. Surely, *entrepreneurs* who assemble the tools of production today, as Rothbard points out, must make decisions based upon what they *think* the future will hold. They make

it their business to grapple with questions such as: What will the general state of business be next year? How much will materials cost and will they be available? What wage rate will be required to attract and keep the kind of employees we need? What will be the effect on sales if we change our prices? What are our competitors likely to do? Where will the best markets for our products be? Is this a good time to seek outside financing or will interest rates decline in coming months? Should we be working down our inventories? What will the politicians do that might affect our business?

Consumers, securities investors, government policymakers, and, of course, economics professors on the lecture circuit, join businessmen in the search for information about the future. The real question is, what *can* we reasonably say about tomorrow and what methods enable us to say it? A review of the more prominent methods of economic forecasting is now in order.

A. Simple Trend Projection

This approach relies upon pure extrapolation of previous trends in some economic activity and as such offers little more than a pretense to being scientific. It works only insofar as current trends continue. It does not begin to account for, let alone incorporate, any significant changes or turning points. Professor James

B. Ramsey terms it "naive prediction" and offers this critique:

Either the predictor estimates some relationship and *assumes* that the same results will hold in the future; or he predicts values by using currently observed trends in economic variables over time, for example, he says next year's income will be equal to this year's plus 5 per cent. There is no attempt to provide a theoretical model in order to understand the observed relationships. There is no concern for identification and little for separating out the individual effects of exogenous variables.³

Thomas Malthus, early in the nineteenth century, used a kind of simple trend projection to forecast starvation and over-population. More recently, the so-called "Club of Rome" relied on the same approach to predict the same thing. In Malthus' case, the Industrial Revolution interfered with his projection rather decisively. The Club of Rome's projection did not foresee the decline of birth rates in industrialized countries.

To the extent that forecasters employ simple trend projection (and many of them do), they are walking on ice so thin you can hear it crackling as they go.

B. Gross National Product Models

The concept of GNP purports to express the total value of all goods and services produced during a given period of time. It is the consumma-

tion of "national income accounting"—the process of identifying and adding up all the components which comprise the economy.

Basically, GNP is "determined" either by (a) summing the total expenditures on the "final product" goods and services produced during a period or (b) summing the total cost incurred as a result of producing the goods and services applied during the period.⁴

GNP is probably the most widely used "measure" of total economic activity and is the statistic which most conventional analysts use to express their predictions of business performance. Its many components supposedly comprise a "model" of the economy which can be a foundation for economic forecasting.

What on the surface appears to be massively profound turns out to be something much less. GNP, being the most "aggregate" of statistical aggregates, is riddled with problems and errors and, what's worse, *problems and errors of unknown magnitude*.

Those problems and errors stem from both the complexities of statistical measurement and the difficulties of basic conception (what to include). What follows is an accounting of just a few.

1. Errors of estimation. Simon Kuznets himself, the "father" of GNP, suggested once that assuming an

average margin of error for national income estimates (a prime component of GNP) of about 10 per cent would be reasonable! Yet, some economists routinely predict quarterly GNP figures in tenths of one per cent. Congress often makes public policy based upon those computations which, even if accurate, conjure up what Roger Garrison describes as "the vision of a dietitian who weighs a locomotive both before and after the crew boards it, then uses the difference between the two weighings as the basis for prescribing a diet for the whole crew."⁵

2. Incentives for collectors of the data to fabricate or twist the statistics for personal or political advantage. We know that economic statisticians in communist and Third World countries are notorious for this. Is it really unreasonable to assume that some twists or fabrications happen here too? In a recent, rather blatant example, the government decided to quietly start counting the 1.7 million members of the armed forces in this country as part of the work force for the first time. That at least will make the official unemployment figures look better for those in public office.

3. Incentives for individuals providing the statistics to report incorrect figures. Such distortions occur as individuals attempt to guard

trade secrets, evade taxes, or mislead competitors.

4. No account is made for the activities of the "subterranean economy." Giving Caesar the slip has become common practice as Americans are called upon to dig deeper in their pockets for what Caesar claims is his. Underground transactions, which totally escape the tax and data collectors, probably amount to hundreds of billions of dollars and probably are rising.

5. Things not exchanged for dollars are not included. Paint your own house and the value of the work performed is not calculated by the statisticians; hire a painter and his wages become a part of GNP. Likewise, if a man divorces his wife and then hires her as a cook for \$100 a week, GNP will increase by \$5200 annually.

6. Government spending raises GNP. When government spends more, it diverts funds away from more efficient allocation by the market. One economist suggested—with some sincerity—that it might be more in line with reality if government expenditures were *subtracted* from GNP!

7. Inappropriate depreciation allowances. These are determined by often unrealistic assumptions un-

derlying the tax laws. Inflation in recent years, for instance, has rendered depreciation allowances quite inadequate.

8. Changing quality of goods not reflected. GNP would not rise if an improvement in a product did not result in a higher price.

9. Exclusion of leisure. Leisure is very much an economic good (subjectively valued and incapable of quantification) and people often opt to "consume" more of it and to consume less of the more "traditional" goods and services.

10. Frequent revisions. This shortcoming is related to the first one cited above. GNP statistics are constantly subject to revision. Those adjustments are often significant and sometimes come months or years after the initial calculation. In short, by the time we have a statistic which we can reasonably assume is "final," it may have long since lost any forecasting value, if indeed it had any in the first place.

Reliance on Gross National Product models as tools for accurate forecasting has repeatedly led economists astray. It seems that, at best, such models say something about the past, and nothing about the future. Professor Kenneth Boulding's reference to GNP as "one of the great inventions of the twentieth century,

probably almost as significant as the automobile,"⁶ goes down as a grotesque exaggeration.

C. Econometrics

Many of the problems of simple trend projection and GNP models are present in the more sophisticated, heavily quantitative, econometric models. These constructs, which many once thought to be quite promising, often comprise hundreds of mathematical equations that purport to represent relationships among the major aspects of economic activity. Expensive, high-speed computers churn out the meticulous forecasts of the econometrician.

The record of these models has been dismal indeed. Mistakes in econometric forecasts have often been so bad that merely changing their signs from positive to negative or negative to positive would have put them significantly closer to the mark. *Business Week* for March 30, 1981 provides a case in point:

The big econometric models began signalling a downturn early in 1979 and construed the second-quarter dip as the onset of a potentially serious recession. After the third-quarter recovery, they kept betting that the next quarter would turn negative. Then, when last spring's drop was already under way, they turned briefly optimistic until the worsening statistics convinced them that their initial pessimism had been correct. They were wrong once again, because the economy picked up during the summer

and was still running strong at the end of the year. "They were not only consistently wrong, they constantly changed their forecasts in the wrong direction," notes Stephen K. McNees, an economist at the Federal Reserve Bank of Boston whom the econometricians themselves rely on as an arbiter.⁷

These errors certainly do not occur because the practitioners of this method do not try. They are simply employing inappropriate assumptions—assumptions that if rejected would lead to the virtual termination of econometric models as we know them.

Economics as a science is best analyzed *qualitatively*, not *quantitatively*. There are no truly constant relationships in human action, which means that most of the relationships postulated in the equations of econometric models are invalid. "Garbage in, garbage out," as they say in computerese.

Economists have acknowledged for decades that the function of the entrepreneur is to anticipate changes in the marketplace. Once the entrepreneur has made a decision, he then exposes his wealth and income by arranging factors of production in such manner that he may satisfy future consumer demand. If he anticipates correctly, he will earn entrepreneurial profits; if his judgments are wrong he will incur losses. Any number of variable and unforeseen elements may arise to affect the out-

come: changes in fashion and technology, government policy, labor union activities, competition, prices, and even the weather. None of these elements is entirely predictable; none can be accurately determined by past performance. Attempts to mathematically estimate these elements in advance or to attach numerical significance to the subjective judgments of the entrepreneurs themselves are pure folly. They are doomed to suffer the failure which lies in gross simplicity and imprecision.

Not a Precise Measure

It is ironic that econometrics strives for the exactness of numbers and yet bogs down in static equations which necessarily cannot begin to account for all the relevant factors and their interrelationships. Economist Henry Hazlitt tells us that if a mathematical equation is not precise, it is worse than worthless; it is a fraud:

It gives our results a merely spurious precision. It gives an illusion of knowledge in place of the candid confession of ignorance, vagueness, or uncertainty which is the beginning of wisdom.⁸

Perhaps Mises said it best when he wrote:

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 di-

mensions. There is neither constancy nor continuity in the valuation and in the formation of exchange ratios between various commodities. *Every new datum brings about a reshuffling of the whole price structure.*⁹ (emphasis mine)

The equations of econometric models profess complexity, yet they really represent a feeble, simplistic, and futile effort to mirror the infinitely more complex network of human actions we call "the economy." They fail to account for many unforeseen economic variables and make little effort to recognize the interaction between economic and *noneconomic* variables. Their static, impersonal, and aggregative approach leaves acting man out of the picture, replaced by lifeless equations of often dubious value. The one way they could be reliably predictive would be if people ceased changing and became robots; then the econometrician could "get a handle" on them.

One observer recently commented that to predict economic events, one must first predict political events. Unfortunately, there is much truth in that statement. Today, it is not enough to consider endogenous market forces when contemplating the future. One must reckon with the exogenous influence on the market of colossal, erratic government. Politicians and their bureaucratic foot soldiers throw their weight around like bulls in a china shop. Predicting

the outcomes of the political process is like trying to forecast which vases the witless bulls will break next. Econometric models are incapable of foreseeing such events.

The failure of econometric forecasting should come as no surprise. But it would be surprising were its practitioners to admit failure.

D. Statistical Indicators

This approach utilizes measurements of economic activity which supposedly "lead," "coincide with," or "lag" the business cycle.

A list of leading indicators generally includes the money supply, housing permits, stock prices, raw materials prices, inventories, and corporate profits.

Roughly coincident indicators include industrial production, factory capacity, retail sales, and personal income.

Unemployment, bank rates on short-term business loans, labor cost per unit of output in manufacturing, and new capital appropriations are considered key lagging indicators.

Obviously, the group which is supposed to have the most predictive value is the group of leading indicators. The Commerce Department compiles the monthly "Composite Index of Leading Indicators," a widely followed statistic. Just how reliable is it?

The index's lead time in signaling the onset of recessions has

ranged from four months to nearly two years, which makes it a shaky guide for anyone trying to plan for economic swings.

The index's performance in calling the upturns is only marginally better. On several occasions, it has signalled booms or busts which never materialized.

Statistical indicators, regardless of their category, often have substantial inherent weaknesses. Many of those weaknesses are akin to those described above with regard to GNP, itself viewed as "roughly coincident" to the business cycle.

The Producer Price Index, for instance, measures changes in charges by firms that make goods. It is based largely on returns from sellers, who tend to report list prices. Not recorded are the many trades that take place at discounts or at premiums.

The Consumer Price Index is the most-watched "cost of living" figure. It assumes that families buy items in the same proportions as they did in the base year of 1972-73, even though changes in lifestyles have since taken place. For one thing, it seems that an increasing number of Americans today are keeping their cars longer than they did ten years ago, so the purchase of a new car carries much less weight in a family's budget.

Also, the CPI vastly overweights average housing costs and does not take into account the fact that peo-

ple tend to buy more of a substitute when the price rises on their first choice. They buy more chicken, for example, when beef prices go up.

Official figures on unemployment are an important factor in government planning. But the figures, based on household surveys, are deceiving. For example, some able-bodied people cannot get certain types of welfare unless they are actually looking for work, so they may facetiously tell survey takers that they are job hunting. They then become officially unemployed.

Assuming it possible to assemble accurate statistics which indicate what they are supposed to and do not require later revision, we might have a sketchy picture of where "the economy" *was* or perhaps where it *presently is*. But we still couldn't say for certain, based on the figures, *where it is heading*.

Educated Speculation

Having said all that, it nonetheless stands to reason that if we are to be able to say anything at all about the economic future, we probably should know something about the economic *present* and *past*. That's where reliable statistics might play some part, not as a basis for simple trend projection, but merely as descriptions of economic activity already behind us or underway. Even the finest and most accurate statistics, though, should only be ingredi-

ents in a more fundamental approach now to be examined. For want of a more descriptive title, I shall call it *Educated Speculation*.

This approach is characterized by the following:

1. A clear recognition of the uncertainty of the future with no "leaps of logic" or mindless extrapolations.

2. Careful use of only the most meaningful statistics, understanding all of the limitations of such aggregates discussed above. This implies a task of "de-aggregating" aggregates—of analyzing economic activity as it results from acting, decision-making, welfare-maximizing individuals.

3. A sound understanding of basic economic principles and of the political process.

4. A thorough grasp of the causes and consequences of the business cycle.

With these tools, an economist can proceed to say something about the future and have some reasonable grounds for saying it. He still must be wary, though, of how far he can go. Brian McAndrew, writing in the Cato Institute's *Policy Report* for November 1981, clarifies this point:

If forecasters recognized the limitations of economic theory and empirical information, they would realize that the most an economist can hope to do is explain the likely consequences of different policies. An economist can show, for instance, that a minimum wage tends to

cause unemployment because it alters supply and demand conditions in the labor market. An economist cannot say exactly when, where, and by how much unemployment will rise (i.e., he cannot forecast the unemployment rate), but he can say that if a minimum wage law is instituted unemployment will tend to increase. In addition, he can, by combining theory with empirical information, get a rough idea of the amount of unemployment caused by the minimum wage at different times in the past, but he cannot say what this amount will be in the future.¹⁰

The Austrian Theory

In this world of radical interventionism, correct business cycle theory is crucial to our ability to say anything about the future. Cycle theories abound, but the one which fully integrates an explanation of the cycle and its features with an analysis of the entire economic system is known in various circles as the "Austrian malinvestment theory."

Propounded first by Ludwig von Mises and later enlarged by Nobel laureate Friedrich von Hayek, the Austrian theory holds that the source of the cycle lies in money and credit expansion orchestrated by central authorities and proceeds to explain its effects. It is the theory which enabled Mises during the subtle inflation of the 1920s to warn of a coming depression. Few believed him until it happened. I direct the interested reader to more detailed accounts

found in the works of Mises, Hayek, and Rothbard.

In the final analysis, the art of *entrepreneurship* is the art of "educated speculation." It is upon the shoulders of the entrepreneur in the market economy that the burden of "educated speculation" rests. For him, it is, in the words of Rothbard, "a matter of intuition, 'hunch,' and deep insight into the slice of the market that the entrepreneur knows and is dealing with."¹¹ Entrepreneurship remains a vital, creative talent which economists would do well to spend more time examining. (See two works by Israel M. Kirzner: *Competition and Entrepreneurship* and *Perception, Opportunity, and Profit*.)

"Educated speculation," as I have termed it, is really economics brought down to earth. It may not be as fancy as econometrics or GNP modeling, but neither is it as pretentious. It says simply that an economist should be an economist, not an aspiring prophet.

The reader who began this essay hoping to discover a crystal ball may be disappointed that I have really offered nothing of the kind. Instead, what I have attempted to show is that much of what is commonly referred to today as "economic forecasting" goes far beyond the real abilities of economists to predict the future. Rothbard offers us this sobering reflection:

As Ludwig von Mises used to point out to those who were tempted to succumb to the razzle-dazzle of economic forecasting: If someone were *really* able to forecast the economic future, he wouldn't be wasting his time putting out market letters or econometric models. He'd be busy making several trillion dollars forecasting the stock and commodity markets. Let it be a reminder to anyone tempted to partake of, or give credence to, this modern form of soothsaying.¹² ☉

—FOOTNOTES—

¹Ludwig von Mises, *Human Action: A Treatise on Economics* (3rd revised ed.; Chicago: Henry Regnery Company, 1966), p. 871.

²Murray Rothbard, *Man, Economy, and State* (Los Angeles: Nash Publishing, 1970), pp. 5–6.

³James B. Ramsey, *Economic Forecasting—Models or Markets?*, Cato Paper No. 10 (San Francisco: Cato Institute, 1980), pp. 37–38.

⁴James D. Gwartney and Richard Stroup, *Economics: Private and Public Choice* (2nd ed.; New York: Academic Press, 1980), p. 116.

⁵See p. xii of Garrison's Foreword to *National Income Statistics* by Oskar Morgenstern, Cato Paper No. 15 (San Francisco: Cato Institute, 1979).

⁶Gwartney and Stroup, p. 128.

⁷"Where the Big Econometric Models Go Wrong," *Business Week*, March 30, 1981, p. 70.

⁸Henry Hazlitt, *The Failure of the "New Economics"* (Princeton, N.J.: D. Van Nostrand Company, Inc., 1959), p. 99.

⁹Mises, p. 118.

¹⁰Brian McAndrew, "The Failure of Econometric Forecasting," *Policy Report*, November 1981, p. 6.

¹¹See p. xi of Rothbard's Foreword to Ramsey's *Economic Forecasting*.

¹²*Ibid.*, pp. xii.

National Income

WE can raise our national income to any figure we want simply by depreciating the dollar enough to raise prices to reach that income.

In Germany, in 1923, the national income (in marks) actually rose to hundreds of billions of times higher than its previous level, because the paper mark was depreciated to one-trillionth of its former purchasing power.

IDEAS ON



LIBERTY

To be sure, when explicitly taxed with the point, economic planners will say that their goal is a national income of x billions "in dollars of present purchasing power." But they forget this qualification in actual practice. They are always citing the latest national income figures in terms of the latest and most inflated dollar. They do not stop to remind us, or even themselves, how much the national income would have to be written down to reflect the price level of, say, twenty years ago.

"The national income approach" has become one of the important incitements to inflation. For the easiest and surest way to get constantly bigger national income figures is not by increasing output and consumer satisfactions, but by constantly shrinking the measuring rod, by constantly depreciating the dollar.

The Strategic Metals War

WHEN the fates, in the guise of whatever forces guide the shifting of the earth's tectonic plates, picked the southern African plateau and Soviet Siberia as the home sites of at least fifty rare metals, they acted with little regard for either social or ethnic realities. The results confound morality, make a mess of industrial choreography, and guarantee a schizophrenic dimension to whatever passes for statecraft both inside and outside the UN.

The whole big blooming mess demands some intricate charting if we hope to make a stab at predicting future world history. Seemingly, we are caught between two inexorable movements. The capitalist West, with its "hi-tech" economy, depends on a steady flow of all sorts of hardening alloys. The Big Four of cobalt, chromium, platinum and manganese are absolutely essential. The West needs cobalt for jet aircraft, for computers, for space shuttles, and for most electronic equipment. It needs chromium for roller and ball bearings, for automobile connecting rods, for high speed drills and dies. It needs

platinum for catalytic action in automobile exhaust systems. And it needs manganese—the remaining rare metal in the Big Four—for the simple reason that no one knows how to make steel without it.

The Soviets have their own chrome and other rare metals. But the western world must have Zaire and Zambia for cobalt. It must have Zimbabwe (Rhodesia) and South Africa for chrome. Some of the platinum group of metals come from Canada, but South Africa is the big supplier. The fates were more liberal with their distribution of manganese (there is a lot of it on the floor of the oceans, and Brazil has been a big source of it). But, again, it is South Africa that is the world's leading supplier of highly processed ferromanganese.

So the "Z's"—Zambia, Zaire, Zimbabwe—have it, along with their ethnic enemies, the beleaguered white rulers of "apartheid" South Africa. If economics, the economics of the market, ruled men's minds, the "Z" problem would bother nobody. But African politics, with many

a nudge from the Soviet Union and its sidekick of Castro's Cuba, threatens the market. A race war in South Africa, coupled with an OPEC-type price conspiracy of the "Z's" and an invasion of Southwest Africa (Namibia) by the 20,000 Cubans now stationed in Angola, would bring all the high-tech nations of the western world to their knees.

A Study in Political Economy

In a book that was originally projected as an investment guide, *The Strategic Metals War*, authors James E. Sinclair and Robert Parker (New York, Crown, 185 pp., \$17.50) found so many warning signals that what they started as a compendium for stock market advisers becomes something else again. This is not only an investment guide, it is a prime work in modern political economy.

The authors are inevitably compelled to be geopolitical experts. They raise all sorts of inconvenient questions. With Admiral Mahan (*The Influence of Sea Power on History*) looking over their shoulders, they indicate the importance of control of the oceans around the Cape of Good Hope at the southern tip of Africa. Ships carrying oil from the Persian Gulf to North European and Caribbean-Gulf of Mexico destinations need support from safe harbors in South Africa. So do the ore freighters that bring fifty rare metals from the mines of the South African pla-

John Chamberlain's book reviews have been a regular feature of *The Freeman* since 1950. We are doubly grateful to John and to Henry Regnery for now making available John's autobiography, *A Life with the Printed Word*. Copies of this remarkable account of a man and his times—our times—are available at \$12.95 from The Foundation for Economic Education, Irvington-on-Hudson, New York 10533.

teau (including the "Z" nations) to the unloading points for factories in the West German Ruhr and in Pennsylvania.

It is easy to scoff at those who think that politics can permanently overwhelm markets. The libertarians who trust markets to prevail have a point when they tell us that recent oil discoveries in Mexico, Alaska and the North Sea have helped break the back of OPEC and so made the Persian Gulf less important to the West than it was in 1973. But frantic search for cobalt, chrome and platinum (along with germanium, tantalum, vanadium and antimony) hasn't resulted in strikes with a distribution comparable to the new sources of oil all around the world. The three "Z's" and South Africa, along with Siberia, still maintain

their near monopoly of the more important rare metals.

Wars Over Cobalt

The history that is recounted in *The Strategic Metals War* is one of narrow escapes. In 1978 some 3,000 men of the Marxist-leaning Congo National Liberation Front based in Angola (where they were trained by Cubans) passed through Zambian territory and took over the mining center of Kolwezi in the Zaire province of Shaba. The invaders encountered no resistance from the army of Zaire. They first ordered the closing of the Kolwezi mines. Then they herded the white women into a hotel and forced them to dance on a small stage before being raped and shot. More than 90 whites and 750 Africans were murdered by the invaders.

Meanwhile the price of cobalt in world markets started jumping. The Soviets, who had advance notice of the invasion, had been buying up available cobalt at the pre-invasion price of \$6.85 a pound. When the invasion hit the world headlines cobalt went all the way up to \$49 a pound.

With cobalt mining in Shaba totally suspended, President Mobutu of Zaire put in a hurry call to President Valéry Giscard d'Estaing of France. With help from U.S. military aircraft a rescue force of French foreign legionnaires and Moroccan

troops were flown into Shaba. The Marxist invaders, who had flooded the mines, were quickly driven over the border into Zambia and Angola. It took fifty days to restore normal operations in the mines. In 1979 and 1980 cobalt had to be ferried out of Shaba by air at a cost of \$1.50 a kilogram.

What the West must face is that it may take force to keep supplies from the three "Z's" moving. It certainly takes a nimble diplomacy. The railways running from Zaire and Zambia direct to the Atlantic and Indian Oceans are only intermittently operative. The "Z" nations are compelled to cooperate with the hated South Africans in order to get their metals to market by way of Cape ports.

In Zimbabwe, at the moment, tribal troubles are threatening mining operation. There is no reason to suppose that the tribal rivalries will completely disrupt the chrome market—after all, South Africa has chrome to sell, too, and there is no immediate difficulty in getting blacks to do the mining. But Mr. Sinclair tells us that, since the Shaba troubles in Zaire, it has become increasingly difficult to attract western capital into African mining. Mining equipment is wearing out.

And so the metals war goes into a "cold" stage. It could get hot again tomorrow. Stockpiling in the West is in order. Ⓜ

**JOHN DICKINSON:
CONSERVATIVE
REVOLUTIONARY**

by Milton E. Flower

(University Press of Virginia, P.O. Box
3608, Charlottesville, VA 22903), 1983
338 pages ■ \$27.50 cloth

Reviewed by Gottfried Dietze

THIS attractive volume contains a well-written biography of one of the great founders of the United States, known as the "penman of the Revolution," and a symbol of that event.

In the New World, the American Revolution was another dimension of the English Revolution of the preceding century. After Montesquieu had classified Britain as republican in substance, Americans made their government republican also in form. The United States became the only country founded in the year of the publication of *The Wealth of Nations*, in which Adam Smith urged free enterprise for the good of mankind. After the adoption of popular forms of government, Americans soon became aware of the major problem of democracy, namely, to what degree the ruling majority should be restricted for the sake of the rights of the individual, among which those of property ranked highly. All this shows that the American Revolution was a conservative revolution.

John Dickinson was a conserva-

tive revolutionary. According to Mr. Flower, "Dickinson's approach was a crystallization of the whig theory that dominated the thinking of American leaders." Dickinson, whom Voltaire compared to Cicero, was born in 1732 in Talbot County, Maryland, and died in 1808 in Wilmington, Delaware. He studied law at the Middle Temple in London and had an outstanding career, as a lawyer and a public figure. This corresponded with the words of Tacitus he had recorded in his commonplace book, "To despise fame is to despise the Virtues by which it is acquired."

Aside from occupying important positions in Delaware and Pennsylvania, Dickinson played a major role on the American level. He represented Pennsylvania in the Stamp Act Congress of 1767 and drafted the Declaration of Rights and Grievances. In 1767-68, he published the *Letters from a Farmer in Pennsylvania, to the Inhabitants of the British Colonies*. They reached a wide audience so that prior to independence, Dickinson, with the exception of Benjamin Franklin, was probably the American known to more colonists than any other. They helped turn public opinion against the Townshend Act, under which new duties were to be collected to pay for the salaries of British officials in the colonies.

Flower writes that Dickinson was "the first native political hero: the

outstanding harbinger of American protest against arbitrary British measures and a true defender of liberty," who up to the convening of the Second Continental Congress was recognized as the chief spokesman for American rights. Dickinson was a delegate from Pennsylvania in the First Continental Congress. In the Second Continental Congress, he was the principal author of the Declaration, setting forth the causes and necessity of taking up arms. He helped in the preparation of the first draft of the Articles of Confederation. A signer of the United States Constitution, Dickinson worked for its adoption and defended it in a series of letters signed "Fabius," the mastery and dignity of which won the praise of George Washington.


Dickinson's concept of freedom was a comprehensive one. "Men cannot be happy," he declared, "without freedom; nor free without security of property; nor so secure, unless the sole power to dispose of it be lodged in themselves." He feared big government and denounced governmental regulations from unfair taxation to restriction of manufacturing to the control of the shipment of goods, and so forth. He wanted liberty to be protected not only from the English, but also from representatives Americans had elected. In 1769, Dickinson wrote that he had been incensed at the Pennsylvania Assembly's permitting "the vilest

acts of despotism." Similar fears were voiced by Dr. Benjamin Rush, who founded Dickinson College in his honor.

His love of liberty did not make Dickinson favor anarchy or political turbulence. He was convinced that "the Cause of Liberty is a cause of too much dignity to be sullied by turbulence and tumult." He believed in the rule of law, which to him was the guardian of the individual's rights from arbitrary government as well as the protector of these rights from infringements by fellow men: "The law delights in certainty and quiet because, without these, there can be no liberty." A contemporary of Adam Smith, Immanuel Kant and Thomas Jefferson, Dickinson had a strong sense of morals and virtue. When in 1782 an old friend had voiced strong approval of his gubernatorial proclamation against vice and immorality, Dickinson replied that he was convinced "that the happiness of men in this life as well as in the next depends on the prevalence of piety and virtue among them."

The penman of the American Revolution believed that "every friend to mankind must rejoice, in contemplating the actual and probable consequences of our revolution to other nations." Never bending to public opinion if he felt it to be wrong, Dickinson urged Americans to favor free government; "As for me, I will

assuredly contend for that glorious plan of Liberty handed down to us from our ancestors; but whether my labors shall prove successful or in vain, depends wholly on you, my dear Countrymen."

Mr. Flower's work furnishes a detailed description not only of the political life of Dickinson, but also of his private life. It is a well organized scholarly study, supplied with a careful bibliography and a long index. When Charles J. Stillé published his biography of Dickinson in 1891, less than a quarter of the Dickinson Papers had been available to him. Mr. Flower was fortunate to draw on a vast collection of sources and write what in all likelihood will be the definite description of the life of a great American. It makes good reading. 

STALIN'S SECRET WAR

by Nikolai Tolstoy

(Holt, Rinehart and Winston, 383 Madison Avenue, New York, NY 10017), 1981
463 pages ■ \$18.50 cloth

Reviewed by Bettina Bien Greaves

IN his 1944 classic, *The Road to Serfdom*, Nobel Laureate, economist F. A. Hayek explained "why the worst get to the top." And now in *Stalin's Secret War*, Nikolai Tolstoy shows how "the worst" stay on top once they get there. Dictator of all

the Russias for almost three decades, Joseph Stalin was certainly one of "the worst," and the tactics he used to stay on top were brutal and barbaric.

Nikolai Tolstoy describes Stalin as physically unattractive—short, "only five feet four inches high, . . . thin, swarthy and heavily pock-marked." As he aged, "his hair greyed and thinned considerably and his belly began to hang within the loose-fitting uniforms he affected. His pock-marked features appeared more lined and pitted than hitherto, his moustache was scrawny and streaked, and his teeth blackened and stained." He spoke in a "monotonous" tone and "with a harsh Georgian accent."

However, physical appearances are not crucial. It is character that influences action. Stalin was ruthless, a characteristic his predecessor and idol, Lenin, apparently appreciated. He helped to finance the "revolution" by robbing banks. When imprisoned by the Tsarist regime, he associated, not with the "politicals," but with the common criminals. He was vicious and crude. Nikita Khrushchev, Stalin's successor as Soviet dictator, described him as "brutish . . . harsh . . . coarse and abusive with everyone." Yet he felt insecure; he had an inferiority complex, and this, according to Nikolai Tolstoy, led to fear and paranoia. He became obsessed with the belief that

he was surrounded by enemies. The methods he used to stay on top, therefore, are explainable by his character—his ruthlessness, his respect for gangster types, his fears and his paranoia.

Ambition plus ruthlessness enabled Stalin to rise to power over Trotsky and all other contenders. In time he came to hold sway over millions and “virtually owned the Soviet Union in as absolute a sense as property can acquire.” The country’s fairly proper constitution, code of laws and regulations were largely ignored by Stalin and his gangster-type associates; they were above the law. “No real property rights existed in the Soviet Union except Stalin’s; he could literally do as he chose with anything.” Any who dared to hint, or who was suspected of hinting, at opposition was effectively silenced by the secret police. Yet these very police-state methods added to Stalin’s fears for his own personal safety. He trusted no one.

Stalin admired his fellow-despot, Adolf Hitler. He was apparently delighted when the German-Soviet Non-aggression Treaty was signed (1939), leading to the partition of Poland between their two countries. Stalin considered Hitler a friend. It was with complete disbelief that he learned, on June 22, 1941, that German military forces had attacked Russian soldiers stationed along their common border in the middle of Po-

land. Warnings of a possible German attack had reached Stalin from U.S., British and Russian intelligence sources, but he had chosen to ignore them. As a result, the Russians were utterly unprepared and chaos reigned. When his men at the front reported to Moscow they were under fire, they were told, “You must be feeling unwell,” or “Do not give in to provocation, and do not open fire!” According to Nikolai Tolstoy, “There was in fact no battle-plan; only Stalin could issue instructions.” And Stalin apparently panicked. His Foreign Minister, Molotov, announced the German attack to the Russian people.

Stalin had become a prisoner of his own paranoia. It was not until two weeks after the German attack that he came out of seclusion to broadcast to the Soviet nation. According to Tolstoy, Stalin appeared more fearful of assassination, an uprising in Russia and the possible overthrow of his own government than he was of the German invasion. These fears led to his “secret war,” the war against his own people. In one chapter, “War on Two Fronts,” Tolstoy describes Stalin’s two bitter struggles—one against the Germans at the fighting front and the other against the Russians behind the front.

As Stalin trusted no one, his secret police were ordered to arrest anyone suspected of opposition to him

or his government. He especially feared persons with leadership qualities. Purges were carried out in Russian-occupied territories, and also in Russia, against military officers, professionals and intellectuals. To forestall a Polish uprising, thousands of Poles were arrested shortly after partition; many were executed, often after having been cruelly tortured. His henchmen were no less ruthless in their treatment of Russian nationals.

Stalin's insecurity persisted even after the fighting stopped. He was still fearful of domestic uprisings and determined to liquidate all potential opposition before trouble could start. In his view, anyone who had observed life outside the Soviet Union might have acquired foreign ideas and thus become a threat to the Soviet regime. As the Yalta Agreement called for the repatriation of "Soviet citizens," that Agreement became the grounds for the Soviet government's demand that the thousands of refugees from the east who were in Allied hands at war's end be "repatriated." With Allied help and without adequate screening, therefore, many thousands, including many non-Soviet citizens, were tricked into railroad box cars and lorries and then forcibly carted off to imprisonment, torture and death in the U.S.S.R. One important chapter in this book is devoted to this sad event in history.

This post-World War II forced-transport of refugees to Russia was not without precedent in Russian history, a precedent which drew it to Nikolai Tolstoy's special attention. Petr Tolstoy (1645-1729), an ancestor of Nikolai's, was an ambitious and unscrupulous aide to the Russian Tsar, Peter the Great. When the Tsar wished to change the succession, he commissioned Petr Tolstoy to bring the Tsar's son, Alexius, back to Russia against his will. Petr deceived Alexius, returned him to Russia, where his father had him imprisoned, tried and eventually tortured to death.

Shakespeare wrote of Henry IV, "Uneasy lies the head that wears a crown." Although Stalin wore no actual crown, his power was more absolute and his reign more ruthless and cruel than that of most kings. So his uneasiness was more profound and his position more precarious. This insight makes Stalin's fears, his paranoia and his ruthless tactics comprehensible. It helps us to conclude with Nikolai Tolstoy that "Stalin was not mad." As Adam Ulam wrote in *Stalin: The Man and His Era*: "The madness lay in the system that gave absolute power to one man and allowed him to appease every suspicion and whim with blood."

Stalin's Secret War is a remarkable book, not a pleasant one, but one that reveals a great deal about the nature of one-man government. ¶

the Freeman

VOL. 33, NO. 6

JUNE 1983

- The Stranglehold of "Big Business"** **Charles Dykes** 323
The large business enterprise, for all its faults, is vital in the defense of liberty.
- Primitivism: The Thrust of Government Intervention** **Clarence B. Carson** 328
The intrusion of government into market activities leads back toward the primitive life.
- The Academy versus the Market Place** **John Hospers** 339
Concerning the reasons for the antipathy of the academic profession toward the free market.
- Unemployment in Puerto Rico** **Hans F. Sennholz** 358
A classic instance of the harmful consequences of good but misguided intentions.
- Abundance and Scarcity** **Ben Barker** 369
An examination of opposing views about the nature and distribution of wealth.
- Book Reviews:** 377
"At the Eye of the Storm: James Watt and the Environmentalists" by Ron Arnold
"USSR: The Corrupt Society" by Konstantin M. Simis
"Development Without Aid: Growth, Poverty and Government" by Melvyn B. Krauss
"Privatizing the Public Sector: How to Shrink Government" by E. S. Savas

Anyone wishing to communicate with authors may send first-class mail in care of THE FREEMAN for forwarding.



the Freeman

A MONTHLY JOURNAL OF IDEAS ON LIBERTY

FOUNDATION FOR ECONOMIC EDUCATION

Irvington-on-Hudson, N.Y. 10533

Tel: (914) 591-7230

Leonard E. Read, 1898-1983

Managing Editor: Paul L. Poirot
Production Editor: Beth A. Hoffman
Contributing Editors: Robert G. Anderson
Bettina Bien Greaves
Edmund A. Opitz (Book Reviews)
Brian Summers

THE FREEMAN is published monthly by the Foundation for Economic Education, Inc., a nonpolitical, nonprofit, educational champion of private property, the free market, the profit and loss system, and limited government.

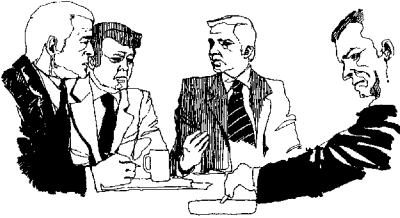
The costs of Foundation projects and services are met through donations. Total expenses average \$18.00 a year per person on the mailing list. Donations are invited in any amount. THE FREEMAN is available to any interested person in the United States for the asking. For foreign delivery, a donation is required sufficient to cover direct mailing cost of \$10.00 a year.

Copyright, 1983. The Foundation for Economic Education, Inc. Printed in U.S.A. Additional copies, postpaid: 3 for \$1.00; 10 or more, 25 cents each.

THE FREEMAN is available on microfilm from University Microfilms International, 300 North Zeeb Road, Ann Arbor, Mich. 48106.

Some articles available as reprints at cost; state quantity desired. Permission granted to reprint any article from this issue, with appropriate credit.

The Stranglehold of “Big Business”



A “corporation” was originally a form of organization granted by sovereigns in the Middle Ages to such entities as local governments and trade groups in order to facilitate the regulation of legal monopolies and the collection of taxes. Coming down to our own day, there are a tremendous number of “non-business” corporations; in the public mind, however, “corporation” and “business enterprise” are practically synonymous. And, despite the demonstrable fact that there are vastly more small corporate business enterprises than large ones, “corporation” and “Big Business” are frequently equated.¹

In the early nineteenth century there were many Americans who regarded the business corporation with its grant of powers and ability to ac-

cumulate vast amounts of capital as a danger to the free society. Advocates of a small-holders agrarian society, following the lead of Thomas Jefferson, had an intense dislike for commercial corporations because of their tendency to grow into large aggregations of economic wealth. Not surprisingly there were relatively few corporations at that time.

Later, Thorstein Veblen declared the corporation to be primarily a device contrived by absentee owners in order to promote monopoly in their own interests. In the latter half of the twentieth century such influential men as John Kenneth Galbraith have told the world that the American economy is dominated by a handful of giant corporations. It is said that the managers of these commercial behemoths exercise enormous power over the civil gov-

Mr. Dykes is a businessman, free-lance writer and enthusiastic advocate of the free market.

ernment that is supposed to regulate them.

Galbraith maintains that this ruling elite—the managerial class, or what he calls the “technostructure”—manipulates consumer demand at will. He suggests, moreover, that American society is dominated by about 500 of these corporate business enterprises. As he sees it, these colossuses are freely able to “administer” prices and “maximize” profits even as they are manipulating consumer demand through advertising, which is sometimes termed “thought-control” by antibusiness elites.²

What about this? Concerning the charge that giant business corporations exercise vast powers over the civil government, let us start by noting that in the early 1970s there were about 1.6 million profit-seeking corporations in the United States, while the total number of business concerns was around 5.1 million. The corporate sector as a whole accounted for only about half of the U.S. economy in 1974, which was about the same share it had in 1940.

Contrary to Galbraith, who claimed the 500 largest corporations produce close to half of all goods and services, the actual figure is around 25 per cent. The 500 largest employ less than 25 per cent of the labor force, and own only about 28 per cent of the nation’s tangible wealth, strangely enough about what they

owned in 1929. Of course the list of corporations composing the 500 largest is not static, and has changed many times over the years.

Crucial Questions

Regarding the claim that “Big Business” dominates American politics by lobbying and campaign contributions, several crucial questions need to be asked. For instance, if the large corporations are so powerful politically, why were they impotent to stem the flood-tide of environmental and consumerist legislation of the 1970s—e.g., the OSHA and EEO Acts? The overwhelming majority of corporate giants opposed this legislation and yet they passed anyway. Further, it is a fact, capable of exact demonstration, that public policy for over 40 years, but especially since 1960, has been increasingly hostile to business. If the corporate leviathans are as powerful as men like Professor Galbraith allege, is it possible that government regulation would be all-pervasive as it is today, or that the tide of antibusiness sentiment throughout the land would be so virulent?

What about “thought control,” “the management of demand”—i.e., advertising—the supposed ability of “Big Business” to manipulate the consumer at will? It is enough to point out that it is relatively easy to teach people to want things; teaching people not to want things is quite

another matter. All the noonday brightness of Madison Avenue genius would be powerless to persuade the mass of people to exchange their color television sets for black and white, or give up their cars and return to walking and public transportation.

There is no question that some sectors of the economy are dominated by a small number of giant corporations. According to scholarly investigations of the matter, concentration in manufacturing has centered in six industries of extremely high capital intensity in which enterprises of large scale are essential to realize economies of scale. Around 50 of the 100 largest corporations in the U.S. today are in automotive, oil refining, steel, non-ferrous metals, industrial chemicals, and aircraft. What do they have in common? These industries are also the industries of highest concentration in the other industrialized nations of the world. This indicates they have common problems and that common causal factors underlie their development.

We would not pretend that giant business corporations as organizations are always exemplars of the spirit of liberty and personal initiative. As Michael Novak observes, "executives and workers in very large corporations necessarily encounter problems of morale, spirit, and efficiency quite unlike those present in

small pioneering firms. Bureaucratic thinking may afflict them."³ Despite this tendency, corporate titans have played and continue to play an important role in the preservation of liberty.

We live, after all, in an age which is witnessing the rampant growth of state power. "Government in America has become an industry, greater, more dynamic, wealthier, and more expansionary than ever the capitalism of the Harrimans and Rockefellers was in its nineteenth-century heyday."⁴

A Protective Barrier

The large business corporation stands, among other mediating structures, as a powerful barrier between the individual and the omnipotent ambitions of the messianic political state. "Were the state to acquire control over the large corporations, the political system would thoroughly dominate the economic system. The likely result would be a productive capacity run at about the efficiency of the U.S. Postal Service. The most destructive would be the diminishment of liberty."⁵

What future has "Big Business" in America? As David M. Smick has pointed out, "the Fortune 500 have experienced virtually no net job growth for more than a decade. The newest research shows instead that nearly all new jobs are coming from firms with precisely the opposite

characteristics.”⁶ Smick goes on to observe that these firms “are not only small, but minuscule. Nearly 70% of new jobs come from firms with 20 or fewer employees.”

And just as corporate giants are not providing new jobs for the American work force, neither are they providing many new innovations in technology. Most new developments in an industry are launched commercially by small firms. The indispensable role played by industry giants is to rationalize and mobilize the breakthroughs of inventive genius and entrepreneurial vision and to create economies of scale together with efficient channels of distribution which bring the fruits of innovation and vision to consumers in quality form at affordable prices.

Mediating Structures

However much some of us may lament the bureaucratic tendencies of large business corporations, however frequently it may be necessary to counter the myth of their dominance of the American economic order, still, it is crucial that their vital role as efficient producers of economic goods and services be appreciated and defended. But even more important is their position as mediating structures between the individual and the state. And unlike the state, whose decrees are enforced by its police powers, the large

business corporation has no power to make anybody work for it, invest in it, or buy its products.

Whereas the state forces us to subscribe to its services whether we want to or not, the giant corporations—and all other business enterprises large or small—cannot make consumers buy their products if they don’t meet their needs or the price is too high. No matter how wasteful or destructive government bureaucracies may be, they tend to grow ever larger and more mischievous. Business enterprises, on the other hand, that do not produce products or services which consumers need at prices they can afford, go bankrupt, or are taken over by better managers, with the result often being a radical reorganization.

In this context, where the freedom to succeed or fail is very real, some business enterprises are not only successful in surviving, but emerge as the leaders of their industry. Thus the competition that breeds excellence not only provides many of the necessities of life and other good things at affordable prices to ordinary men and women, but a mediating structure is established which can serve as one more barrier between the liberty of the person and the coercive bureaucratic state which would limit that precious liberty.

The hostility of most politicians and government bureaucrats to the free market in general, and to “Big

Business" in particular, is well known. This is in many ways a strange and disturbing phenomenon. Walter Berns illustrated powerfully the irony of this attitude several years ago: "I put it to you that we shall never see President Carter—or any other president of the United States—embrace and indeed plant a kiss on the cheek of the chief executive officer of a major oil company, even though we have already seen him embrace and kiss the chief executive officer of what is now the greatest tyranny on the face of the earth. Secretary Vance has said that Mr. Carter and Mr. Brezhnev 'share the same dreams and aspirations'; he would never be so impolitic as to say that of Mr. Carter and the president of Exxon Corporation, even though in this case it is probably true."

In defending "Big Business" against its enemies, it is not re-

quired that we approve of all its activities, or admire the actions and life styles of all its representatives. Many times we may find these reprehensible. It is imperative, however, that we understand and make clear to others that the stranglehold of "Big Business" is a myth; and that, indeed, the large business enterprise, whether consciously or unconsciously, occupies a strategic place in the defense of liberty. 🌐

—FOOTNOTES—

¹Robert Hessen, *In Defense of the Corporation* (Stanford, Calif.: Hoover Institution Press, 1979).

²*The New Industrial State* (Boston: Houghton Mifflin, 1967).

³*The Spirit of Democratic Capitalism* (New York: Simon & Schuster, 1982), p. 235.

⁴William Bentley Ball, "Mediating Structures and Constitutional Liberty," *Worldview* (September 1978), p. 41.

⁵Novak, p. 178.

⁶"What Reaganomics is All About," *The Wall Street Journal* (July 8, 1981).

Business Statesmanship

EVERY experienced analyst knows that, unless current transactions build up permanent capital in the form of good will, they are consummated at too heavy a cost.

Business leaders should instruct those at the merchandising fringe that no sale is worth-while unless it builds a friendly attitude toward the company. Otherwise, the immediate profit is made at the unreasonable cost of dissipating long-term, intangible corporate assets in the form of public esteem and good will.

IDEAS ON



LIBERTY

PRIMITIVISM: The Thrust of Government Intervention



It sometimes sheds light on a subject to examine the end toward which a course of action tends. This line of reasoning has often been dismissed as a *reductio ad absurdum*. It is possible, of course, to arrive at all sorts of absurdities by the reduction and extension of acts to the ends toward which they may tend, considered in a vacuum. We might, for example, conclude that taking a drink of water is damaging because it tends to use up the supply of fresh water. This absurd conclusion is arrived at, however, by ignoring the fact that the supply of fresh water is being continually replenished.

Dr. Carson has written and taught extensively, specializing in American intellectual history. He is the author of several books, his most recent being *Organized Against Whom? The Labor Union in America*. He is working at present on *A Basic History of the United States* to be published by Western Goals, Inc.

But there is nothing at all absurd in reasoning from the tendency of acts to the possible or probable conclusion if they are continued and multiplied, if the qualifying conditions are duly noted. Indeed, far from being a device for arriving at an absurd conclusion, the legitimate use of *reductio ad absurdum* is "the refutation of a proposition by demonstrating the absurd conclusion to which it would inevitably lead when logically developed," as one dictionary says.

At any rate, it is my intention in what follows to explore the tendency of the results produced by government intervention on the market. As for the thrust of intervention itself, it has several tendencies. One of these is in the direction of government oppression and tyranny. While this tendency may not be generally

known or accepted, it has been often alluded to and much analysis and evidence has been assembled to prove it.

It has been shown, too, that the tendency of interventions is to hamper and restrain dealings in the market. Indeed, often this is not so much a tendency as the immediate result of given interventions. For example, an increase in the minimum wage may result in immediate unemployment for marginal workers. There has been much exploration of the impact of various sorts of interventions, an impact closely tied to the nature of the intervention. For example, price controls that set prices below the market level result in shortages; those that set them above the market result in surpluses.

An Intolerable Burden

What I wish to explore here is a much broader, more general, and a longer range result of government intervention. I want to deal with a possible or probable general result of long term and mounting government intervention in the market. The tendency of government intervention in the market is to hamper market operations. To put it another way, intervention *burdens* activity in the market, makes it more difficult or costly to use the market. When that burden becomes sufficiently great, people will, if they can, begin to abandon the market. More

precisely, they will operate outside the legal market and may well reduce greatly if they do not cease entirely their dependence upon the market.

In short, a sufficient level of intervention in the market could result in a reversion to primitive modes of providing goods and services. This is not simply a logical conclusion or one arrived at by an exercise of the imagination, but rather developments along this line have occurred in the past and are going on in the United States today, as I intend to show. Before doing so, however, there are some other points to be made.

Perhaps, one of the points can at least be suggested this way. Jesus said, "The sabbath was made for man, and not man for the sabbath." With equal validity, it can be said: Government was made for man, and not man for the government. Or, to tie this saying even more closely to the present topic: The market was made for man, and not man for the market. The context within which Jesus made the observation brings it into focus. He was walking with His disciples through a grain field on the sabbath day. The disciples began to pick some of the grain to eat. The Pharisees accused them of violating the laws for the sabbath. To which, Jesus replied with the above quoted observation, among others.

Institutions, organizations, and

even observances take on a life of their own sometimes. They become perverted from their end of serving man to having men serve them. Governments are especially prone to this abuse and to turning any institutions which fall under their power to their own ends. That has happened in large measure to the market in the United States (and in many other countries), and it is a point which will be elaborated below.

What I would emphasize at this stage of the discussion is that, where choice is possible, men may take the opportunity to override the institutional fetters. That, I take it, is what the disciples of Jesus did on the above occasion. That, too, is a possibility that is on its way to becoming a probability in the case of the increasingly fettered market.

The Blessings of Trade

There are two ways that man can provide in an economic manner for his wants. One is to produce the goods himself. That is, he can grow the crops to provide himself with food and fiber, gather the materials and build himself a shelter, and construct clothes by his own labor. In short, he might somehow manage to provide himself with the necessities and amenities of life by his own direct efforts. This is a primitive way of providing goods and services. It is necessarily so, for anyone who would attempt to do it would be limited to

such tools as he could construct, to such materials as were in the immediate vicinity or near to him, and to such skills as he could develop within his life span. In these circumstances, even the most industrious and ingenious would be bereft of many, indeed, virtually all, of the conveniences to which we are accustomed.

The other way to provide for our wants is by way of the market. That is, we may acquire the goods to meet our wants by trading our surplus produce in the market for them. The process is sufficiently familiar that little elaboration of its workings may be necessary. Yet its very familiarity may dull our awareness of the array of goods and services available through it and the complexity of the arrangements by which they come to us. We go to the market not only for butter, eggs, bread, gasoline, shirts, and cars but also for physicians, dentists, teachers, preachers, carpenters, electricity, banking, air transport, and the thousands of goods and services we may want.

The market makes possible the specialization of labor, the division of labor, the concentration of capital, the availability of goods from diverse climes and regions, and most of the paraphernalia which makes possible the many goods and services we enjoy. It comprises all the means ever devised or that ever will be devised

for making trades. It cannot be outmoded, for every new means for facilitating trade is only grist for its mills. Its advantages over each person's producing to meet all his wants by his own direct efforts are patent, and in a free and open contest the market tends to carry the day.

Qualifying Conditions

Some qualifications and exceptions to the above should be noted:

First, personal production for one's wants and reliance upon the market are not mutually exclusive categories. It is possible both to produce for oneself and for the market, and to buy some of what is wanted while producing the remainder. Indeed, many, perhaps most, services are provided in the home by the family. Some people have vegetable gardens in which they grow some of the food they consume but go to the market for the rest. The primary reliance may be on the market, supplemented by home production, and so on. The categories were described in absolute terms and at poles apart so that a tendency toward one or the other could be determined.

Second, it should be noted that goods can be acquired by the use of force or theft. Since that method of acquisition is diseconomic, when not illegal, it has been left out of consideration.

Third, it is unlikely that most people will ever cease to provide some

goods for themselves directly or that the market will be entirely abandoned. Within that framework, however, great, even massive, shifts can and do occur.

The Oppressive Burden Taxes Impose on the Market

Be that as it may, the thrust of intervention by government is placing an increasing burden on the market. Probably, the most oppressive burden on the market is by taxes on goods bought and sold in the market. It has not been generally understood that taxes can be a burden on the market, though awareness of this appears to be increasing. It has long been understood, of course, that taxes, any and all taxes, have an impact on an economy. So they do, and unavoidably so; they affect the way in which people can employ their resources and the extent of those resources available to them. But that is not the point to be emphasized here.

Instead, the point is that taxes collected in the market or based on market activities are a burden on the market. They are a burden on the market because they can be evaded or avoided by not using the market. Virtually all Federal taxes today are a burden on the market. They are a government intervention in the market when they are collected in the market and a burden on it however they may be collected. A large

portion of Federal taxes are collected in the market.

All personal income taxes withheld by an employer are collected in the market. (The buying and selling of labor is a market operation, and this is a tax upon it.) So, too, are all Social Security taxes withheld by an employer. Excise taxes, such as those on tires, telephones, liquor, cigarettes, and so on, are collected in the market. Corporate income taxes, to the extent that they are passed on to the consumer, are ultimately collected in the market in the price of goods. So, also, are the portions of Social Security taxes paid by the employer, as well as such taxes as those for unemployment compensation.

All these are burdens on the market because they enter into and become a part of the prices we pay for goods in the market. This is so even in the cases of some excises, where the tax may be separately listed, for it is still necessary to pay the full price to get the good. It should be noted, too, that a recently enacted law, not yet in effect, would extend this practice of market collection to interest and dividend income.

The Federal taxes not collected in the market are based on market activities. Corporate income taxes are not directly collected in the market (though they may be ultimately collected from the consumer) but they are almost entirely based on market

activities. So are the income taxes and Social Security paid by the self-employed. That is, these are based on income derived from trade. They are a burden on the market, at the least, in that they are a cost of trading in the market imposed by government.

State and Local Taxes

Many state and local taxes are also a burden on the market. State income taxes are usually collected in much the same way as are Federal taxes. Sales taxes are, in effect, a part of the price of goods on which they are levied. So are the various "hidden" taxes, by whatever level of government they are imposed. Business licenses and other taxes may not be levied directly on the market, but they are, as a cost of doing business, ordinarily paid for by the consumer and are a burden on the market.

By contrast with Federal taxes, however, some state and local taxes are not a burden on the market. They are neither collected in the market usually or as a rule nor are they based on market activities. The most important of these taxes is the property tax. It is true that the amount of the tax may be calculated by reference to selling prices in the market. But that must be accounted incidental, since the tax is levied without regard to any market transaction or activity. (Real estate

transfer taxes, recording fees, and the like, are, of course, burdens on the market.) Licenses, such as marriage licenses, driver's licenses, license plates for vehicles, hunting licenses, and others paid for by individuals in their private capacities, are not a burden on the market generally.

But it is not my intention to list and categorize the whole vast array of taxes imposed in the United States. It is only necessary to mention enough of them to suggest the immensity of them and how and in what ways they constitute a burden on the market. Although the amount of his income which goes to taxes varies from individual to individual, estimates suggest that on the average it may now amount to something on the order of 35 to 40 per cent. As much as 75 per cent of that can almost certainly be classified as a burden of doing business in the market.

Counting the Costs

Since most of these taxes end up in the prices that we pay for goods and services, it is feasible to conclude that the price we pay for these is inflated by as much as 25 per cent by the tax burden on them. But whatever the figure might turn out to be, if it could be precisely calculated, it is undoubtedly large and costly. In addition to the taxes themselves, there are the clerical and other costs of paperwork to keep the records necessary to collect and pay

the taxes. So far as this is done by businesses, these costs are passed on to the consumer, too, where possible.

Potentially, the most devastating of taxes has not yet been discussed. It is taxing by inflation—the increase of the money supply. The market provides the arena within which inflation could or would occur. (This is neither a fault nor a defect of the market. It is of the same order with the statement that without life there would not be death.) That is, money, as a medium of exchange, has its whole use and value in the market. Without the market, there would be no purpose in increasing the money supply. The market could exist without money, though it would be a primitive market, but it is most unlikely that money would exist without the market.

Money facilitates exchanges in the market. Inflation is a tax on all market transactions made for currency. As the inflation mounts, the value of the money depreciates. Trading becomes an increasingly precarious undertaking; to trade other goods for a money declining in value becomes increasingly risky. Inflation, then, is a burden on the market, and if it becomes headlong, an intolerable burden. Inflation is most commonly the result of government intervention in the market by increasing the money supply to raise money to meet its deficits.

There are numerous interventions whose burdens on the market are difficult, when not impossible, to calculate. How, for example, can the impact of zoning restrictions be determined? There is no way to know how many purveyors of goods have been kept out of the market. And what of such government monopolies as that of collecting and delivering first class mail? Not only does this keep people out of the business who would like to compete but also it denies to customers the services they might perform at better prices.

Hampering Regulations

Government price setting tends to drive the price of many commodities, such as milk, butter, cheese, electricity, tobacco, and so on well above what they might otherwise be. Government safety regulations covering all sorts of things from working conditions to automobiles to drugs to the packing and preservations of meat add to the cost of providing all these goods. The difficulties, and hence the cost, of building, have been greatly increased by all the environmental protection regulations. James J. Hill pushed the Northern Pacific Railroad through the Rockies in little more time than it would take nowadays to get the approval from all the government agencies to build a railroad station. In short, there are tens of thousands of government regulations which

hamper the market in numerous ways at virtually incalculable cost to all who trade in the market.

But in no area does government intervention hamper the market with more devastating results than in that of employment. Intervention has gone on so long there and now reaches in so many directions that the buyers and sellers of labor, in many instances, can no longer be served in the market. The market cannot be cleared of either demand or supply. Many job openings go unfilled while many millions are unemployed. The work force has been drastically reduced over the years (in the proportion of the total population working) on the one hand; yet, on the other, many who would work cannot find acceptable employment. These remarks cover not only the situation at the current time but also long-term conditions.

Price Controls on Labor

The most basic government intervention in the labor market has been in price. Alterations and fluctuations in price are the most basic means for clearing the market for labor, as for other goods. The government has long since instituted downward price inflexibility by the minimum wage for most occupations. This inflexibility occurs at a considerably higher level in most government and union jobs. Moreover, the inflexibility extends to a

whole range of wages and salaries (where there are established scales) in most government and union covered jobs. This downward inflexibility prices many people out of the market. It is a major cause of unemployment, both that which appears in government statistics and much that does not.

But government intervention in the labor market goes much beyond price controls. There are also regulations about hours of work, prohibitions against child labor, encouragement of early retirement, compulsory school attendance laws, numerous subsidies to keep people off the labor market ranging from unemployment compensation to the food stamp program to grants and loans for attending schools and colleges, and all sorts of safety and job regulations which make the way of employers hard.

There are fringe benefits which tend to make labor much more expensive than it would otherwise be, such as retirement programs, medical and life insurance, and so on. These are usually not mandated by government, though many of them have been acquired by unions, all of whom operate under government auspices, but the fringe benefits are often granted to employees as pay increases not subject to taxes. Nonetheless they add to the cost of labor.

Government intervention not only makes it difficult to find employ-

ment but also contributes to the shortage of workers of the particular skills and abilities that are wanted. All programs which keep people off the market tend to do that. In addition, government sponsors training, much of which may have little or nothing to do with job opportunities. But also some of the government interventions tend to foster inflexibility, intractableness, and refusal of employees to accommodate themselves to the work the employer provides. That has been the tendency of minority hiring prescriptions, legal prescriptions as to what is and is not a part of the job, and, in general, a government or union hardened attitude toward employers. Such attitudes and behavior burden the market by making it difficult to provide goods and services that may be wanted.

Avoiding the Market

Government intervention, then, tends to burden the market. As it mounts and spreads, it increases the cost and reduces the attraction of trading in the market. The thrust of government intervention is to set the stage for people to find ways to survive outside the framework of the legal market. When the burden becomes too great people may seek to avoid the legal market entirely. By so doing, they revert to more primitive means of satisfying their wants.

There have been indications for

several years now that people were considering and taking steps to reduce their dependence on the legal market and avoid dealing in it where they could. Undoubtedly, there are various motivations at work. Some are attempting to avoid or evade paying taxes. Some are trying to survive when they cannot find employment in the legal market. Others may be drawn to a simpler and more basic way of living. Still others may be ideologically motivated or justified, harbor an animosity toward the market itself, and wish to avoid an arena dominated by capitalists, as they see it. There are people who are so antigovernment that they want as little as possible to do with the legal market. My concern is not primarily with the specific motivations but with the phenomenon of withdrawing from the legal market and its relation to the burden placed upon the market by government intervention.

Dealing in Cash

Three categories of activities for avoiding the penalties and burden of the legal market have emerged and assumed some importance thus far. One is to deal in cash or other means of transferring funds without keeping records. The IRS claims that several hundreds of billions of dollars earned in this way largely may be eluding the taxgatherers. Be that as it may, newspaper and other re-

ports indicate that there is a goodly amount of this done. It probably occurs mainly in payments for labor and services, though other goods may be transferred this way so long as the transfer does not have to be recorded.

There is nothing illegal about dealing in cash or other negotiable instruments, *per se*. Nor are such trades anything other than normal market activities on their face. They become evasions of the legal market, however, when some law is violated in connection with them. If the person receiving such income does not report it for tax purposes, he is failing to comply with the law. In like manner, if an employer pays in that manner to avoid paying the minimum wage, withholding taxes, or Social Security, he would not be in compliance with the law. How widespread such practices are is a matter of conjecture, but the IRS, at least, claims they are occurring on a large scale and that much money is involved.

Barter

A second activity is the revival of bartering. Again, labor and services appear to be mainly what is traded. Thus, a lawyer may trade a legal service to an orthodontist for work on his children's teeth or an electrician may trade with a carpenter, and so on. Organizations have even been formed to facilitate such exchanges

in some communities. Again, these are market activities, albeit rather crude or primitive ones, and there is nothing illegal about them.

However, the attraction in this sort of activity must surely be increased by the fact that collecting taxes on the transactions is difficult, to say the least. It comes so close to performing services for yourself, which is not taxable, that it seems a quibble to argue that it could even be taxed. Presumably, no money has changed hands, and no prices translated into money have been named. I decline further comment on this activity, however, for I neither desire to be guilty of encouraging tax evasion nor to add any arguments to the arsenal of those of the tax-gatherers.

The other activity comprises a whole range of undertakings, all of which would presumably reduce or eliminate some dependence on the market. They range from home-gardening to the revival of arts and crafts to solar heating and cooling to sewing to whatever may be done in the home or on the land to provide for the wants of a person or family. Many of these are fairly commonplace ideas; others are quite exotic.

Do-It-Yourself Activities

Over the past decade a considerable literature has been developed describing and promoting these do-it-yourself activities. Magazines, such

as the popular *Mother Earth* publication, are regularly devoted to exchanges of information and descriptions of these things. A goodly number of books have been published on such topics as how to produce all your food on two acres of land. There are undoubtedly other values to these activities, but so far as they are economically feasible they result in avoiding at least some of the burden that has now been laid on the market.

It is possible to lay such burdens on the market that people either will not or cannot meet their wants in the market. It is possible to destroy the currency by inflation so that trades can no longer be practically effected with the official money. It is possible to lay such a burden of taxes on the market that people will refuse to operate within it. It is possible to regulate productive activity to the extent that very little can or will be produced for it. It is possible, by so doing, to leave people with only primitive and crude means for providing for themselves. Some or all of these things have happened in the course of history, at various times and places.

The Soviet Union was reduced to primitive economic conditions between 1918–1921. Some of the destruction could be attributed to the civil war, but most of it can be placed on the actions of the Bolshevik rulers. The money supply was virtually


destroyed by inflation. The assault upon property and upon activities in the market did the rest. As a result, in 1921 industrial production was only about 13 per cent of what it had been before World War I, and agricultural production had declined precipitately. The population of the cities was decimated. Leningrad had a population of nearly 2½ million in 1916; by 1920 it had fallen to just over 700,000. Large numbers of people had left the cities in order to survive by providing for themselves in more primitive ways. Many other examples could be given, but perhaps the point has been made.

Clogging the Channels of Communication and Trade

The market was made for man, and not man for the market. It was made to facilitate his trades, to enrich his life, by producing what he can most effectively, by specialization, by the division of labor, by disposing of his surplus in return for the produce of others. It was not made as an instrument for government. It was not

made for the collection of taxes, for the imposition of taxes, or as a device to serve the value system of those who govern by regulation and restriction. It is a perversion of the market to burden it so greatly with taxes and restrictions that man is serving the government through the market in addition to or rather than simply providing for his wants.

Government, too, was made for man, and not man for government. It is a perversion of government when its impositions become so heavy that man is serving government rather than being served by it. When those impositions are imposed on and through the market, an invaluable lifeline—the market—is being transformed into a club.

Men take what measures they can to avoid the club, even if it means giving up the advantages of the market. That way lies more primitive means of providing for our wants. The thrust of government intervention in the market is in that direction. 

John W. Burgess

THIS CLAIM [against non-involvement] rests upon the very serious error that world intercourse and world interchange of the elements of civilization require *political* interference and intermeddling. This is not only false, but it is so false as to be highly mischievous and harmful. Outside of this lies the whole free realm of trade, commerce, science, literature, art and social relations, things which bring all parts of the world together in friendly and helpful interchange, while political intermeddling almost always provokes hatred, enmity and war.

IDEAS ON



LIBERTY

THE ACADEMY VERSUS THE MARKET PLACE



Workers and the Market

THAT the majority of the workers of America have no appreciation of the operation of the free market is not perhaps very surprising. It is true that compared with workers of every previous century they are astonishingly well off, and that their comparative affluence today is in direct proportion to the freedom with which the market is permitted to operate.

Workers today are all beneficiaries of a system which they barely know exists and which they understand not at all. Yet without its operation, with its marvelous self-correcting system of production and distribution, they would have barely

Dr. Hospers is a professor of philosophy at the University of Southern California. He was the first Libertarian Party candidate for president of the United States (1972). His most recent books are *Understanding the Arts* (Prentice-Hall 1982) and *Human Conduct* (Harcourt Brace 1982).

enough to keep body and soul together, as has been the case with workers throughout history—or else they would long since have been dead from disease or starvation, which again was true until the 19th century when the average life-span rose for the first time above 25.

Because creativity and invention was permitted to flourish, and property rights were respected, tools and machines rather than human muscles came to do most of the work. Never until the past century has the general population, even in the most advanced nations, been able to have any leisure or to live in reasonably comfortable houses and apartments. Were it not for the freedom to produce, to profit from the production, to create and tap a mass market, none of these benefits would be possible.

But most people don't connect their present comparative affluence with the operation of the market. They don't see the complex chains of causes and effects that make them the beneficiaries of the machine's productivity. They are like people who have become so accustomed to having electric power that they don't even think of it. Since it has worked so well, and never needed repair, people have forgotten where the underground conduits are, or how to repair the system if it should fail. Its silent efficiency has led them to take it for granted.

What impresses most people is not how good their lot is compared with workers in previous times (this they have never seen and know nothing about), but rather that some of the people today are better off than they are. They see their employer making more money than they do themselves; what they don't see are the risks he takes, the skill required to keep the factory humming and the ingenuity required in predicting future markets. They only see that he has more than they do, and they are filled with *envy*.

This tendency to envy others is, of course, played on to the hilt by government propaganda. The government needs a scapegoat, to divert attention from its own failures; and what more convenient scapegoat is there than the man of ability and independence who expands his plant,

provides jobs, and makes profits? Such men are a thorn in the flesh to the state, so the state makes them the villains, thus diverting public attention from the true villain, the state itself. When the government succeeds in this, the people vote to take the successful man's wealth away from him, and his incentive to produce along with it. In some countries the envy goes so far that workers kidnap plant managers and burn factories, even if it means that they themselves thereby become unemployed.

Businessmen and the Market

Many businessmen are quite conscious of the values of the free market. Only when it operates can they produce, sell, exchange the products of their labor, and distribute these products efficiently. Many of them have started from scratch and become millionaires; others have started and gone bankrupt, either from bad luck or bad management. But they are society's risk-takers, and millions of them each year, given the opportunity, are willing to take the risk.

Yet the business community has been far from conspicuous in its defense of the free market.

(1) It isn't just that businessmen are a minority, easily outvoted at the polls—though many of them know what policies will lead to prosperity—but the majority of voters, hos-

tile and envious, vote to put a further ball and chain around them with new taxation and regulation.

(2) It isn't just that they are inarticulate in defense of the market, though this is also true; to keep one's business going takes all one's time and effort, and to them their enterprise doesn't need defending.

(3) Nor is it simply that they're scared, though in today's climate they have every reason to be. If they speak out against the government, the EPA or OSHA or the other agencies that regulate them, these organizations bring the coercive machinery of the law down on them, slapping them with huge fines or closing them down.

The main reason, however, is that many businessmen themselves have sold out to the opposition. The self-made man takes many risks, and may struggle for years before he succeeds; but if he can cash in on the government largesse, taking money earned by other taxpayers to use for his own enterprise, he lessens those risks. So he succumbs to a policy of legalized plunder. Other businessmen, disapproving such practices, see him gaining by his dishonesty; after all they are paying taxes part of which go to keep *his* enterprise going at *their* expense; so if they can't lick him they join him, and lobby for special favors along with those they recently condemned for doing the same thing. Once men are permitted by law to stand at the public trough to

receive favors, the practice spreads until almost everyone is corrupted; and those who refuse to be corrupted either go under or work at a tremendous disadvantage.

Educators and the Market

The sins of workers and businessmen against the free market system that made their affluence possible are those of omission; those of the educators are sins of commission. They are neither fearful nor indifferent; they are, in general, active enemies of the free market and the system of unimpeded supply and demand called capitalism.

So prevalent is the antimarket mentality among academicians that the results often approach the grotesque. Any young Ph.D. (at least in the humanities) who is a political conservative or libertarian must hide his views from his prospective employers, else he will fail to get the job. And if perchance he was appointed before his views were discovered, the promotions committee of the college or university that employs him is likely to deny him tenure; until that time, he must keep silent about his views. Enthusiasm for a candidate, no matter how intense, quickly palls when the candidate expresses the view that the size of the federal government (particularly the educational establishment) should be curtailed. Indeed, a large percentage of college professors seem

to be socialists who wear \$500 suits, smoke \$100 briar pipes, and rail at capitalism as the source of the evils of the world.

Some even go so far as to recommend the forcible overthrow of capitalism. "The continued existence of capitalism," writes Prof. Kai Neilsen, "does cause, and will continue to cause, as long as it is allowed to exist, extensive misery and human degradation. . . ." ¹ The replacement of capitalism by socialism is "a necessary condition for the attainment of a just society. . . There is not to be a mixed economy with a private sector and a public sector; the means of production must be publicly owned." But since capitalists will never voluntarily give up their power over the people they exploit, the only way of bringing about the desired transformation is to initiate armed revolution against the capitalist regime.

A Multitude of Defenses Against Critics of Capitalism

There is an abundance of well-known arguments to refute all of these allegations. That capitalism causes poverty would be a bad joke if it were not taken so seriously by people who ought to know better. The reverse is true: the mass of mankind can escape living on the edge of starvation only to the extent that free enterprise is permitted to flourish: indeed, it is likely that but for the existence of capitalism Professor

Neilsen would himself have been one of the millions of casualties of poverty.

Moreover, what kind of "power" do capitalists have? Not the power of the gun, or the power of arrest and trial: only the power to offer goods on the market hoping that enough customers will buy their products or services to make the enterprise worth-while. And how could he sell to them if they were, thanks to his "exploitation," too poverty-stricken to buy? The whole thing is a hopeless tissue of falsehoods and confusions, such as the same teachers would not permit of their own undergraduates in any other area of knowledge.

The vast majority of educators totally misunderstand the nature and functioning of the market. In their hatred of all businessmen (whom they hate far more than they hate even a repressive government, as long as it doesn't repress *them*), they fail to distinguish between businessmen who against long odds make it on their own and those who plunder the government (i.e., the taxpayer) and succeed only through legalized theft. All are lumped together as scheming rascals, by the educators who enjoy the fruits of those men's labors. "I want a car; Jones can produce a car; why then should I try to use government to impede Jones' ability to sell me a car at a competitive price?" I once asked a

fellow professor that question, but received no coherent answer.

They consider men like the Rockefellers to be the epitome of capitalism. Perhaps in his early years John D. was, but his successors certainly are not; their main activity is devoted to retaining the *political* privilege of remaining relatively tax-free (let the peasants pay the taxes) and (in some cases) the privilege of creating money out of nothing as members of the Federal Reserve. In a genuinely free market, Rockefeller's sons would have had to "shape up or ship out"; their stars would have declined as those of younger and more imaginative businessmen rose. But by tapping the political pipeline, they retained what they would otherwise never have achieved, a continuation of vast wealth which they themselves did nothing to earn and little (at least on the free market) to retain.

Envious Professors

Arousing the academician's particular hatred is *profits*. Professors in general consider themselves to be the ablest and most enlightened of human beings; as the elite *they* should receive the most money, whereas in this corrupt society leaders of businesses and corporations get much more. They are envious and resentful; and possessing much more verbal agility than the businessmen they loathe, they can set forth their

views in books and essays which their opponents, busy with their own work, never endeavor to refute.

The result is that the business community gets an extremely bad press, to which it gives very little by way of rational response. That if a company is to remain affluent most of its profits have to be plowed back into the company, creating more products and more jobs, is never mentioned or presumably thought of by the academic critics of business.

One of the most telling cases for the market and against government is William Simon's memorable chapter on the fiscal history of New York City in his book *A Time for Truth*. There has been a profusion of books extolling the virtues of the free market, but in general academicians do not read them and do not even tell their classes of their existence. If students find out about them, they must do it on their own. Those academicians of my acquaintance who do know the story of New York City's bankruptcy have never made any serious criticism of it.

That for political reasons the city government affords huge perquisites to its own employees (retirement at 80% pay after 20 years for policemen and college professors, for example), thus taxing private enterprise beyond endurance and forcing one business after another out of the city, has gone virtually uncriticized by academicians (perhaps because

they are in on the take). The money that went to these municipal employees was badly needed for rebuilding roads, subways, and bridges; no less than \$30 billion, it is estimated, is needed in the next decade simply to keep New York's transport in adequate repair, which cannot be done because the money has gone to overpaid city employees and retirees. One would think that this would be an occasion for moral indignation; but no such indignation is forthcoming on this subject from the academic establishment.

Egalitarianism

The avenue through which most academicians succeed with their students in attacking the free market is not as often a direct frontal attack ("The market is evil") as a defense of something that is incompatible with it, economic *egalitarianism*. Indeed, the vast majority of writers on ethics appear to be egalitarians. They usually make some allowances for "special cases," such as increased benefits to the sick and handicapped, and even an increase of income to some "to provide incentives" (one wonders how they know who is going to be creative or industrious), but for the rest they believe that every person (or every family) should have an *equal income*. Some are aware, though others are not, of the totalitarian implications of such a system: that the government would

have to keep tabs on everyone's income and force everyone who earned more than X dollars per year to surrender everything earned in excess of that amount to the government, and to pay to those who have less (minus the government's own quite considerable "handling fee," which in some cases exceeds 50 per cent).

One of the most distinguished ethical thinkers, R.M. Hare of Oxford University, admits that "removal of incentives to effort may diminish the total stock of goods to be divided up"² and thus recommends that those who start new productive enterprises should receive a bit more from the common pot. But the main assumption, that there *is* a common pot from which government officials may take from some to give to others, is never questioned—apparently it has never occurred to the author. Yet it is this economic collectivism which passes without criticism by one writer after another.

"It is morally obscene," wrote Ayn Rand, "to regard wealth as an anonymous tribal product and to talk about 'redistributing' it. The view that wealth is the result of some undifferentiated collective process—that we all did something and it's impossible to tell who did what, therefore some sort of egalitarian 'distribution' is necessary—might have been appropriate in a primordial jungle with a savage horde moving boulders by physical labor

(though even there someone had to initiate and organize the moving). To hold that view in an industrial society—where individual achievements are a matter of public record—is so crass an evasion that even to give it the benefit of the doubt is an obscenity. Anyone who has ever been an employer or an employee or has observed men working, or has done an honest day's work himself knows the crucial role of ability, of intelligence, of a focused, competent mind—in any and all lines of work, from the lowest to the highest. He knows that ability or lack of it . . . makes a difference of life or death in any productive process. The evidence is so overwhelming . . .—in the events of history and in anyone's own daily grind—that no one can claim ignorance of it. Mistakes of this size are not made innocently. When great industrialists made fortunes on a *free* market (i.e. without the use of force, without government assistance or interference) they *created* new wealth; they did not take it from those who had *not* created it. If you doubt it, take a look at the 'total social product'—and the standard of living—of those countries where such men are not permitted to exist."³

Variations on Egalitarianism

One of the most influential American writers on ethics, Professor Richard Brandt, believes that everyone's real income after taxes

"should be equal, except for (a) supplements to meet special needs, (b) supplements recompensing services to the extent needed to provide desirable incentive and allocative resources efficiently, and (c) variations to achieve other socially desirable ends such as population control."⁴ The amount required to provide "incentives" turns out not to be very much, however; apparently producers of products and services are expected to keep on taking risks, expending hours of effort, and producing whether or not they stand to gain anything by doing so. Again there is the collectivistic assumption that it is not the individual who earned the money who has the right to keep it, but the government, which did not produce it, which has the right to take it from him and distribute it at its pleasure.

The catastrophic effect of this policy on production is not so much as hinted at. The only thing that apparently worries the author is that his utilitarian theory has as its goal a life of equal *happiness* for everyone, not necessarily of *money* (two people with the same income won't necessarily be equally happy). But, he says, we don't know how to allocate equal happiness to everyone; the best we can do is allocate money: "Money is something we can easily hand out in equal amounts. . . . More important, however, is the fact that we are apt to maximize happiness if

what we allocate is money.”⁵ That we have no right to “allocate” to Smith the money that was earned by Jones, any more than we have the right to give Smith’s television set to Jones if we have reason to believe that Jones (who doesn’t own it) will enjoy it more than Smith (who does), is a point that is never brought up. The obedient note-taking student is expected not to bring it up either.

Professor Nicholas Rescher, in his books *Welfare* and *Distributive Justice*, is somewhat more flexible about the government distribution of money. First, he suggests, a “utility floor” is needed, a level of income below which no person or family should be permitted to go regardless of the type of work the breadwinner does, or indeed whether he chooses to do any work at all.

Having said that, however, he adds that income should have something to do with desert—that a person who works hard or does a kind of job not duplicated by anyone else should be provided (by the government) some more income than the average, so as to keep his enterprise going. Thus, a convicted murderer who has served his sentence should still receive the minimum stipend (the “floor”), but no more than that because his actions have shown that he does not deserve more. The government thus becomes the arbiter and determiner of what each person deserves—an

awesome responsibility indeed when added to the enormous enforcement duties that government already has, and already does at minimum efficiency and maximum cost.

In the end, according to Rescher, the following factors merit consideration: people should be treated “(1) as equals (except possibly in the case of certain ‘negative’ distributions such as punishments); (b) according to their needs; (c) according to their ability or merit or achievements; (d) according to their efforts and sacrifices; (e) according to their actual productive contribution; (f) according to the requirements of the common good, or the public interest, or the welfare of mankind, or the greater good of a greater number; (g) according to a valuation of their socially useful services in terms of their scarcity in the essentially economic terms of supply and demand.”⁶

A Tremendous Calculation

How even an army of bureaucrats armed with computers could determine each person’s deserved income by such a formula (and how much weight each of these factors should receive in the final determination of one’s income) is a matter so complex as to boggle the mind.

Production is important, says Rescher. In order for goods to be distributed, they first must be produced. This was once a problem, he says, because (for example) few persons

who wanted cars could have them. But today, owing to mass production, almost every family has one. "The problem of just distribution is less urgent," he says, "for an abundant good, and simply *does not arise* with a genuinely superabundant good."

But *how does it happen* that consumer goods are superabundant in the United States and still so scarce in totalitarian countries that one has to stand in line for hours to get them; and so scarce as to be virtually nonexistent in some Third World countries? What is it that has brought about this superabundance? The vital importance of the operation of the free market in the countries with superabundance is never so much as hinted at.

Much more vague is the formula "Everyone (every person? every family?) should receive an equal income *unless* there is some special reason to make it unequal." This is a widely accepted maxim in Academia. As it stands, it seems innocent enough: one special reason (or the only one) might be, that one person has earned more than another on the free market. But this is not in general an academically accepted reason. No, the acceptable reasons would be, for example, that one person or family is in greater *need* (for whatever reason—whether through misfortune or from spendthrift habits apparently makes no difference); or

that one person had worked more hours per day than another; or that one couple decided to have more children than another couple did. Market considerations have little place in such theories of academicians. Yet it is only the operation of the market that can create the wealth that they want government to distribute.

A Consumer's Point of View

The point of view is uniformly that of those who are to *receive*, not those who have to *produce* what others will receive. It is tacitly assumed that production will go on, no matter what the conditions; that producers will continue to produce, no matter how much is taken away from them, no matter how they are regulated; as willing pawns they will continue to produce without a murmur and that it will be left to the "humanitarian" distributors to determine who shall receive what.

Nor is there any conception in all this of the enormity of the coercive government machinery that would be required to sustain such equality of income: the waste, the graft, the corruption (getting your friends on the payroll, staying on welfare or disability long after you don't need it any longer, etc.). All this is ignored or accepted without question. It's just one of those "practical problems" for omnipotent bureaucrats to solve that should never be permitted

to stand in the way of government's income-distribution policies.

It is no wonder that Academia is not particularly anti-Soviet: the Soviet model appeals to them immensely, and not only because teachers are paid more than doctors in the U.S.S.R. The system may have gone wrong in certain details, to be sure: Stalin was a bit of a tyrant and things shouldn't go that far (Hitler, whose total slaughter was less than a tenth of Stalin's, is still considered the arch-villain, 40 years after his deeds are done), but the model itself is not objected to. That is why the academic community is embarrassed at the revelations of Solzhenitsyn, and would prefer that he just keep quiet—Academia is, in fact, giving him the silent treatment, hoping that students will never actually read what he has to say about the Soviet system.

The Nature of the Antipathy

Those who are in the physical sciences are as a rule less enraptured with various kinds of socialist utopias than those who are in the humanities. Training in the "hard sciences" requires one to work with facts of reality that cannot be changed through wishful thinking or personal feelings. "The literary or humanistic intellectual, by contrast, lacks the ballast of empirical verification for his hypotheses . . . If he empathizes with the sufferings of

men under the yoke of the market system, he forthwith visualizes a social system in which these sufferings will be removed."⁸ With no check on his fantasies, he dreams of a society in which all people are somehow in a state of blissful harmony with one another, and blames capitalism for whatever evils he may find.

If students had been required to work their way through school, or at least spend summers in their fathers' business enterprises to see how capitalism actually works in practice, they would have been forced to face reality in another way. "This experience had an important value; it reinforced contact with reality and provided a counterweight against tendencies to social fantasy. The Marxist or Marcusean phrases about work and workingmen ring hollow to those who have worked side by side with them. But the students, now a highly favored stratum, are liberally subsidized and their experience is much more wholly university-centered. Thus, the paradox: at the very time when university students call for a greater involvement with society, they are more isolated from it in an everyday, work-a-day sense than they ever have been in the United States. Together with the direction of their generational revolt, university culture reinforces the anti-capitalist mentality."⁹

It has seldom been the workers under capitalism who have demon-

strated against the capitalistic economy, and then only when they have been barraged by socialist propaganda from upper-middle-class intellectuals. Workers, particularly those who came from non-capitalist countries, have always been anxious to rise in their trade and change their status (e.g., to foreman and then to manager), which capitalism above all other systems gives them an opportunity to do. It has been the intellectuals, usually the sons and daughters of the affluent, who have been the instigators of foment and revolution against capitalism. They were the students whose parents have profited so much from the capitalistic system that they, the students, took it all for granted and used its benefits as a platform for trying to extirpate it.

"We have seen the highly educated German nation give its allegiance to the most murderously vengeful government in history," wrote Eric Hoffer. "The bloody-minded professors in the Kremlin, as Churchill called them, liquidated 60 million Russian men, women, and children. We have also seen a band of graduates of the Sorbonne, no less, slaughter and starve millions of innocents in Cambodia and Vietnam. The murder weapons that may destroy our society are being forged in the work factories of our foremost universities. In many countries, universities have become the chief

recruiting ground of mindless terrorists".¹⁰

An Illustrative Example

Several years ago I was asked to address a philosophical conference which by coincidence was being held that year in my home state of Iowa. The main session of the conference consisted of a comparative survey of various minor Marxist thinkers of the U.S.S.R., Poland, and Yugoslavia; all of their views were treated with great deference, the underlying Marxism of them all was never questioned, and the right of the State to own and operate all productive enterprises was taken for granted. As I sat there I could not help wondering: if only the farmers and businessmen and workers who pay taxes to support the state university knew what their taxes were being used to sustain—the undermining and eventual destruction of the economic system which enabled them to be free and prosperous, yes, even prosperous enough to support the state university.

Outside the windows of the auditorium, which was at the edge of town, one could see well-kept houses and yards, and behind these, rolling hills and fields of corn and grain waving brightly in the sunlight. I thought of the pioneers who came from every country in Europe a century or more ago and cleared the forests, built the houses and towns, and

cultivated this rich land—and of how these pioneers would have fared if they had been engaged in agriculture in the Soviet Union instead. And the word that kept hammering through my head was “Traitors! traitors!”—addressed, of course, not to the farmers and merchants but to the academicians whose livelihoods were made possible by the labor of these very same farmers and merchants.

That evening I gave an invited address to the Society, in which I took pains to emphasize economic freedom and its close connection with other freedoms. Most of the assembled academicians thought of me not so much as a radical but as a reactionary, a paid hireling of the capitalist exploiters. But though I had completely alienated them, I had the opposite effect on various home-town friends and relatives who had come to hear me, and who then applauded ideas so obviously behind the times.

My relatives were all of Dutch stock whose ancestors had come to Iowa from Holland in the 1840s, when the State Church of Holland led them to seek freedom in the New World. They applauded, not because they were particularly aware of the hostility of the professors, certainly not because they felt threatened by them, but because I was giving voice to the kind of view they had always held but for the most part had never consciously articulated in words;

most of them probably felt that the views I was expressing were too obviously true to need reiteration. “It’s all true, and well enough said,” my uncle said to me afterwards, “but does a person need to go to the university to learn that?” I assured him that I hadn’t learned it in any university, but had absorbed it through my pores during all the years of childhood and growing up, thanks in part to him. He assured me that no thanks were due him, for something so plain and obvious. “No thanks,” he said, but I was remembering the years of work and planning which had enabled him to establish a new industry in the town, one that he founded and developed through four decades until today it employs over 1,500 people. “No thanks,” I thought, “for what you have taught me by the conduct of your whole life?”

Whither America?

I left that meeting with very mixed feelings. I had alienated, perhaps forever, the group I had come to address, but had won the respect of the quite different group whose members I hadn’t even suspected would bother to come. For them it had been largely a matter of “finding out whether the home town boy had finally made good.” It may be, I thought, that in the future the influence of the first group (Academia) will win out and no longer permit the existence of the second group

(independent farmers and businessmen), and the first group will determine (with the iron fist of the commissar) the course of the lives of the second group, deciding on their work, their income, their education, their profession, leaving them with few responsibilities and decisions not imposed by the State. Perhaps the descendants of the courageous emigrants will be made to labor for the State, or if they dissent will be summarily shot or sent to an American Gulag, and that will be the end of the America that was once the hope of the world. I determined at that moment to work for a free America as if my life and the lives of other Americans depended on it—which indeed they do.

Causes of the Antipathy

As a rule, the wealthier a country becomes, the more its systems of higher education expand, and the more intellectuals become trained in those systems. These men believe they have a worth far greater than the producers on whose bounty they depend. The businessman, in their view, makes far too much money although he is obviously less intelligent, well read, and civilized than the man who spends his life in the ivory tower.

So the intellectual makes others believe that the entrepreneur gets his money by luck, or exploitation, or dishonesty. He also envies the

producer of things that yield wealth, and he expresses this envy in cynicism about the whole enterprise of money-making. Besides, the intellectuals are as a group the camp-followers of power, and they tend to identify in their imagination not with the producers of wealth but with the government bureaucrats who get it by force and threat of force from producers and distribute it to others—including to the intellectuals themselves.

Why are the intellectuals as a group almost always the most strongly pro-State of any segment of the population? One would think that they would be strong champions of individual liberty, as indeed they are in one matter, the freedom to teach what and how they please.

The question may seem less troublesome if one reads a book (published in 1908) by the German sociologist Franz Oppenheimer, *The State*. Oppenheimer begins with an apparently obvious distinction. There are, he says, two ways of obtaining the things one needs and wants in this world. The first method is production and exchange—producing something out of nature's raw materials and transforming it so that it can be used by man, and exchanging this product of one's labor with the products of the labor of others (the free market). This method of survival, production and exchange, he called the *economic* means. But there

is also another means: not to produce anything at all that others need or want, but simply to seize by force the things that others have produced—the method of plunder. This he called the *political* means.

Not everyone, of course, can use the second means: you cannot seize anything from others that others have not already created or produced. But some people can do it, siphoning off the fruits of others' labor for themselves. In the end, the supply is destroyed if this method is used too extensively, since the second method adds nothing to the totality of production but only subtracts from it; the more that's used up by the predator, the more must be created by others to replenish the supply, and of course the systematic plunder of the goods that someone has produced considerably reduces his motivation for producing any more.

The Political Means

Now the State, said Oppenheimer, is *the organization of the political means*. It is the systematic use of the predatory process over a given territory. Crimes committed by individuals, such as murder and theft, are sporadic and uncertain in their outcome; the victims may even resist and win. But the State provides a legal, orderly, systematic channel for the seizure of the fruits of other men's labor. Typically a conquering tribe settles among the conquered as

rulers exacting an annual tribute; this provides peace in place of war, and increases the probability that the tribute will continue to flow in.

Still, the problem remains how the king, or tribal chieftain, or emperor, or council of rulers, can continue to get by with this use of naked force against the rest of the population. One way to manage it is for the king to have a group of other men (the nobility of the realm) to whom he grants special privileges in return for his will being done. He makes it worth their while for them to serve him. He gives them land grants, makes them feudal lords, lets them throw their weight around, gives them great power over the masses, including, of course, the power to tax. They like the wealth and power that this position gives them, and have no incentive to change the system. Many nations still have this hereditary nobility based on original grants from a monarch or chieftain.

But if this were all, we would have a monarch and a class of nobles, with a highly discontented population. The upper classes would be in constant danger because the rest of the population are more numerous than they are, and there would always be a considerable chance of open rebellion. If peace is to be maintained, the masses have to be kept content with their lot. They must somehow be convinced that they are the gainers by the system: that they are

getting back more than they're giving, that they are being protected by the system and that the protection is worth more than the taxes and regulation they have to endure from it.

Teaching Obedience

How is this goal achieved? A *morality* must be inculcated that justifies in the eyes of the majority the power of the State. People must really believe that their lot is better now, that Caesar is good and wise, that the State really is their servant and not their master, and also of course that it would go badly for them if they tried to rebel. At one time, when church and State were one, the inculcation of this morality was the business of the ecclesiastical authorities. In that way, they could tie the precepts of obedience to Caesar to the eternal welfare of the subjects, and obedience became a virtue rewarded, if not now, at least in the hereafter.

But the principal way in which the State keeps people in line today, even supporting its activities voluntarily, is through a system of *universal public education*. Such education proceeds with every trapping of objectivity and tolerance, but its effect is to cause the recipients of the "education" to grant entirely too much in the way of State power. How many students ever learn that there are practical alternatives to govern-

ment operation of the post office, the roads, education, and other essential services? How many students ever read, or learn of, books which describe how such services can be operated privately? It is not to the interest of those in charge to publicize alternatives to the system of which they are a part.

Added Pressures

By the time students reach colleges and universities, their minds have already been strongly disposed in a pro-State direction, and their teachers too have been sustained by "the system." Lest any educator step out of line, the State makes institutions of higher learning more dependent on it through research grants and countless subsidies, so that the teacher who opposes the State in any fundamental way finds that he cannot exist within the system: he gets no grants (which are controlled by the State or by private foundations whose heads are also powers behind the government), and sometimes he is fired by deans or superintendents who are afraid to jeopardize the source of their income.

With the State holding the purse-strings, whenever it plays the tune the educators dance and their students memorize the tune. And thus in the course of time the population as a whole comes to believe that interference by the State is essential in virtually every sector of their lives.

Even when the government becomes a democracy, the people usually vote for legislators who will increase the State's benefits to them, and with it, inevitably, the State's power over them.

The State cannot sustain this power without conferring some benefits: it has a police force and an army whose official reason for existing is to protect them, which indeed it sometimes does. But, to amass more votes, it also institutes vast schemes of welfare, including housing and medical care, so that people will think they must be grateful to the benevolent State for its many benefits.

The State, of course, doesn't tell them that these benefits are dearly bought: that because of inefficiency and corruption it costs more than twice as much for the State to confer the benefits as it would cost insurance companies and other private organizations. It doesn't tell people that they are gradually trading their liberty for security—or the illusion of security, since there is no security other than making one's own plans for the future and being sure that the State will not confiscate the fruits of one's labor. It doesn't remind people that the governmental handling fee for its services is very high, and that the money the unsuspecting citizen has put into the scheme (e.g., social security) has already been spent, and the system relies for its

continued operation on the future taxing powers of the State.

I don't propose to argue that Oppenheimer's account of the origin of the State is correct—though surely in most cases, governments have indeed been formed through violence and conquest. Nor do I wish to argue that the State has no useful function at all—for I believe it does (e.g., courts and national defense). All I want to illustrate is that Oppenheimer's account goes far to explain why, in one country after another and in one age after another, the educational system serves the interests of the State rather than those of the people it is supposed to serve.

Avoiding Competition

Many teachers would not do well in the market place, and being tied to State power gives them position, dignity, an importance and income which they would not otherwise have had. Since they get a better deal from the State than they would in the market place, they naturally want to hold on to the special privileges they have obtained, and they gladly pay the required price: to praise the State, to try to tie the well-being of their subjects to the State, and most important of all, to attack the State's favorite scapegoat, the businessman, as the source of evil, exploitation, and power-lust, thus diverting the blame for economic woes from the State itself.

As the plot of Ayn Rand's *Atlas Shrugged* progresses, the government bureaucrats take over the management of the American economy, and the producers must either work for the government or be put out of business by government regulation and taxation. But the director of economic planning, Wesley Mouch, is worried about whether the public will take it, particularly the principal molders of public opinion, the teachers and the intellectuals. He says,

"Still, I'm worried. The intellectuals are our friends. We don't want to lose them. They can make an awful lot of trouble."

"They won't," said Fred Kinnan. "Your kind of intellectuals are the first to scream when it's safe—and the first to shut their traps at the first sign of danger. They spend years spitting at the man who feeds them—and they lick the hand of the man who slaps their drooling faces. Didn't they deliver every country of Europe, one after another, to committees of goons, just like this one here? Didn't they scream their heads off to shut out every burglar alarm and to break every padlock open for the goons? Have you heard a peep out of them since? Didn't they scream that they were the friends of labor? Do you hear them raising their voices about the chain gangs, the slave camps, the fourteen-hour workday and the mortality from scurvy in the People's States of Europe? No, but you do hear them telling the whip-beaten wretches that starvation is prosperity, that slavery is freedom, that torture chambers are brother-love and that if the wretches don't understand it, then

it's their own fault that they suffer, and it's the mangled corpses in the jail cellars who're to blame for all their troubles, not the benevolent leaders! Intellectuals? You might have to worry about any other breed of men, but not about the modern intellectuals: they'll swallow anything. I don't feel so safe about the lousiest wharf rat in the longshoremen's union: he's liable to remember suddenly that he is a man—and then I won't be able to keep him in line. But the intellectuals? That's the one thing they've forgotten long ago. I guess it's the one thing that all their education was aimed to make them forget. Do anything you please to the intellectuals. They'll take it."

"For once," said Dr. Ferris, "I agree with Dr. Kinnan. I agree with his facts, if not with his feelings. You don't have to worry about the intellectuals, Wesley. Just put a few of them on the government payroll and send them out to preach precisely the sort of thing Mr. Kinnan mentioned: that the blame rests on the victims. Give them moderately comfortable salaries and extremely loud titles—and they'll do a better job for you than whole squads of enforcement officers."¹¹

The True Reactionaries

Most members of America's academic community don't have to dirty hands in the market place or put up with day-to-day harassment from OSHA or the EPA or the ICC or other paid government harassers. Besides teaching, one of their principal activities is competing for government grants—in which activity they soon learn to include certain phrases in

their applications which experience has shown will incline the granters favorably toward their application, phrases like "creative research" and "furthering genuinely humanitarian interests." They do not, of course, like to be controlled themselves in what they say in the classroom, but they seldom express a similar interest when others are controlled.

As a group they are constantly looking for more opportunities to loot the federal treasury, and the fact that their proposed research is foolish or pointless (when it is) or that it will mean that the common man, whose interests they claim to have at heart, will have to pay just a bit more taxes or work that much harder to make ends meet, because of these government grants, does not even occur to them, or if it does, it appears not to bother them in the least.

Yet these men and women, who pride themselves on being the first to seize upon new ideas, are the real reactionaries of our culture. With monotonous regularity they have looked to the Old World for their political inspiration—to Plato, to Marx, even to Lenin and Stalin and Mao. But the *planned society*—planned of course by the *state*—is as old as history. The planned society has been tried a thousand and a thousand times; and always it has been tried in the balance and found wanting. Meanwhile the real world revolution had taken place in their own

United States—the revolution of 1776, the revolution of individual liberty and productivity made it possible for them to rise up against the sources of their bounty.

"My attachment to these United States," wrote Rose Wilder Lane, "is the revolution, the real world revolution, which men began here and which has—so to speak—a foothold on earth here. If reactionaries succeed in destroying the revolutionary structure of social and political human life here, I care no more about this continent than about any other. If I lived long enough I would find and join the revival of the revolution wherever it might be in Africa or Asia or Europe, the Arctic or Antarctic. And let this country go with all the other regimes that collectivism has wrecked and eliminated since history began."¹²

Aristotle wrote at the beginning of his *Politics* that politics—the art of statecraft—is the most important of human enterprises, since it is upon it that the success of all the others depends. I am often reminded of Aristotle's observation when students and other young people tell me about their plans for the future. One student wants to start a chain of little theaters, in spite of the compulsory city licenses which restrict their number and thus increase the rental on each of them, diminishing their chances of success, as well as the insidious inflation which prevents

many people from being able to pay admission price. Another has great plans to harness a new and inexpensive type of energy; he outlines these plans with infectious enthusiasm.

A group of students wants to start a pro-freedom private university: they have the tract of land already selected and some progress made on its purchase—it will be hard sledding at first but in a decade or two they believe it will prosper. And I think: yes, fine, *provided* that the power of the *state* by that time is still limited enough so that it permits these enterprises to exist and to succeed. It all depends on that. If the government refuses you a license, or clobbers you with taxes, or strangles you with bureaucratic regulations enforced by people who have very little knowledge even of what they are enforcing, or if it inflates the currency and bankrupts you, or gets so big that it kills all private enterprise and undertakes to manage everything itself, then all these fine plans will go down the drain.

It is said that young people today are confused, pessimistic, alienated, goalless, because they can find no cause worth working for. But there is such a cause—the restoration of liberty by limiting the ever-encroaching power of the *state* over our

lives. On the success of this effort depends the future of our nation. Surely there is no cause more worthy of our efforts. To sustain liberty is to sustain the principal condition of any kind of life itself, that can be called distinctively human. ☉

—FOOTNOTES—

¹Kai Nielsen, "On Justifying Revolution," *Philosophy and Phenomenological Research*, Vol. 37 (June 1977), pp. 516–532.

²R. M. Hare, "Justice and Equality," in James Sterba (ed.), *Justice: Alternative Approaches* (Wadsworth Publishing Co., 1980).

³Ayn Rand, "What Is Capitalism?" in *Capitalism the Unknown Ideal* (New American Library, 1967), p. 30.

⁴Richard Brandt, *A Theory of the Good and the Right* (Oxford University Press, 1979), p. 310.

⁵*Ibid.*, p. 133.

⁶Nicholas Rescher, *Distributive Justice* (Bobbs-Merrill, 1966), p. 73.

⁷*Ibid.*, p. 90.

⁸Louis Feuer, "Some Irrational Sources of Opposition to the Market System," in Ernest van den Haag (ed.), *Capitalism: Sources of Hostility* (Epoch Books, 1979), p. 132. See also Benjamin Rogge, *Can Capitalism Survive?* and Herbert Spencer, *The Man versus the State*. (1884; reprinted by Liberty Press, Indianapolis, 1982).

⁹*Ibid.*, pp. 135–6.

¹⁰Eric Hoffer, "Beware the Intellectual," *Harper's*, October 1979, p. 63. See also Claire Sterling, *The Terror Network* (Holt, Rinehart, and Winston, 1981).

¹¹Ayn Rand, *Atlas Shrugged* (Random House, 1957), pp. 546–7.

¹²Rose Wilder Lane, in *The Lady and the Tycoon*, ed. Roger Lea MacBride (Caxton Printers, 1973), pp. 268–9.

Unemployment in Puerto Rico

PUERTO RICO is an island commonwealth of the United States some 970 miles south-southeast of Key West and 1400 miles from New York City. It is a small tropical island, poor in natural resources, dramatically beautiful, and densely populated. It is a self-governing part of the U.S. with a Hispanic culture. Puerto Ricans are U.S. citizens; some 3.5 million are living on the island and another 1.5 million in the continental U.S.

Puerto Rico has the dubious distinction of always suffering from staggering unemployment which, at times, may amount to three times the national average. This is all the more puzzling as the federal government levies no taxes on Puerto Rico

except those imposed by mutual consent for Social Security, workman's compensation, and other labor benefits. It collects no income tax from residents on income earned from local sources. But it makes transfer payments to individuals and governments totaling more than \$3 billion annually, or \$850 per man, woman and child, which amount to some 25 percent of all island incomes. Moreover, the federal government spends huge amounts and employs many thousands of civilians at federal facilities such as the U.S. Naval Station at Roosevelt Roads, the Navy's Sabana SECA Communications Center, and the U.S. Army Salinas Training Area and Fort Allen. One out of four Puerto Ricans is working for federal or local governments, and one is chronically unemployed.¹

After 85 years of U.S. Govern-

Dr. Sennholz heads the Department of Economics at Grove City College in Pennsylvania. He is a noted writer and lecturer on economic, political and monetary affairs.

ment rule over the island² economic conditions are deplorably poor. Surely, they are more favorable than those of many other countries in Central and South America. But when compared with income and wealth in the continental U.S., Puerto Rico is an overcrowded poor-house where, in spite of generous alms and transfer payments, many people subsist on minimal incomes.

Alleged Exploitation

Many observers throughout the world offer explanations that are taken from the armory of world communism and socialism. The U.S. as colonial conqueror and ruler of the island is indicted for "gross exploitation" of the working people of Puerto Rico. U.S. corporations and capitalists are said to use the island as their personal plantation and private domain yielding great riches to the exploiters while impoverishing the natives. No matter how popular it may be in UN quarters, such an explanation warrants no serious answer. It is sadly deficient in economic reasoning and utterly oblivious to the facts.

Most Americans summarily reject the notion of colonial subjugation and exploitation. But they may want to assign responsibility and blame to some presumed fault or deficiency on the part of Puerto Ricans themselves. After all, their society is predominantly Spanish in language,

attitude and activity. Only some 25 percent of the people understand and speak the English language with more or less fluency. Although the Puerto Rican government expends about one-third of its annual revenue for education, the level of education continues to be rather low when compared with U.S. standards. Similarly, the level of industrial skills and on-the-job training compares unfavorably with those on the mainland.

Such an explanation of the Puerto Rican dilemma is, to say the least, frivolous and Philistine. It tends to preserve the status quo although it exhorts Americans to ever greater efforts toward almsgiving and transfer payments. It tends to perpetuate the misery while denying all hope for early improvement. And, above all, it confuses cause and effect and shifts the responsibility from the politicians in Washington to the victims in Puerto Rico.

Actually, Puerto Rico is probably the world's most vivid example of the absurdity of labor legislation. It demonstrates so cogently and convincingly that minimum wage laws and other labor legislation that raise the costs of labor do not improve economic conditions, but instead make them immeasurably worse. It teaches so clearly and graphically that government cannot raise wage rates and improve living conditions by political fiat and police force. But govern-

ment can impose and enforce conditions that deny millions of people the opportunity to participate in economic production.

The Labor Market

In a market economy labor income is determined by labor productivity. To improve labor conditions is to improve the productivity of labor through the application of ever more efficient tools and equipment. It necessitates the formation of capital that makes human labor more productive and raises the output of goods and services. At the unhampered market rate anyone willing to work can find a job, and anyone seeking help can find a worker. There can be neither labor shortages nor mass unemployment.

In an unhampered market labor and capital tend to adjust continually to the demands of consumers. Labor tends to migrate to places where labor productivity and income are the highest. Capital tends to move to locations where its productivity and yield are the greatest. This continual adjustment process brings forth a tendency toward equitable prices and rates of income throughout the market. The migration of production factors ceases only when no further advantage can be attained from migration.

If there were no institutional barriers Puerto Rican labor could be expected to flock to continental mar-

kets where labor productivity and wage rates are substantially higher, and continental business capital could be counted on seeking better investment opportunities in Puerto Rico. In time, wage rates and living conditions in Puerto Rico could be expected to resemble those on the mainland. However, even under ideal conditions of a laissez-faire system the former would always be lower by a small margin. The island is located more than one thousand miles from major sources of raw materials and the primary markets for its products. The relatively high transportation costs would forever keep the productivity of island labor lower than on the mainland, and therefore wage rates and levels of living.

In a free economy unconstrained by labor legislation economic production that is labor-intensive would locate in the island. Puerto Rico probably would become the U.S. center of a needlework industry and other highly labor-intensive production. Table and household linens, embroidered and drawn-work by hand, clothing embellished with fancy stitching and hand-rolled edges, appliqué work on towels, bridge sets, scarves, doilies, and pillow cases would be produced on the island, and sold on the mainland. And the American people as consumers would be greatly enriched by the productive efforts of some two million adult Puerto Ricans.

Unfortunately, federal labor legislation is strangling economic life in Puerto Rico, condemning one-fourth of its population to linger in unemployment and poverty, depriving American consumers of desirable products or forcing them to rely on higher-priced imports from Hong Kong and Korea. But then, to alleviate miserable working conditions in Puerto Rico, the federal government, through taxation and deficit spending, exacts income and wealth from mainland Americans to sustain unemployed Puerto Ricans.

Population and Migration

At the beginning there was great hope and good reason for optimism. When Puerto Rico joined the U.S. market order and tariff area in 1900 its population of less than one million was suffering from the effects of centuries of government arbitrariness and mismanagement. In just three decades under the U.S. flag, visible evidence of material progress began to multiply. Trade and commerce flourished, agricultural production multiplied, and mainland industries invested in new plants and facilities. A middle class was coming into existence. As living conditions improved the death rate declined significantly, the birth rate virtually exploded, and the population doubled in just one generation.

Under U.S. dominion the Puerto Rican rate of population increase

became one of the world's most vivid examples of the current population explosion. As always, rapid population growth invokes the law of returns and its derivation, the Malthusian law of population, which holds that a population growth exceeding the formation of productive capital and the production of means of sustenance tends to impair material well-being. It creates a race between economic gains and population growth, a race in which economic production has to run faster and faster so that the individual may stay in the same place.

In the early years of American sovereignty Puerto Ricans did not merely stay in the same place. They progressed despite the population explosion. But the rate of economic improvement necessarily lagged behind that of the continental U.S. It prompted the most adventurous and enterprising among them to emigrate to other parts of the U.S. During the 1890s thousands went to Hawaii where field hands were needed in the sugar industry. Early in the twentieth century many found employment in agriculture throughout the United States. However, the linguistic and cultural barriers and the great difficulties of adjustment to an alien environment kept the flow of Puerto Rican labor at a trickle. The early migration served to establish the needed beachheads which in time would encourage massive mi-

gration. By 1940 New York City was home to 63,000 Puerto Ricans. Today, with some 750,000 Puerto Ricans, New York City is by far the largest Puerto Rican city.

The large exodus from Puerto Rico since the early 1940s brought immediate improvements to labor conditions on the island. As labor emigrated en masse the marginal productivity of labor at home rose significantly, causing wage rates and levels of living to rise. Moreover, many Puerto Rican emigrants did what many emigrants do upon arrival in the U.S.: they remitted some of their savings to family members left behind, which contributed visibly to improvements on the island.

Federal Dominion Over Labor

One particular event triggered the exodus of more than one million Puerto Ricans during and after World War II. The Fair Labor Standards Act of 1938 virtually lowered the curtain on many types of labor in Puerto Rico. It set a minimum wage of 25¢ per hour which produced massive unemployment throughout the island. When all wheels were grinding to a halt, a 1940 amendment to the Act provided for an arrangement different from any on the mainland. It created industry committees, convened by the U.S. Department of Labor, that recommended minimum wages to the Department. The Secretary then set

the rate in accordance with a Congressional mandate: *the rate must be the highest possible minimum that will not give a competitive advantage to any group in the industry*, that is, it must be as high as comparative wages in the states. Incapable of earning the mandated minimum in Puerto Rico, many thousands of workers were forced to search elsewhere. In 1978 the U.S. Congress committed the ultimate folly: it discarded the obnoxious industry-committee procedure of determining the highest possible minimum in favor of the original 1938 mandate—the full U.S. minimum wage. The minimum of \$3.35 an hour was made effective on January 1, 1981.³

On the mainland the minimum wage may amount to one-half of the average industrial wage and may affect some ten percent of the working population. In Puerto Rico the same minimum approaches the full industrial wage and affects the vast majority of working people. The going wages paid are at, or close to, the mandated minimum. In agriculture some 90 percent are paid the minimum or near-minimum, in tobacco processing 99 percent, belt manufacturing 81 percent, women's hosiery manufacture 63 percent, children's dress manufacture 79 percent, milk processing and distribution 62 percent, candy and gum production 62 percent, and vitreous china manufacture 69 percent.⁴

Consequences of Fixing Wages at Higher than Market Levels

Some of the consequences of the federal minimum set above the Puerto Rico market rates are difficult to observe. Economic activity is forced to move from labor-intensive methods of production to capital-intensive methods, or does not occur at all. Labor-intensive industries no longer settle in Puerto Rico, but move somewhere else. The unemployment is further exacerbated by reductions in working time. Many employees are working only 35 hours a week or less although they are anxious to work more hours. But employment time, too, is a function of the costs of labor. Thus, while the federal minimum wage lifts some 20 to 25 percent of all workers right out of the labor market, it may condemn another 10 to 15 percent to underemployment.

Many hapless workers thus cast out from productive activity may find their way into the underground economy where the federal mandates are completely ignored, or into self-employment and subsistence farming not covered by the minimum wage law. The long arm of the federal government cannot possibly reach into the complexities of self-employment and subsistence farming and mandate the price of independent labor. If it could, it would close the last legal escape route to a useful existence for many enterprising individuals.

But while this route may yet be open to individuals with entrepreneurial inclination and ability, the influx of a great deal of labor set free in covered occupations tends to depress the income from self-employment and thereby discourages entrepreneurial activity. Moreover, it only allows for the escape of one entrepreneur at a time. If one is successful through hard work and long hours of work at below-minimum rates he cannot legally buy the services of other workers at his own rates. His would-be helpers again are excluded by the minimum barrier.

In Puerto Rico, labor participation as a percentage of adult population is much lower than in the continental U.S., which is a clear reflection of the "lack of job prospects" for many. In 1978, the percentage of adult population in the continental labor market was estimated at 62 percent; in Puerto Rico it was only 44 percent.⁵ No matter how psychologists and sociologists may want to explain this difference, the futility of a job hunt surely contributes to the low participation rates in the island.

Moreover, the high unemployment rates and low participation rates discourage on-the-job training, which is most unfortunate in Puerto Rico where both formal education and vocational training are significantly lower than in the continental U.S. Where fully trained workers

barely earn the legal minimum, there will be little hiring of trainees at that rate. It denies employers the opportunity to teach and workers the opening to learn, which may condemn the latter to remain unskilled for the rest of their lives.

For many Puerto Ricans the movement to the continental United States, where labor productivity is substantially higher, offers the only escape from a life of idleness and despair. The federal labor legislation is thus redistributing the working people over all fifty states. In Puerto Rico itself the federal mandates have depopulated whole areas and caused major cities to decline. During the 1950s, a decade of unprecedented population explosion, of the eleven largest cities, seven declined in population. Mayaguez, once a center of the needlework industry, lost 14.9 percent, Bayamon 25.1 percent, Fajardo 19.1 percent, Aguadilla 12.8 percent, Caguas 5.2 percent.⁶ In search of better economic opportunities many residents of these old cities probably found their way to Brooklyn, New York.

The aggregate effect of the U.S. minimum wage on Puerto Rico is one of incredible devastation and humiliation. Some 25 percent of the working population are presently unemployed, 10 to 15 percent are underemployed, some 10 percent are subsisting in self-employment or primitive farming, 18 percent no

longer participate in the labor market, and 5 percent subsist on public assistance. Altogether, it is a gruesome picture of the consequences of mischievous labor legislation.

Intent and Design

If labor legislation has such dire consequences in Puerto Rico, why does the U.S. Congress in its collective wisdom impose such mandates?

There are the representatives of infinite political power who deny all cause-and-effect relationships in economic life, but instead believe in raw political power. They are convinced that the coercive apparatus of government can accomplish anything its managers set out to accomplish. If they conclude that wage rates and living conditions should be improved in Puerto Rico they blithely proceed to introduce legislation that will enforce the desired improvements.

A great many champions of government coercion consider themselves noble humanitarians. They are motivated by a laudable intention to improve the conditions of poor people everywhere. Guided by a comfort-and-decency standard of life, which they calculate in dollars and cents, they proceed to legislate it. If economic conditions should get worse they usually add more legislation and, with humanitarian zeal and dedication, apply more police force.

Labor unions are organizations of

workers that serve a single purpose: to secure for their members wages and benefits that are higher than those allocated to them by the voluntary production process. Only one policy can bring this about: collective force. Labor unions preach and live by force which may be purely economic, such as strikes or the threat of strikes, or openly political, through labor legislation that favors their members at the expense of others. Only such a force applied consistently and fervently throughout the decades can explain the great evil that is wrought daily on Puerto Rico.

Labor union leaders in the U.S. are the most vocal promoters of ever higher minimum wage rates. In the name of "fair competition" they seek to repress all labor and production that is performed at rates lower than union rates. Such repression usually allocates more work and income to them. By depriving Puerto Ricans of employment opportunities and by reducing the supply of goods manufactured in Puerto Rico they aim to generate more employment for mainland workers at union rates. To the degree that they are successful through federal labor legislation they are enriching their members while impoverishing the Puerto Rican people as workers and the American people as consumers.

But even such evil political designs have their economic limitations as the production restrictions

imposed by minimum wage legislation bring forth rising imports from Hong Kong, Korea, and other countries that are free from U.S. labor jurisdiction. Imports take the place of goods not produced in Puerto Rico.⁷ In the end, neither Puerto Rican workers nor unionized mainland workers are manufacturing labor-intensive products, but foreign workers all over the globe.

It is a well-established principle of interventionism that a government restriction makes matters worse and leads to more and more restrictions until every detail of economic activity is controlled by government. But it is also true that radical intervention aims at many contradictory objectives that clash with each other and seek to counteract and offset each other. In Puerto Rico the U.S. Congress and the Department of Labor endeavor to suppress economic activity below a minimum scale, which lays waste to the island economy. But the Department of Health and Human Resources then rushes to the rescue of Puerto Ricans with massive financial benefits that probably make the island the most expensive territorial possession in the world.⁸

San Juan Worse than Washington

It would be a grievous mistake and an injustice to lay the blame for Puerto Rican stagnation and poverty on Washington politicians and bureaucrats alone. After all, the fed-

eral rule over the island has never been so imperious that the voice of the people could not be heard. Since 1941 the San Juan cabinet has been composed solely of Puerto Ricans. Since 1946 native Puerto Ricans held the office of governor. In 1947 a Congressional act granted Puerto Rico the right to elect their own governor. And in 1952 a constitution for a self-governing Commonwealth was approved by the voters, and confirmed by the U.S. Congress.

In numerous local elections most Puerto Ricans have consistently and convincingly opted for radical government intervention in their economic affairs. During the 1940s they emulated Roosevelt's New Deal with all its political ramifications and regulatory offshoots. In fact, they frequently went far beyond mainland interventionism and experimented with island socialism.

Under the leadership of Muñoz Marín and his Popular Democratic Party, which came to power in 1940, the island government embarked upon a social and economic "revolution" of its own. It expropriated agricultural land owned by mainland corporations and put it to government use or sold it to natives. In order to "rationalize" agriculture through industrialization it established government sugar farms and purchased mills primarily for "yardstick" purposes. It built pineapple canneries, slaughterhouses, facto-

ries for making shoes, glass bottles, paper and cardboard, clay products as bricks, tiles, and ceramics. It built hotels and motels and went into the tourist business. In TVA fashion it generated electricity and distributed it to all parts of the island.

The legislature is composed in a large measure of labor leaders who make constant efforts to raise wages as rapidly as possible. Every two years a board reviews the Commonwealth minimum wage. If its recommendation exceeds the federal minimum it becomes the law of the island. Government enterprises and government itself are viewed as the employers of last resort, offering jobs to a maximum number of people. At the present, one out of four Puerto Rican workers is laboring for the Commonwealth Government.

As one would expect, the indebtedness of the government and its autonomous public corporations is always hovering at the very limit of their debt capacity. New credits when granted by mainland banks and other sources lead to immediate acceleration of public works, which, when put to a vote by the electorate, are endorsed overwhelmingly.⁹

Debts and Taxes

As one would also expect, the commonwealth government is ever eager and anxious to exact more tax revenues from its subjects. It imposes a corporate income tax that

ranges between 22 percent and 40 percent, an individual income tax up to 72 percent, an excise tax of 5 percent to 80 percent, license taxes at various rates, property taxes of some 2.3 percent, estate and gift taxes up to 70 percent, municipal sales taxes from 1 to 5 percent of dollar sales, and a special tax of 50 percent on the "improper accumulation of surplus or profits." Under a program known as "Operation Bootstrap," the government may grant exemption from major taxes to firms satisfying certain employment conditions.

If the general tax burden should not discourage economic production, the following payroll taxes that directly raise the costs of labor may erase all doubt:

1. The Social Security provisions of the United States are in force in Puerto Rico.

2. Employers must pay both the U.S. Federal Unemployment Tax and the Puerto Rico unemployment compensation tax.

3. All employers are required to pay a Disability Benefits Tax that finances benefits for illness and accidents whether or not they are related to employment.

4. Workmen's Compensation Insurance is payable at various rates.

5. Employers must pay a Christmas Bonus of at least two percent of a worker's annual wages up to a maximum of fifteen percent of the employer's net income.¹⁰

If it is true that the demand for labor depends on the costs of labor it must be concluded without risk of contradiction that the Puerto Rican government itself is significantly raising the costs of labor and thereby reducing the demand for labor. In short, it is contributing significantly to the mass unemployment there.

Island Independence

The dismal conditions of labor in Puerto Rico and the prospects of economic stagnation for generations to come, raise the crucial question of desirability of island separation from the U.S. Many Puerto Ricans themselves favor national independence and sovereignty. They are supported by national liberation forces and their communist allies all over the world. In the United Nations organization several dozen countries are strongly urging Puerto Rican independence, and world public opinion is loudly lamenting the sad fate of Puerto Rico.

But such a solution would probably make matters worse. It is rather likely that, in a sovereign country of their own, the Puerto Ricans themselves would resort to radical intervention, different in some details but similar in basic design to that experienced as part of the U.S.¹¹ They would inflict immeasurable harm on each other through labor legislation of their own and other redistributive policies, but lose the massive U.S.

support that is sustaining them now.

Without a tradition of individual freedom and an unhampered enterprise system, and short of any visible intellectual force and popular support for individual freedom from political power and arbitrariness, the intellectual conditions are lacking for a free and prosperous commonwealth. Instead, it is rather likely that an independent Puerto Rico would soon follow in the footsteps of many of its Spanish-speaking neighbors, such as the Dominican Republic, Haiti, and Cuba. And once again the U.S. would have to brace for a flood of refugees fleeing from their own misery and chaos and searching for survival in the U.S.

The only hope for a brighter future for all Puerto Ricans rests in the hands of the lovers and champions of individual freedom everywhere. There is hope as long as they are pressing the point that minimum wage rates and other labor legislation cannot possibly improve the working and living conditions of all the people, but make them immeasurably worse. There is ample work for everyone and great prosperity for all in freedom. When American public opinion finally understands this simple lesson of economics and causes the U.S. Congress and the Commonwealth legislature to remove the labor shackles from Puerto Ricans, the island will spring to new life. ☉

—FOOTNOTES—

¹Ernst & Ernst, *Puerto Rico*, International Business Series, March 1971, July 1971, Sept. 1973; Earl Parker Hanson, *Puerto Rico: Ally for Progress* (D. Van Nostrand Co., Princeton, N.J., 1962).

²Spain ceded Puerto Rico, Guam and the Philippine Islands to the United States by the Peace Treaty of Paris, on Dec. 10, 1898. The Philippines gained independence in 1946. Guam and Puerto Rico continue to be associated with the U.S.

³U.S. Department of Labor, Wages and Hour Division, *Minimum Wage Rates for Puerto Rico* (WH Publication 1348, Washington, D.C., 1978).

⁴U.S. Department of Labor, *Wage Structure and Fringe Benefits in Puerto Rico* (Washington, D.C., 1979), p. 187.

⁵Puerto Rico, Bureau of Labor Statistics, *Informe Estadístico* 1, No. 11, November 1979, Table 1.

⁶Earl Parker Hanson, *ibid.*, p. 52.

⁷Simon Rottenberg, "Minimum Wages in Puerto Rico," *The Economics of Legal Minimum Wages* (AEI, Washington, 1981), pp. 334-338.

⁸It is interesting to note that the U.S. Government now manages to spend in excess of \$3 billion on Puerto Rico every year, which is 150 times the amount it paid to Spain in 1899 for the transfer of sovereignty of Puerto Rico, Guam and The Philippines from Spain to the U.S. Even if total government expenditures for the Spanish-American War, which amounted to less than \$130 million, were to be included in the purchase price for Puerto Rico, U.S. Government expenditures for health, welfare and human services now exceed the costs of war and conquest manyfold. As seen from a purely financial point of view, the Spanish-American War has become a very expensive war.

⁹Earl Parker Hanson, *ibid.*, pp. 90, 91, 102-106.

¹⁰Ernst & Ernst, *Puerto Rico, A Digest of Principal Taxes*, July 1971.

¹¹cf. Robert W. Anderson, *Party Politics in Puerto Rico* (Stanford University Press, 1965).



Abundance and Scarcity

THERE are two opposing philosophies prevalent regarding the natural distribution of wealth on this earth. One presumes that virtually all material wealth has already been discovered, and the role of man is to distribute that wealth in an equitable manner. This view is the one that has predominated throughout most of recorded history and has saddled man with one monumental conflict after another. The other philosophy assumes that wealth is boundless in the universe, and man must merely discover new combinations of behavior and/or existing matter in order to unlock the vaults to that vast, undiscovered mass of benefits.

The shape and nature of a social order is a consequence of whatever ideas dominate in that particular

society. Civilizations which endorse the idea of scarcity, or limited wealth, tend to be rigid and structured. They are likely to be ruled by individuals whose concept of leadership is to create and implement wealth redistribution formulas that assure adequate food, shelter and warmth to members of their own group. Secondly, if there does not appear to be an adequate supply of internal wealth to distribute, a warrior class may emerge whose role is to raid other groups and forcefully extract goods to bring back home.

In such a society there is a natural tendency for the warrior segment to achieve positions of dominance for theirs is a twofold role. They must raid and plunder surrounding groups, *plus*, they must preside over the wealth redistribution process at home by force of arms. Since the most common personality trait in such a

Ben Barker, M.D., is a specialist in psychiatry and contemporary therapeutic techniques and is Director of the Crisis Advisory Center, Simi Valley, California.

society is rigidity, there usually exists an abundance of rules and regulations governing not only property but all manner of dealings between individuals. The basic premise is one of scarcity. Hence rule by force is necessary, for such a presumption takes for granted that one man will take from another less powerful unless restrained by an even more potent force.

Most of us are unable to see that such a pessimistic viewpoint is but a matter of perspective. Is the glass half full or half empty? Were not the raw materials for the space shuttle Columbia buried in the earth alongside the materials for the craft that first flew at Kitty Hawk? Man is a noble creature, gifted with rare skills in comparison to the remainder of plants and animals. These skills allow us to manipulate our environment in ways unavailable to other forms of life. If we activate our talent to think and plan, we can literally recreate the world. The ideology of scarcity ignores that ability and presumes that God created a universe in which, for me to have enough, another must starve.

Boundless Wealth?

The ideology of abundance presumes that the wealth of the universe is boundless, and that we must merely put our minds to the task of tapping that wealth—and it will come. The difference in perception

in these two philosophies is startling, and one can produce a vibrantly alive world for the believer if acted upon. Countless men have met their deaths journeying to the far ends of the earth in search of fortune. The Yukon, the Alaskan north slope, mine shafts cut deep into solid rock in South Africa, Chile, Peru, and even our own coal mines. Yet a man in the American southwest recently tinkered with a tin can, a small gasoline engine and a piece of string and found great wealth. He invented the rotary weed-cutter and changed the gardening habits of millions of us.

When enough of us finally tumble to the fact that both wealth and progress lie in appropriate utilization of the mind, our nation and the world may begin to move forward again. The task of this era is to free creative minds from the bounds of bureaucratic conformity and ineptitude and allow them to pull us out of the economic and social mess that we have tumbled into. Government must get out of the way! It must stop taxing us into oblivion. It must stop punishing intelligence and creativity and stop rewarding indolence and ineptitude. These tactics will lead to a failed society. If bread, circuses, a huge bureaucracy and a Senate that's a joke could hold a social order together, then Rome would still be a mighty nation.

The philosophy of scarcity is tinged with envy, greed and meanness; we

don't need it. For as long as there have been written records, men have been predicting that we would soon run out of raw materials. Have we? For the better part of the past decade a horde of supposedly brilliant analysts told us that we had at last nearly depleted the earth of oil. The OPEC cartel exploited that fantasy, and was aided and abetted in that disastrous experiment in social manipulation by the U.S. Department of Energy. We spent billions of dollars on that Department, and more billions on the overpriced oil that its policies perpetuated. Did we run out of oil? Not hardly. Today the world is bathed in an oil glut and our banking system is stretched to the limit because it bought into the illusion of oil scarcity.

All of the limitless material wealth of this universe is open to the inquisitive, exploring mind. Our fires will remain lit either with wood, kerosene, coal, gasoline, or some yet-to-be-discovered substance. New inventions will warm us, cover us, lift us and move us—if they are needed, and if the inventor is provided sufficient reward for applying his mind to the problems that we must solve. The greatest danger that our culture faces today is that those with truly creative potential will remain preoccupied with trivia such as animated cartoons, self-stimulatory electronic games and complex weapons of annihilation. Obviously, the

reason that our creative geniuses are presently tied up in such pursuits is because that is where the rewards are. A pity.

Explosions of Creativity

Periods of incredible expansion in the quality and capacity of life occur when certain basic conditions have been met in the human situation. These conditions have to do with freeing the mind, are cyclical throughout history, and the relative scarcity or abundance of resources has little or no bearing upon them. The social and cultural factors which enhance creative thinking jelled in Greece to produce Aeschylus, Sophocles and Euripides almost simultaneously. A later period of the same culture brought forth Socrates, Plato and Aristotle. Likewise, there were no geniuses at all in England between 1450 and 1550, but a whole series of them in literature, music, science, philosophy and politics between 1550 and 1650. Germany saw a similar explosion of creativity between 1700 and 1800.

In examining these separate periods of Western history, more than a few sociological parallels are obvious. First, the cultural substrate which feeds genius consists of an *open, receptive* social order not focused exclusively on only one aspect of human life, whether that be militarism, religion, comfort, sensuousness, materialism or something else.

Secondly, the culture must place a stress on *becoming*, not just on being. This translates to a tolerance for, and even an encouragement of transitional phase behavior. Genius tends to plan ahead, often very far ahead, and a society that focuses on being emphasizes immediate gratification, comfort and pleasure and distrusts activities that relate to remote goals. Becoming, though, should be part of being, and the mature, thinking individual is always becoming, for today he is somewhat different from the way he was yesterday, and tomorrow he will be different from the way he is today.

Next, other forms of *freedom* and *tolerance* must be manifest in the culture for it to grow and develop. The creative individual must be allowed to move unhampered between different and even contrasting cultural stimuli. America itself emerged from a synergistic combination of English and German philosophies, values and traditions merged with the new, adventurous, enterprising and individualistic spirit of the colonies.

Those who focus upon the material resources that creative eras utilize to express their wealth miss the entire point of the matter. The explosions of knowledge, wisdom and mastery of the environment such as took place when Americans moved westward and settled the frontier are *not* secondary to the land conquest.

It is the other way around—the knowledge explosion made the land conquest possible. The Indian could not stop both the gun and the new plow. An idiot alone on an island with a family of chickens will eat roast fowl, then starve; an individual of creative intelligence will develop an array of egg recipes and will learn to breed and cull his flock.

Both the conquest and exploitation of the frontier and the survival tactic on the deserted island are done best when creative juices are sprinkled on the situation. If our nation is to emerge intact from this era of economic instability it must move again toward the type of social order which both rewards and fosters creativity. If you unduly tax creativity and productivity (which we do) you will get less and less of it, and if you reward indolence you will soon be drowning in indolent beings (which we are).

Instruments of Socialism and Cultural Decline

The philosophy of scarcity is a predominant influence in producing the slide of our great nation toward oblivion. The government and the instruments of education and persuasion are currently in the hands of those motivated primarily by that philosophy and the grasping greed it produces. Control, dominance and wealth redistribution are the socialist formula, and they are techniques

of cultural suicide—not growth and development.

The philosophy of abundance recognizes that free minds can and will wrench wealth from the environment if allowed to do so. Just as the space shuttle Columbia lay undiscovered in the crust of the earth until our minds were ready to conceive it, there are even greater discoveries yet to be made. These discoveries can and will produce a social order of growth and abundance if they're not prevented from doing so by the choking bureaucracy of our repressive, ever-hungry government.

Unfortunately, many are placing their trust in the apparatus of government at this time of economic and social crisis in the mistaken belief that it can reverse the process of decay and dissolution. This hope is sheer folly, for it has been the unrelenting implementation of counterproductive government policies which has been the major force in creating the onrushing calamity. The public debt is beyond control, the size of the bureaucracy continuously escalates, and even those who sense the reality of an impending calamity are in the grip of a vague, anesthetized helplessness which is usually described as malaise.

Others are trusting in material objects such as diamonds, gold, silver, art or antiques to shelter their wealth during this period of instability. An external device of dubious

value (currency) is used to acquire other external devices (goods) of less dubious value, and these devices are then secreted. We call people who randomly steal items for which they have no reasonable immediate or deferred need kleptomaniacs and consider them ill. People who purchase a variety of items with equal randomness we call consumers and have built an entire commercial system about them.

Materialism Is an Outgrowth of the Philosophy of Scarcity

Materialism, or the preoccupation with the acquisition of money or the devices it can purchase, is an outgrowth of the philosophy of scarcity. Surely, if *things* are the measure of man, and if there are not enough things to go around, then it is reasonable to be constantly concerned with acquiring things. The thing-oriented individual often decides that it is a waste of time to continue to yearn for the old freedoms, questions whether or not they ever really existed anyway, and busies himself constructing substitute gratifications to replace those he feels have been permanently lost.

Those of us who are thing-oriented people often view both objects and people as commodities—including ourselves. We think, "I am what I have"—and we collect injustices done to us as if those injustices were valuable possessions as well. Our

dreams are of great wealth, romance, intrigue and power.

If we're men, we lavish a great deal of attention on our automobiles or other shiny objects and well-kept possessions such as condos, rental houses, yachts, and the like. If we're women, we are likely to lavish our affections on our jewelry and our personal appearance. We feel more comfortable touching objects than we do touching each other—especially objects that we own. Additionally, we spend a great deal of time and energy safeguarding our possessions from theft, taxation or random destruction. Indeed, we often appear to be owned by our things for they command so much of our thoughts and activities.

Such materialistic, thing-oriented, scarcity-dominated behavior can be termed life-rejecting. Those among us who are life-rejecting tend to carry our bodies stiffly. We view relationships from a paranoid angle, feeling exploited by nearly everyone. We respond to these feelings by projecting a free-floating resentment, coupled with anger and envy, out onto the world. We would deny the rich and powerful, as well as the powerless, the right to enjoy pleasures that we cannot experience. We tend to view work as a duty and pleasure as sinful and immoral. We may own many things, but we often hurt those people who come close to us.

The life-rejecting obsession is with control and dominance, so we are often found within hierarchical situations. That includes government, the military, educational institutions, or some large corporations. We are the bureaucracy. We scorn disorganized "messy" personal relationships and prefer those in which a superior-subordinate interaction is precisely defined—the more precise the definition the better.

Life-Oriented Behavior

Adherents to the philosophy of abundance, on the other hand, are life-oriented rather than thing-oriented and life-rejecting. Those among us who feel this way tend to view the universe as a vast tool placed there by the Creator to assist us in achieving self-actualization. We learn to fully experience and express our feelings and tend to be loving and accepting of others. We are capable of outer-directed, or helping, behavior, even though our primary motive for such behavior may be self-actualization. The difference is best seen in the idealistic social worker *versus* the inventor.

An inventor is perceived as selfish and preoccupied with his own creations and the social worker as altruistic. However, if the inventor is successful in creating a meaningful new product (lightbulb, flush toilet, hot-water heater, weed cutter) he can profoundly affect the quality of life

of all society. That is the essence of effective outer-directed behavior.

Such people tend to be spontaneous and open, and present themselves in a loose, natural style. Their work allows them to feel competent and self-reliant, and they don't wait for others to fill their needs or solve their problems. Perhaps most importantly, life-oriented persons are capable of deep, profound relationships bathed in freely flowing and totally experienced feelings. They learn to activate and express buried potential—aesthetic creation, selfless service, communion with nature. They learn to become one with the environment rather than merely dominating it.

As the Renaissance swept aside the bleak intellectual torpor of the Dark Ages, this era of bureaucratic banality is likely to be jolted by an awakening. But such an awakening will not come easily. Creative, individualistic believers in the abundant universe must shoulder their way through the deadwood of a social order choking on its own pollution. Small men with small minds hooked into the philosophy of scarcity and lusting to control and dominate the assets and lives of others are in the halls of power and must be displaced. Until and unless they are we will continue on the road to social chaos.

Those who preach that this is the age of limits are only projecting their

own myopic view of the world. The concept of limits is acceptable to those who have lost the capacity to grow and develop. It allows them to rationalize their own narrow achievements. But it ain't necessarily so. At one time surgeons would not cut into the human abdomen for fear of a fatal outcome. Today abdominal surgery is commonplace, and operations on even the heart and brain take place on a daily basis. These and other miraculous vistas open each day in the field of medicine, and similar progress can doubtless occur in other disciplines as well.

The Computer Revolution


The electronics industry represents the cutting edge of modern technological development. Properly implemented, the computer revolution will bury once and for all the idea that there are limits to exploration and utilization of the environment. Entirely new industries will spring up around this new socio-cultural entity and these industries will rejuvenate America's manufacturing infrastructure. We will march from this point into an age of unprecedented prosperity if we but allow ourselves to do so.

At one time men believed that the world was flat, and that earth was the center of the universe. One man spoke up against this misconception and announced that not only was the world round, but that earth was only

one of several planets revolving about the sun. His observations brought him ridicule and agonizing persecution—but his truth eventually prevailed. Without the appropriate mental concept of a spherical earth in orbit about the sun, men would not have made it to the moon, or placed the satellites in orbit, or done a thousand thousand other things that have permanently altered the quality of life.

So it can be with the concept of a universe of boundless abundance. Once man can accept the fact that the power of the mind is limitless, he can begin to apply that power in

a myriad of ways to improve his existence. It would seem far better for us to invent new techniques to implement the vast number of raw tools God has provided than to scheme, fight and plunder each other for the few resources that have already been converted to physical wealth.

In the final analysis man, collectively and singularly, is the measure of himself. We can accomplish what we believe that we can, find what we want to find, go where we want to go. The magic carpet in the universe without limits is your mind. Use it. 

For the Better Economic Life

IDEAS formed in a man's mind, after it has been trained and sharpened by education and experience, are the basis of successful research. Without the creative brain of the scientist, all investment in research is worthless. American scientific laboratories are the best equipped in the world. Yet continued progress will be insured only if the rights of the individual to exercise freely his initiative are reestablished and jealously guarded.

IDEAS ON



LIBERTY

American research prospered by providing rewards for success; the inventive genius of the nation was kept alive by adding to it what Lincoln called "the fuel of incentive." Further, the integrity of American research was kept inviolate; the research worker was spared the necessity of finding "political" conclusions as the goal of his investigations.

In this atmosphere of free inquiry and of freedom of the individual to enjoy the fruits of his labor, science here flourished. Elsewhere in the world, it has suffered serious setbacks. . . .

Without freedom, scientific research and the progress in its wake will falter in the United States, as has happened elsewhere. The individual must be assured the freedom of incentive. The university scientist must have freedom of inquiry, of discussion, and of publication.

At the Eye of the Storm

ON its journalistic level Ron Arnold's *At the Eye of the Storm: James Watt and the Environmentalists* (Regnery-Gateway, 282 pp., \$14.95) is a book about contemporary politics. Arnold's immediate aim is to defend Jim Watt, our embattled Secretary of the Interior, from attacks that are really aimed at Ronald Reagan. But the deeper intention of the book is to challenge the extreme modern breed of environmentalist on religious grounds. It is this aspect that will give the book its lasting value.

A former activist in the environmentalist movement, Ron Arnold quit the Sierra Club because it seemed to him it was intent on asserting a monopolistic religious claim to "the powers of salvation and healing" as it pushed its fight to preserve

the landscape. The old Sierra Club had had a practical mission; it was to preserve certain chosen wilderness areas and to foster outdoor activities, but not at the cost of denying people the "wise use" of necessary range lands, forests and mineral deposits.

Although John Muir, the patron saint of the Sierra Club, could be pretty mystical in his nature worship ("the groves were God's first temples"), the Club, prior to the Nineteen Forties, still held to the old ideas about conservation promulgated by Theodore Roosevelt and Gifford Pinchot in the Bull Moose era. As a forester Pinchot applied the ideas specifically to the federal forest lands. Save for the wooded portions of our national parks, the federal forests were to be put on a

“sustained yield” basis, with new seedlings taking the place of mature trees as they were “farmed” for lumber just short of their imminent decay.

Conservation vs. Preservation

With Teddy Roosevelt and Gifford Pinchot, conservation was not to be confused with preservation. There was a point in preserving sequoia and redwood trees, which had century-long lives. But “preservationism,” when applied on a dogmatic basis to forests of Douglas fir and Sitka spruce, would result in ecological museums filled, eventually, with old and rotting trunks of no esthetic beauty and little economic value.

In brief, Roosevelt and Pinchot believed in trusteeship. They were for complete preservation of natural wonders. But “multiple use” should prevail in the rest of the federal patrimony.

The conservation ethic was perfectly compatible with a belief in economic expansion. But the preservation ethic, which has taken over in all advanced environmentalist circles, looks upon economic expansion with jaundiced eyes. Belief in the orderly, efficient use of resources to give opportunity to more people, and to raise the general standard of living, is regarded by the preservationists as a desecration. With the preservationists, development is a crime.

John Chamberlain's book reviews have been a regular feature of *The Freeman* since 1950. We are doubly grateful to John and to Henry Regnery for now making available John's autobiography, *A Life with the Printed Word*. Copies of this remarkable account of a man and his times—our times—are available at \$12.95 from The Foundation for Economic Education, Irvington-on-Hudson, New York 10533.

Naturally, when Jim Watt, as a believer in the traditional idea of conservation as “wise use,” became Secretary of the Interior, the preservationists took immediate alarm. All that they knew of Jim Watt was that he had, as head of the Mountain States Legal Foundation in Colorado, taken the side of industry in some disputes that grew out of arguments about multiple use. The preservationists jumped to the conclusion that anyone who would defend a business interest in an environmental matter must be for lumbering or encouraging mining exploration in the national parks.

Watt, manifestly, had the wrong religion: he believed in a Christian God, not the mystical God of Nature. So the campaign against Watt roared into high before anyone had really taken a proper measure of the man.

Actually, as Ron Arnold explains it, Watt's ambitions, as Secretary of the Interior, would meet with the full approval of Teddy Roosevelt and Gifford Pinchot. Arnold tells of the first meeting of Watt with President Reagan. There was instant rapport between the two men. Within a few minutes they had settled on five major Department of Interior objectives. The first would be to open up the public lands to multiple use in the classic Teddy Roosevelt manner. The second was to reduce our national energy dependence—which meant spurring offshore oil development. A third objective was to establish a national metals policy, which could begin with an inventory of minerals in the public domain. Fourth, the deterioration of the National Parks must be halted. And fifth, leadership in the Department of the Interior should be provided by paying special attention to what Watt described as “management by objectives.”

A Proper Minerals Policy

Ron Arnold's point is that there is nothing subversive of conservationism in the five-point agenda decided upon by Reagan and Watt. But when Watt began looking into metals policy matters he discovered that 42 per cent of federal land was closed to mineral entry, and an additional 25 per cent was “highly or moderately restricted.” There were eighty dif-

ferent laws, executive orders and regulations dealing with non-fuel minerals. So finding a proper minerals policy inevitably meant stepping on a few toes.

Watt has offered to resign as Secretary of the Interior any time the President asks for it. Since the implacables of the environmentalist movement remain dedicated to the idea of getting rid of the man who enjoys the wilderness without feeling called upon to worship it, Watt may be gone before Reagan completes his first term. But the problems posed by the environmentalists' animus against development, or the “wise use” of resources, will remain.

Resources are for people. The cobalt that might be found in Idaho cannot rightly be allowed to remain in the ground when our defense industries need it. Nor can we refuse to harvest trees when lumber is required for new homes for the Baby Boom generation. Ⓜ



USSR: THE CORRUPT SOCIETY

by Konstantin M. Simis

(Simon and Schuster, 1230 Avenue of the Americas, New York, NY 10020), 1982
316 pages ■ \$14.95 cloth

Reviewed by Bettina Bien Greaves

SCARCITY exists everywhere in the world. However, flexible prices and the efforts of entrepreneurs keep serious bottlenecks and shortages to a minimum in a market economy. Flexible prices reflect market supply and demand. Entrepreneurs who are alert to shifts in demand and supply make determined efforts to offer more of those items for which demand is rising. If they succeed, they will make profits and consumers will be better satisfied.

In Russia, however, it is a very different story. There the state seeks to monopolize all production and distribution. Prices do not reflect supply and demand. Private enterprise is illegal. Because private entrepreneurial efforts are prohibited, production bottlenecks are everywhere and almost all the things people want are shoddily produced and in short supply. Yet people in urgent need of some good or service that the state does not provide to suit them—meat or flowers for a special occasion, toilet paper, plumbing repairs, prompt dry cleaning service, or considerate medical attention—will use

any means necessary, even illegal means, to obtain the things they want. No amount of government control, not even the threat of severe sentences, will keep people from trying to satisfy their wants and needs; it only makes it risky and expensive. The corruption that results when peaceful private pursuits are thwarted is the subject of Konstantin Simis' book.

The first draft of this book had been smuggled out of the country to the United States where Mr. Simis expected to have it published under a pseudonym. However, in November 1976, when the final revised version was in his Moscow apartment, he was arrested, his apartment searched, his manuscript confiscated and both he and his wife taken in for questioning. They were allowed to return home that night and their daily lives continued—under constant surveillance and subject to frequent interrogations—until May 1977 when he was expelled from his job. A month later his wife lost her job too. Then abruptly in the fall of 1977, they were given the choice of going on trial for the book and being sentenced to the camps, or of applying for "permission to emigrate" and leave the country within ten days. The Simises chose exile, eventually reaching the United States and, in spite of KGB threats, went ahead with his book's publication.

We hear frequently how much the

Russians depend on the food produced on private farm plots, representing only about 3 per cent of the country's arable land. However, much less is heard about the dependence of all production on private, often illegal, activities of producers and speculators in all areas of the economy. Many goods and services are available only from black-market "speculators." Others are available only in exchange for "gifts" or bribes of some kind. Even official state enterprises must pay tribute of some kind to obtain the materials they need to fulfill their production quotas and to keep production moving.

Mr. Simis writes about widespread buying and selling of merchandise by private entrepreneurs. Such "speculation" is a criminal offense in the Soviet Union and the speculator who is caught faces a court trial and severe penalties. Yet the people themselves consider speculators as "a useful and necessary part of daily life. . . . Speculation has become part and parcel of the life in the Soviet Union because it supplies people with daily needs." Mr. Simis writes of several private entrepreneurs who succeeded so well in serving their customers that they amassed millions in gold coins, gems, valuable paintings and historic relics. Yet their success was at serious risk and some were sentenced to many years in the camps.

Mr. Simis writes also about "free

lance" production, i.e., work done outside working hours, outside the system, and of "left-hand" or illegal, enterprises. Some private "factories" exist within state factories, often "employing" state employees on the side and using materials stolen from the state.

The people think nothing of cheating and stealing from the government or a state enterprise. Corruption and bribery are part of every ordinary person's daily life—from the cradle to the grave. To receive adequate care at childbirth, a mother bribes the doctor. Kindergarten tots soon learn that the teacher must be "remembered" on her birthday if the child is not to be held up to ridicule before the class. By the time a student enters the university, he knows that every aspect of schooling has its "price"—so much for admission to a prestigious institution, so much to pass an exam, and so on. Frequent bribes or "gifts" are called for simply in the course of daily living. And after death, bodies are stripped by crematorium employees of gold teeth, crowns and clothing, which soon find their way to the black market.

The system of tribute and gifts is everywhere in Russia. Everyone is on the take—the police, the KGB, high officials, as well as ordinary persons struggling to survive. The Soviet citizen sees nothing immoral in cheating or stealing from government. "Usually," Mr. Simis writes,

"he understands perfectly well that he is breaking the law, but he does not consider his actions immoral. . . . But in private dealings this same citizen will conduct himself in accord with the precepts of common human morality." Thus, Mr. Simis has deep respect for the Russian people personally. However, he is pessimistic about the future of his native country. The ruling apparatus is "completely infected by corruption," he writes. "The Soviet government, Soviet society, cannot rid itself of corruption as long as it remains Soviet." And to expect the Soviet government to change its nature is almost as unlikely as to expect the leopard to change his spots. ☉

DEVELOPMENT WITHOUT AID: GROWTH, POVERTY AND GOVERNMENT

by Melvyn B. Krauss

(McGraw-Hill Book Co., 1120 Avenue of the Americas, New York, NY 10020), 1983
208 pages ■ \$17.95 cloth

Reviewed by Tommy W. Rogers

THE key to prosperity in less-developed countries is to utilize the principle of comparative advantage in combination with release of the incentive and creative opportunity presented by the free market. Un-

fortunately, the social-democratic influence has emphasized taxation and massive government spending coupled with intense bureaucratic intervention for "redistribution" of income and expansion of the public sector. There has been an almost religious commitment to "human capital" investment and "fine tuning." Policies of high taxation and big government have been ruinous for Third World Countries.

Implementation of the welfare ethic in less-developed nations "often has resulted in economic chaos, political violence and eventual military dictatorships." Economic development efforts have too often taken the form of zero-sum redistributionist programs. Preoccupation of a country with income distribution, wherein one group can obtain a larger share of a stale economic pie only at the expense of another group, "is to condemn it to a kind of Tanzanian tango of poverty and repression, redistributing an exceedingly small economic pie for an exceedingly long time to come."

Krauss notes that it is bad enough when economists give out erroneous advice because the theories on which they base their advice is faulty. It is even worse, he states, when erroneous advice results from abuse of scientific authority to impose personal biases on others under the rule of scientific law. Krauss feels that acceptance of the advice of Prof.

Walter Heller of the University of Minnesota has been particularly detrimental to Third World countries. Heller's 1954 statement that the income distribution pattern of many less-developed countries is "a *compelling* case for redistributive government finance" would be dismissed as pure bunk if the speaker were not wrapped in scientific robes, but many naive persons, Krauss states, accepted Heller's dictum as scientific truth simply because Heller had a strong scientific reputation.

Krauss demonstrates how foreign aid hurts and retards development in less developed nations. With respect to efforts to expand the World Bank, Krauss observes that "the World Bank has become an important vehicle by which the public sector has replaced the private one in much of the Third World. The simple truth is that several international banks . . . want U.S. and other taxpayers to bail them out from their past imprudent investments . . . by bailing out the borrowers from impending bankruptcy through the World Bank."

Development Without Aid is a tremendous statement on the effect of the Welfare State as the enemy of the masses. Big government, as Krauss unequivocally demonstrates with telling comparison and documentation, is destructive of the economy in a multiplicity of ways. The author posits economic devel-

opment *without* aid as "an essential condition for economic development." Krauss makes a compelling and convincing argument that the international marketplace is a much more potent antidote to poverty in less developed areas than is the international transfer of income. ☉

**PRIVATIZING THE PUBLIC
SECTOR:
HOW TO
SHRINK GOVERNMENT**

by E. S. Savas

(Chatham House Publishers, Inc.,
Chatham, N.J. 07928)

164 pages ■ \$15.00 cloth

Reviewed by Lawrence W. Reed

"Public choice theory" in economics, as it has developed over the past decade or so, tells us that the public sector — government — possesses many inherent weaknesses as a provider of goods and services. For example, it has a tendency toward bureaucracy; it leans toward the creation of franchised monopolies; and it has little incentive to be efficient. By its very nature the public sector is a poor provider of economic services.

To "privatize" is to turn over to private citizens a task (provision of a good or service) heretofore carried out by some government entity. It means the establishment of creative, non-coercive, profit-seeking,

marketplace mechanisms in place of the government's power to tax, spend, regulate, confiscate, or monopolize. Privatizing is the peaceful way of dismantling the State brick by brick.

Savas establishes early on that there is an awful lot to dismantle. He identifies and explores in depth three major factors which have contributed to the enormous growth of government: a demand for more government services, by recipients of the services; a desire to supply more government services, by the producers of the services; and, increased inefficiency, which results in the seeming need for more government to do the same job.

Some free market believers may

chafe at what appears to be a case for privatization that is less enthusiastic and more roundabout than need be. Savas, for instance, throws an occasional bouquet at that curious halfway method involving government-issued vouchers. Others may want to see less emphasis on the utilitarian (what "works") approach and more emphasis on the philosophical (what advances individual liberty) approach.

In any event, *Privatizing the Public Sector* is a timely and thoughtful contribution to the issue of reducing the scope of government in our over-governed society. It should be welcomed and studied as a work of considerable value. ©

HANDSOME BLUE LEATHERLEX

FREEMAN BINDERS

\$4.00

Order from:

THE FOUNDATION FOR ECONOMIC EDUCATION, INC.
IRVINGTON-ON-HUDSON, NEW YORK 10533

the Freeman

VOL. 33 NO. 7

• JULY 1983

- | | | |
|--|----------------------------|------------|
| Your Freedom—What About It? | Robert Bearce | 387 |
| A serious look at the economic and political conditions that make freedom possible. | | |
| Prescription for Economic Health | Elgin Groseclose | 395 |
| Suggested correctives for the mania of going into debt. | | |
| The Constitution and Paper Money | Clarence B. Carson | 399 |
| Current inflation calls for review of what the Founders thought of the idea. | | |
| Why Anticapitalism Grows | Henry Hazlitt | 409 |
| Brief answers to common questions about capitalism. | | |
| The Moral Case for Competitive Capitalism | Donald B. Billings | 413 |
| The strength of capitalism lies not only in its efficiency but in its ethical foundations. | | |
| Farm Policy—Now What? | William H. Peterson | 420 |
| The prospects for less intervention on the farm. | | |
| Benefit Mandates Cause Unemployment | Hans F. Sennholz | 423 |
| Some unseen ways in which workers eventually pay for alleged benefits. | | |
| The Siren of Partnership | Ernest G. Ross | 440 |
| Beware the call for partnership between government and business. | | |
| Book Reviews: | | 445 |
| "Herbert Hoover: The Engineer, 1874–1914" by George Nash | | |
| "Death and Taxes" by Hans F. Sennholz | | |

Anyone wishing to communicate with the authors may send first-class mail in care of THE FREEMAN for forwarding.



the Freeman

A MONTHLY JOURNAL OF IDEAS ON LIBERTY

FOUNDATION FOR ECONOMIC EDUCATION

Irvington-on-Hudson, N.Y. 10533

Tel: (914) 591-7230

Leonard E. Read, 1898-1983

Managing Editor: Paul L. Poirot
Production Editor: Beth A. Hoffman
Contributing Editors: Robert G. Anderson
Bettina Bien Greaves
Edmund A. Opitz (Book Reviews)
Brian Summers

THE FREEMAN is published monthly by the Foundation for Economic Education, Inc., a nonpolitical, nonprofit, educational champion of private property, the free market, the profit and loss system, and limited government.

The costs of Foundation projects and services are met through donations. Total expenses average \$18.00 a year per person on the mailing list. Donations are invited in any amount. THE FREEMAN is available to any interested person in the United States for the asking. For foreign delivery, a donation is required sufficient to cover direct mailing cost of \$10.00 a year.

Copyright, 1983. The Foundation for Economic Education, Inc. Printed in U.S.A. Additional copies, postpaid: 3 for \$1.00; 10 or more, 25 cents each.

THE FREEMAN is available on microfilm from University Microfilms International, 300 North Zeeb Road, Ann Arbor, Mich. 48106.

Some articles available as reprints at cost; state quantity desired. Permission granted to reprint any article from this issue, with appropriate credit, except "The Moral Case for Competitive Capitalism."

YOUR FREEDOM— WHAT ABOUT IT?



MORE than one thoughtful observer has advised us that "history repeats itself because no one listens the first time." This truth should challenge all those who truly value freedom. History is the tragic story of nations that have lost their liberty through indifference and complacency.

The reasons for the destruction and loss of freedom are clear. We are capable of understanding how freedom is threatened. Yet, despite the warnings of past experience, America and other relatively free nations of the world are committing the same mistakes which ultimately lead to economic collapse and political despotism.

Will we continue to ignore the lessons that should be learned from history regarding the conflict between liberty and tyranny?

Writing over a century ago, Frederic Bastiat asked the French people

a similar question. With sound judgment and courage of conviction, he spoke out vigorously for freedom. Serving as a member of the French Legislative Assembly, he placed liberty in perspective—a timeless perspective we need if we are to remain free.

"Actually," wrote Bastiat, "what is the political struggle that we witness? It is the instinctive struggle of all people toward liberty. And what is this liberty, whose very name makes the heart beat faster and shakes the world? Is it not the union of all liberties—liberty of conscience, of education, of association, of the press, of travel, of labor, of trade? In short, is not liberty the freedom of every person to make full use of his faculties, so long as he does not harm other persons while doing so?"

Consider Bastiat's words. Consider them carefully. He understood freedom and defended it at a time

Mr. Bearce is a free-lance writer in Houston, Texas.

when France was plunging toward complete socialism—"legal" despotism. In 1848, French politicians were proposing a multitude of idealistic plans for directing France's political, social, and economic life. These blueprints for perfecting society were made in the name of "freedom," "helping the poor," "justice," and so on. The socialists talked boldly about liberty and compassion, but their political/economic philosophy was nothing new. It was founded upon the same beliefs which had caused so much suffering in the past, so much oppression, misery, despotism.

Just as freedom was widely misunderstood during Bastiat's day, there is widespread lack of understanding about freedom in the United States today. Many politicians, members of the mass media, those in the academic community, and just average citizens fail to comprehend the true meaning of freedom.

Freedom is the right of each individual to work toward the highest level of achievement consistent with his own effort and God-given abilities. True freedom is both the capacity and responsibility to exercise personal judgment. We have free choice, but we also have to abide by the consequences of our actions. This acceptance of personal accountability brings a justified sense of dignity, self-worth, and integrity to individuals. We learn by our mistakes

and grow in our efforts to lead moral, productive lives. As we accept individual accountability, we develop according to how we use our physical and mental abilities.

Four Basic Principles

We have enjoyed the blessings of this freedom because we were at one time firmly committed to four basic principles of liberty. Individuals are free only when:

- (1) They accept responsibility for their own daily lives,
- (2) They are safe from criminal elements and internal strife,
- (3) They are secure against foreign domination,
- (4) They are safe from the abuse of domestic power and authority in the hands of their own government.

A deep, honest faith in individual freedom inspired the Declaration of Independence and the Constitution. The Founding Fathers understood the four essentials of freedom, and they knew what was required to protect freedom. A free society must be founded upon *just* law and order. Government laws should be the *just* means of guarding each citizen's rights—"life, liberty, and the pursuit of happiness."

Free people need the collective force of government authority, but that legal power must be clearly defined and restricted. We accept a certain amount of governmental authority in place of acting individu-

ally. Instead of everyone being his own policeman and F.B.I agent, we give these roles to the government. History, however, shows that governments have an eventual tendency to go beyond their legal authority, violating instead of protecting the rights of law-abiding individuals.

Such corruption and abuse of government power threatens freedom today. Our critical problem in America is a wayward political philosophy—a philosophy of government which rejects the principles of the Declaration of Independence and the Constitution. Whereas the Founding Fathers believed in limited government, we have allowed our federal government to grow, grow, grow. Most legislators continue to inform us solemnly that government can solve our problems, “correct” the economy, provide jobs, and otherwise map out America’s future.

Deadly as gangrene, the federal government gradually spreads and eats at the life of freedom—regardless of the truly courageous efforts of some in government to restrict government power and authority.

To the extent that the collective force of the federal government destroys personal accountability and self-responsibility, we will lose our liberties. It is a matter of government trying to do for us what we can and should do for ourselves. To the

extent we trust lawmakers to be the mighty problem-solvers of our real or imagined social/economic ills, we will see the deterioration of freedom.

The Power to Tax May Be a Means to Plunder

With the power of taxation, the lawmaker can tackle what *he* believes to be the problems facing society. By way of *our* tax dollars, Congress finances some of the projects which *it* thinks will be just, good, and right for society. Frederic Bastiat would call their attention to one aspect of such government financing:

“Nothing can enter the public treasury for the benefit of one citizen or one class unless other citizens and other classes have been *forced* to send it in. If every person draws from the treasury the amount that he has put in it, it is true that the law then plunders nobody. But this procedure does nothing for the persons who have no money. It does not promote equality of income. The law can be an instrument of equalization only as it takes from some persons and gives to other persons. When the law does this, it is an instrument of plunder.”

Bastiat’s use of the word “plunder” may sound somewhat exaggerated or old-fashioned, but we ought to think about how our tax money is spent.

How much of it goes to the government's legitimate responsibility of maintaining justice and providing for the national defense? On the other hand, what amount is used to finance domestic programs which benefit special-interest groups? How much is spent to obtain the votes of people demanding some "right" from the government—a right to guaranteed income, right to welfare, right to a subsidy, right to guaranteed jobs, right to a college grant, right to a guaranteed profit, and the like?

Those are false, non-existent rights, and they can be fulfilled by 100 Senators and 435 Congressmen only through plunder.

"But how is this legal plunder to be identified?" Bastiat asked. "Quite simply. See if the law takes from some persons what belongs to them, and gives it to other persons to whom it does not belong. See if the law benefits one citizen at the expense of another by doing what the citizen himself cannot do without committing a crime."

A crime would be committed if Congressman Joe stole Senator Sam's car. Both Joe and Sam, along with others in Congress, imitate such an offense when they use coercive legislation to take from some people in order to give to others. Legal plunder operates easily under the cloak of the "democratic process." Being a freely elected official, a Senator or Congressman assumes that he has

the right to enact laws favoring particular groups in society—even when this action deprives other citizens of their rightful earnings.

Although individuals who truly understand the proper functions of government see how and why elected officials act the way they do, the truth about government must be made available to those who do not comprehend the meaning of freedom. We should be able to clearly explain the nature of government force and authority—legitimate government power.

The Bounds of Lawful Defense

"What, then, is law?" Bastiat asked, speaking of government force and authority. "It is the collective organization of the individual right to lawful defense. Each of us has a natural right—from God—to defend his person, his liberty, and his property. These are the three basic requirements of life, and the preservation of any one of them is completely dependent upon the preservation of the other two. For what are our faculties but the extension of our individuality? And what is property but an extension of our faculties?"

Our faculties include our intellects, talents, physical and mental abilities. Some of these are natural while others are acquired. They enable us to handle the responsibility of living. When millions of free in-

dividuals voluntarily use their faculties to work and produce, we have economic freedom—a capitalistic, free enterprise, free market system.

Actually, free enterprise or capitalism is not a stale, dull “system.” No self-appointed group of legislators or economic theorists designed it. Rather, free enterprise is the natural, vibrant collaboration of free individuals laboring together cooperatively, competitively, voluntarily. Economic freedom allows individuals to use their skills, wisdom, and energies to manage their *own* lives.

Free enterprise depends upon personal freedom and accountability, private property, and a free market. Economic freedom places the matter of living upon the shoulders of the individual. This is where it ought to be—not in the hands of government. Unless an individual can control and use his own possessions (private property and income) he cannot fully decide for himself how he will work, direct his own life, house and feed his family.

Choice in the Market Place

Working and associating with other free people, the individual finds himself in a free market. Here he has free choice. He can choose his own employment, rejecting the pay offered at other jobs if he so wishes. Between him and his employer there should be freedom to exchange a solid

day’s work for a fair wage. At the supermarket or appliance store, the individual again expresses freedom of choice. Free enterprise enables him not only to go to different stores but to buy from a wide assortment of products and services. He is not forced to purchase goods he does not like or use the services of businesses he distrusts.

The “he” and the “individual” in all of this voluntary action are not abstract human beings, but **WE**—whoever we are and wherever we live, as long as we are willing to accept the responsibilities of freedom.

If we are to have economic freedom, the free market must operate within a framework of just laws. Thus, government has the function of prohibiting violence, force, theft, and fraud. Laws should be administered which protect private property and require individuals to live up to their freely made agreements.

“Under such an administration,” wrote Bastiat, “everyone would understand that he possessed all the privileges as well as all the responsibilities of his existence. No one would have any argument with government, provided that his person was respected, his labor was free, and the fruits of his labor were protected against all unjust attack.”

Free, private enterprise is the only way we can freely use our creative energies for, not only our own good, but the remainder of society. We (free

individuals)—not economic legislation from Congress—are the basis for America's strength and stability. This general prosperity can develop when there is efficient, industrious production of goods and services. Such performance is generated when individuals and businesses are eager to work hard and honestly. There must be the *incentive* to do so.

That incentive is found in competition and the profit motive. Competition encourages us to make the best use of our faculties. The just reward of profit goes to industries, businesses, employers, and employees as we freely combine our energies, creativity, and labor. Profits are made without having coerced the consumer. They are made because enough of us *freely* decided to purchase a particular good or pay for a particular service—not because the federal government “stimulated” the economy or tried to “protect” some industries from so-called “unfair competition.”

Freedom Is Threatened

Working upon the moral grounds of competition, individual freedom, and profits, free enterprise has brought past prosperity to the United States. Our progress can be traced back to a respect for the worth and dignity of the individual. Economic freedom, however, is under attack.

Invariably, we find ourselves and the preservation of freedom again

facing the issue of government intervention and plunder. Politicians and others simply will not allow our economic activities to be free and voluntary. They would deny us the right to go about our daily lives in a free market atmosphere—making an honest living for ourselves and our families. Realizing that there are some not-so-productive elements of society (individuals, businesses or whoever) who are willing to participate in plunder, politicians proceed to abuse government power and authority.

“Man,” Bastiat said, “can live and satisfy his wants only by ceaseless labor; by the ceaseless application of his faculties to natural resources. This process is the origin of property. But it is also true that a man may live and satisfy his wants by seizing and consuming the products of the labor of others. This process is the origin of plunder. Now since man is naturally inclined to avoid pain—and since labor is pain in itself—it follows that men will resort to plunder whenever plunder is easier than work. History shows this quite clearly.”

Indeed it does, and through taxation, government regulations, spending power, grants, and the like, we still see plunder at work. Although America still experiences many of the blessings of free enterprise, we are being subjected to greater doses of destructive plunder.

As legislators and other groups continue to call upon the federal government to create more programs and to pass more "laws," we need to hear forcefully and clearly from more individuals like Bastiat: "It is not true that the function of law is to regulate our consciences, our ideas, our wills, our education, our opinions, our work, our trade, our talents, or our pleasures. The function of law is to protect the free exercise of these rights, and to prevent any person from interfering with the free exercise of these same rights by any other person."

That is the one basic fact free people must understand and explain to others—other people who daily work for more government controls, laws, aid, intervention, and so on.

How Government Grows

Existing government bureaucracies plod forward—regulating our lives, taxing our hard-earned incomes, and infringing upon personal freedom. Those who will never give up calling for more and more government will speak in honorable, compassionate terms. Their objectives will supposedly be achieved in a "free, responsive, caring, responsible, democratic" manner. They are against "oppression, discrimination, and prejudice." They uphold the "rights and needs" of the "poor," the elderly, the "disadvantaged," the handicapped, the "needy," and so on.

"Social consciousness" and "the public interest" weigh heavily upon their minds.

To each problem they believe exists in every area of the United States, their automatic question is: "How can the federal government solve it?"

Daily, we hear Senators and Congressmen soberly, eagerly, and forcefully asking: "How can the federal government solve this problem?"

Their concern appears honorable enough, but beneath it lies distrust. They distrust the individual. They distrust freedom. They have faith only in their own good intentions and the power of government. Other individuals, so they vainly think, are not capable of managing their own lives. Voluntary charity will not work. Individuals, they claim, either cannot or will not freely help others who are truly in need of aid. Along with this distrust for the average citizen in Salt Lake City, Peoria, Dayton, and Muskogee, there is a hint of self-righteousness. Frederic Bastiat describes it aptly:

"The organizers maintain that society, when left undirected, rushes headlong to inevitable destruction because the instincts of the people are so perverse. The legislators claim to stop this suicidal course and to give it a saner direction. Apparently, then the legislators and the organizers have received from

Heaven an intelligence and virtue that place them beyond and above mankind; if so, let them show their titles to this superiority.

"They would be the shepherds over us, their sheep. Certainly such an arrangement presupposes that they are naturally superior to the rest of us. And certainly we are fully justified in demanding from the legislators and organizers proof of this natural superiority."

This presumed superiority Bastiat was talking about over a century ago is seen today by the confidence in which elected government officials promote their legislation for social and economic planning. Similar programs have failed throughout history, and the same manipulation fails in socialized nations today. Ignoring past and present, spokesmen for more government power somehow feel their own efforts at organizing society will be much superior.

Organize, regulate, and coerce, they will—unless those who understand freedom are willing to bear the responsibilities of that freedom. First, of course, we have the primary responsibility to comprehend the basic principles of liberty, free market economics, limited government, and so on. Having that understanding of and appreciation for freedom is the critical foundation we must have before we can actively labor for a stable, free, prosperous nation.

If we have the basic grasp of free-

dom (always learning more and growing in the faith) we also make that faith in freedom a living reality in our daily lives—not drifting away to join the large numbers of those who unknowingly become a part of the "More, More, More Government" crowd.

Our labor for liberty remains the same. We must make our lives, our attitudes, and our actions consistent with "what we preach." Those who would destroy true freedom and justice—as well-intentioned as they may be in their beliefs—will never stop promoting more government spending, power, and authority. While they undermine freedom, we should be as tireless in our own efforts—efforts to *preserve* the freedom they are attempting to take from us, efforts to *restore* the freedom we have already lost, and efforts to *expand* the blessings of freedom.

It's your freedom. What about it?

All quotations by Bastiat are from *The Law*, written in 1850, translation by Dean Russell in 1950. 76 pages, paperback.

| | |
|------------------|--------|
| Single copy | \$2.00 |
| 10 copies, each | 1.00 |
| 100 copies, each | .60 |

Available from:

The Foundation for
Economic Education, Inc.
Irvington-on-Hudson, NY 10533



Prescription for Economic Health

THAT radical reform is needed for an economic system that periodically produces booms and busts, inflation and deflation, is recognized by a growing number of students. The prescriptions for reform are numerous and varied. Among the defects of the system, however, are several that continue to be ignored—indeed, are regarded not as defects but with reverence as healthful agents of progress.

At the risk of being read out of the profession as eccentric or iconoclastic, I list a few that have produced more confusion than progress, more chaos than order, and that need examination as to their utility.

Dr. Elgin Groseclose (deceased April 4, 1983) was a financial consultant in Washington, D.C. He was the author of *Money and Man* (1934, 4th edition 1976) and *America's Money Machine* (1966, 1980). He served also as executive director of the Institute for Monetary Research.

The Statistics Syndrome

Statistics have been characterized by the English industrialist Arnold Wilson as something economists collect as others gather antiques. So treasured are they that a vast computer industry today is devoted to compiling, analyzing and storing statistical data. No self-respecting administrator would think of making a decision without the aid of his computer. Chief among the statistical totems are various kinds of indexes, and high on the column is one which business and government decision makers watch with the avidity of a gambler watching a roulette wheel. This is the Gross National Product, or GNP. Purportedly, the GNP records the changing volume of goods and services produced by the economy. A rising GNP suggests that the country is producing more, and

the figure suffuses the observer with a pleasant euphoria.

Actually the GNP is not a measure of production, but of consumption. A rising GNP may indicate that the country is producing more while actually it is producing less.

Thus, a restaurant meal for two may add as much as \$100 to the GNP, if taken at the Lion d'Or, but only \$5 if eaten at Burger King, and even less if prepared at home. In an inflationary period, when vast sums are spent in restaurants, theatres, travel and Las Vegas casinos, the GNP index may indicate a state of economic well-being when actually physical production is declining and general poverty rising.

Better political and business decisions and improved economic health would follow if the GNP index were abolished or radically modified.

The Dilemma of the CPI

Another index that has gotten the government into trouble is that of the consumer price index—since pensions, Social Security and welfare payments are adjusted periodically with the indicated change in this index. How accurately the index measures the real burden of rising prices is a question few examine, and how unwillingly the public would accept a correction has been recently demonstrated by the hullabaloo over the substitution of rental

costs for housing costs in the series upon which the index is based. In any case, the process has now bankrupted the Social Security system, and those who can—like state and municipal and non-profit employees—are leaving it with the good sense of rats abandoning a sinking ship.

The latest indexing, which has become a political dilemma since it may bankrupt the federal treasury, is to be applied in 1985 to income tax rates. The purpose is to relieve taxpayers of what is called bracket creep—the higher tax burden that applies as income increases as a result of inflation. The effect will be to reduce federal revenues at a time when the indexing of the entitlement payments is increasing expenses. If the price level were stabilized, there would be no need for the indexes and indexation. They serve, instead, to push prices steadily higher, like a ratchet on a tire lift. If honest money were restored to the country, there would be little need of these indexes.

The Money Mill

The whole mess created by indexes and indexing would not have arisen except for the money mill on the Potomac which keeps issuing paper currency like the legendary mill at the bottom of the sea that grinds out salt with nobody to stop it. Money in circulation—and we

mean the legal tender currency issued by the Fed, not the M1, M2, and the like, of the economists—has doubled in the past decade alone, from \$54.6 billion in 1972 to \$126.6 billion today. And this goes on despite the impression given out of a “tight money policy.”

It is too well known to require theoretical demonstration that prices are influenced by the amount of purchasing power in the market, and that inflation is the result of too much money in circulation.

Instead of curtailing the power of the Fed to issue currency, Congress has steadily broadened its powers until today the Fed can turn into legal tender currency practically any debt obligation it sees fit, including Polish, Turkish, Brazilian or Argentinian bonds. This brings us to our next proposal.

Wean the Banks

The Federal Reserve System came into being as a system of super banks—actually pawn shops—to assist commercial banks in distress by taking up their short term loans and giving them cash in the form of legal tender currency, or a deposit at the reserve bank that was equivalent to cash (since it could at any time be turned in for cash).

The so-called panics, depressions, or crises which the country goes through periodically are not the result of a shortage of money in the

economy, but a shortage of cash or credit on the part of debtors. The principal debtors, of course, are the banks, since their balance sheets represent mostly liabilities supported by a thin margin of proprietors' capital (less than 10 per cent generally).

After the passage of the Federal Reserve Act, banks gradually let their capital drop from a mean of 25 per cent or more of total liabilities to the present low ratios (for the 15 biggest banks the ratio is less than 5 per cent).

The banking system is like a brood of pigs, grown to sizable porkers, but still clinging to mother sow. It is time they were weaned and made to forage for themselves. In short, too long have money and banking been linked in economic literature. The management of the banking system should be separated from the administration of the money system.

Subsidized Debt


The world today would not be in the depression it is in but for the burden of debt. Farmers complain they can't meet their mortgage payments; home owners, likewise; corporate bankruptcies—now at flood—occur because companies cannot meet their debt payments. Third World countries are half a trillion dollars in debt, a third of it owing to U.S. banks.

How did the world get in this mess?

Largely from encouragement by government. Through the International Monetary Fund and the World Bank, indigent governments around the world have been led to borrow beyond their means for all sorts of doubtfully viable projects until now they are bogged down in a mire of debt. Home ownership has been fostered—no doubt, for the public good—by low cost loans, or government guaranteed loans and deductibility of interest payments. Farmers have been encouraged to expand their food production; many increased their acreage by buying land at high prices, financed by mortgages.

Banks have been permitted to increase their debt (deposit liabilities)

in relation to equity capital until most banks are in difficulty, many of them technically insolvent.

One measure to reduce the mania for going into debt is to restrict the deductibility of interest payment from taxable income. While no doubt justified as a social measure to encourage home ownership, the deductibility of corporate interest payments is contrary to shareholders' best interests since it encourages corporate managers to leverage assets, engage in mergers that are justified only by tax advantages, and shift the enterprise from producing goods to that of producing financial gain. 

Corruption of the Coin

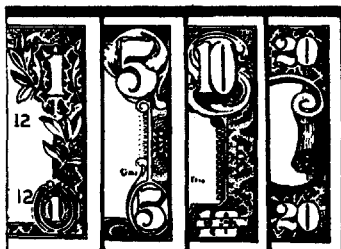
At the beginning of the sixteenth century the astronomer Copernicus addressed to the king of Poland his treatise, "Monete Cudende Ratio," which opens with this broad declaration: "Numberless as are the evils by which kingdoms, principalities and republics are wont to decline, these four are, in my judgment, most baleful: civil strife, pestilence, sterility of the soil, and corruption of the coin. The first three are so manifest that no one can fail to apprehend them; but the fourth, which concerns money, is considered by few, and those the most reflective, since it is not by a blow, but little by little and through a secret approach, that it destroys the state."

IDEAS ON



LIBERTY

THE CONSTITUTION AND PAPER MONEY



THE UNITED STATES CONSTITUTION does not mention paper money by that name. Nor does it refer to paper currency or fiat money in those words.¹ There is only one direct reference to the origins of what we, and they, usually call paper money. It is in the limitations on the power of the states in Article I, Section 10. It reads, "No State shall . . . emit Bills of Credit. . . ." Paper that was intended to circulate as money but was not redeemable in gold and silver was technically described as bills of credit at that time. The description was (and is) apt. Such paper is a device for expanding the credit of the issuer. There is also an indirect refer-

ence to the practice in the same section of the Constitution. It reads, "No State shall . . . make any Thing but gold and silver Coin a Tender in Payment of Debts. . . ." Legal tender laws, in practice, are an essential expedient for making unredeemable paper circulate as money. Except for the one direct and one indirect reference to the origin and means for circulating paper money, the Constitution is silent on the question.

With such scant references, then, it might be supposed that the makers of the Constitution were only incidentally concerned with the dangers of paper money. That was hardly the case. It loomed large in the thinking of at least some of the men who were gathered at Philadelphia in 1787 at the Constitutional Convention. There were two great objects in the making of a new constitution: one was to provide for a more

Dr. Carson has written and taught extensively, specializing in American intellectual history. He is the author of several books, his most recent being *Organized Against Whom? The Labor Union in America*. He is working at present on *A Basic History of the United States* to be published by Western Goals, Inc.

energetic general government; the other was to restrain the state governments. Moreover, the two objects had a common motive at many points, i.e., to provide a stronger general government which could restrain the states.

Measures to Prevent a Flood of Unbacked Paper Money

One of the prime reasons for restraining the state governments was to prevent their flooding the country with unbacked paper money. James Madison, one of the leaders at the convention, declared, in an introduction to his notes on the deliberations there, that one of the defects they were assembled to remedy was that "In the internal administration of the States, a violation of contracts had become familiar, in the form of depreciated paper made a legal tender. . . ."2 Edmund Randolph, in the introductory remarks preceding the presentation of the Virginia Plan to the convention, declared that when the Articles of Confederation had been drawn "the havoc of paper-money had not been foreseen."³

Indeed, as the convention held its sessions, or in the months preceding it, state legislatures were under pressure to issue paper money. Several had already yielded, or taken the initiative, in issuing the unbacked paper. The situation was out of control in Rhode Island, and had been for some time. Rhode Island

refused to send delegates to the convention, and the state's reputation was so bad that the delegates there were apparently satisfied to be spared the counsels of her citizens. Well after the convention had got underway, a motion was made to send a letter to New Hampshire, whose delegates were late, urging their attendance. John Rutledge of South Carolina rose to oppose the motion, arguing that he "could see neither the necessity nor propriety of such a measure. They are not unapprized of the meeting, and can attend if they choose." And, to clinch his argument, he proposed that "Rhode Island might as well be urged to appoint & send deputies."⁴ No one rose in defense of an undertaking of that character.

The ill repute of Rhode Island derived mainly from that state's unrestrained experiments with paper money. Rhode Island not only issued paper money freely but also used harsh methods to try to make it circulate. The "legislature passed an act declaring that anyone refusing to take the money at face value would be fined £100 for a first offense and would have to pay a similar fine and lose his rights as a citizen for a second."⁵ When the act was challenged, a court declared that it was unconstitutional. Whereupon, the legislature called the judges before it, interrogated them, and dismissed several from office. The legislature

was determined to have its paper circulate.

The combination of abundant paper money and Draconian measures to enforce its acceptance brought trade virtually to a halt in Rhode Island. A major American constitutional historian described the situation this way:

The condition of the state during these days was deplorable indeed. The merchants shut their shops and joined the crowd in the bar-rooms; men lounged in the streets or wandered aimlessly about. . . . A French traveller who passed through Newport about this time gives a dismal picture of the place: idle men standing with folded arms at the corners of the streets; houses falling to ruins; miserable shops offering for sale nothing but a few coarse stuffs . . . ; grass growing in the streets; windows stuffed with rags; everything announcing misery, the triumph of paper money, and the influence of bad government. The merchants had closed their stores rather than take payment in paper; farmers from neighboring states did not care to bring their produce. . . . Some . . . sought to starve the tradesmen into a proper appreciation of the simple laws of finance by refusing to bring their produce to market.⁶

But there was more behind the Founders' fears of paper money than contemporary doings in Rhode Island or general pressures for monetary inflation. The country as a whole had only recently suffered the searing aftermath of such an inflation. Much of the War for Independence

had been financed with paper money or, more precisely, bills of credit.

A Surge of Continentals

Even before independence had been declared the Continental Congress began to emit bills of credit. These bills carried nothing more than a vague promise that they would at some unspecified time in the future be redeemed, possibly by the states. In effect, they were fiat money, and were never redeemed. As more and more of this Continental currency was issued, 1776–1779, it depreciated in value. This paper was joined by that of the states which were, if anything, freer with their issues than the Congress. In 1777, Congress requested that the states cease to print paper money, but the advice was ignored. They did as Congress did, not what it said.

At first, this surge of paper money brought on what appeared to be a glow of prosperity. As one historian described it, "the country was prosperous. . . . Paper money seemed to be the 'poor man's friend'; to it were ascribed the full employment and the high price of farm products that prevailed during the first years of the war. By 1778, for example, the farmers of New Jersey were generally well off and rapidly getting out of debt, and farms were selling for twice the price they had brought during the period 1765–1775. Trade and commerce were likewise stimu-

lated; despite the curtailment of foreign trade, businessmen had never been so prosperous.”⁷

The pleasant glow did not last long, however. It was tarnished first, of course, by the fact that the price of goods people bought began to rise. (People generally enjoy the experience of prices for their goods rising, but they take a contrary view of paying more for what they buy.) Then, as now, some blamed the rise in prices on merchant profiteering.

As the money in circulation increased and expectations of its being redeemed faded, a given amount of money bought less and less. This set the stage for speculative buying, holding on to the goods for a while, and making a large paper profit on them. There were sporadic efforts to control prices as well as widespread efforts to enforce acceptance of the paper money in payment for debts. These efforts, so far as they succeeded, succeeded in causing shortages of goods, creditors to run from debtors trying to pay them in the depreciated currency, and in the onset of suffering.

Runaway Inflation

By 1779, the inflation was nearing the runaway stage. “In August 1778, a Continental paper dollar was valued (in terms of gold and silver) at about twenty-five cents; by the end of 1779, it was worth a penny.” “Our dollars pass for less this afternoon

than they did this morning,” people began to say.⁸ George Washington wrote in 1779 that “a wagon load of money will scarcely purchase a wagon load of provisions.”⁹ It was widely recognized that the cause was the continuing and ever larger emissions of paper money. Congress resolved to issue no more in 1779, but it was all to no avail. Runaway inflation was at hand. In 1781, Congress no longer accepted its own paper money in payment for debts, and the Continentals ceased to have any value at all.

A good portion of the dangers of paper money had been revealed, and reflective people were aware of what had happened. Josiah Quincy wrote George Washington “that there never was a paper pound, a paper dollar, or a paper promise of any kind, that ever yet obtained a general currency but by force or fraud, generally by both.”¹⁰ A contemporary historian concluded that the “evils which resulted from the legal tender of the depreciated bills of credit” extended much beyond the immediate assault upon property. “The iniquity of the laws,” he said, “estranged the minds of many of the citizens from the habits and love of justice. . . . Truth, honor, and justice were swept away by the overflowing deluge of legal iniquity. . . .”¹¹

But the economic consequences of the inflation did not end with the demise of the Continental currency.

Instead, it was followed by a deflation, which was the inevitable result of the decrease in the money supply. The deflation was not immediately so drastic as might be supposed. Gold and silver coins generally replaced paper money in 1781. Many of these had been out of circulation, in hiding, so long as they were threatened by tender law requirements to exchange them on a par with the paper money. Once the threat was removed, they circulated. The supply of those in hiding had been augmented over the years by payments for goods by British troops. Large foreign loans, particularly from the French, increased the supply of hard money in the United States in 1781 and 1782. A revived trade with the Spanish, French, and Dutch brought in coins from many lands as well. In addition, Robert Morris's Bank of North America provided paper money redeemable in precious metals in the early years of the decade.

The Impact of Depression

By the middle of the 1780s, however, the deflation was having its impact as a depression. Trade had reopened with Britain, and Americans still showed a distinct preference for British imports. That, plus the fact that the market for American exports in the British West Indies was still closed, resulted in a large imbalance in trade. Americans made up the difference either

by borrowing or shipping hard money to Britain. Prices fell to reflect the declining money supply. Those who had gone into debt to buy land at the inflated wartime prices were especially hard hit by the decline in the prices of their produce. Foreclosures were widespread in 1785–1786. This provided the setting for the demands for paper money and other measures to relieve the pressure of the debts. Some people were clamoring for the hair of the dog that had bit them in the first place—monetary inflation—and several state legislatures had accommodated them.

Though there is evidence that the worst of the depression was over by 1787, if not in the course of 1786,¹² paper money issues and agitations for more were still ongoing when the Constitutional Convention met in Philadelphia. In any case, those who had absorbed the lessons of recent history were very much concerned to do something to restrain governments from issuing paper money and forcing it into circulation. There were those who met at Philadelphia, too, who took the long view of their task. They hoped to erect a system that would endure, and to do that they wished to guard against the kind of fiscal adventures that produced both unpleasant economic consequences and political turmoil. Paper money was reckoned to be one of these.

The question of granting power to emit bills of credit came up for dis-

cussion twice in the convention: The first time was on August 16, 1787. (The convention had begun its deliberations on May 25, 1787, so it was moving fairly rapidly toward the conclusion when the question arose.) The question was whether or not the United States government should have power to emit bills of credit. Congress had such a power under the Articles of Confederation, and most of the powers held by Congress under the Articles were introduced in the convention to be extended to the new government.

Constitutional Convention Debates

Gouverneur Morris of Pennsylvania "moved to strike out 'and emit bills on the credit of the United States'." That is, he proposed to remove the authority for the United States to issue such paper money. "If the United States had credit," Morris said, "such bills would be unnecessary: if they had not, unjust & useless." His motion was seconded by Pierce Butler of South Carolina.

James Madison wondered if it would "not be sufficient to prohibit making them a *tender*? This will remove the temptation to emit them with unjust views. And promissory notes in that shape may in some emergencies be best." (Madison's distinction between bills of credit that may be freely circulated and those whose acceptance is forced by tender laws should remind us that

paper instruments serving in some fashion as money are not at the heart of the problem. After all, private bills of exchange had for several centuries been used by tradesmen, and these sometimes changed hands much as money does. They are what we call negotiable instruments, and the variety of these is large. What Madison was getting at more directly, however, was that governments, if they are to borrow money from time to time, may issue notes, and these may be negotiable instruments which may take on some of the character of money in exchanges. But Madison's objection was overcome, as we shall see.)

Gouverneur Morris then observed that "striking out the words will leave room still for notes of a *responsible* minister which will do all the good without the mischief. The Monied interest will oppose the plan of Government, if paper emissions be not prohibited."

However, Morris had moved beyond his motion, which was for removing the power, not specifying a prohibition, and Nathaniel Gorham of Massachusetts brought him back to the point. Gorham said he "was for striking out, without inserting any prohibition. If the words stand they may suggest and lead to the measure."

Not everyone who spoke, however, favored removing the power. George Mason of Virginia "had

doubts on the subject. Congress he thought would not have the power unless it were expressed. Though he had a mortal hatred to paper money, yet as he could not foresee all emergencies [sic], he was unwilling to tie the hands of the Legislature. He observed that the late war could not have been carried on, had such a prohibition existed."

Nathaniel Gorham tried to reassure Mason and others who might have similar doubts by declaring that "The power so far as it will be necessary or safe, is involved in that of borrowing."

Both Positions Argued

On the other hand, John Francis Mercer of Maryland announced that he "was a friend to paper money, though in the present state & temper in America, he should neither propose nor approve of such a measure. He was consequently opposed to a prohibition of it altogether. It will stamp suspicion on the Government to deny it a discretion on this point. It was impolitic also to excite the opposition of all those who were friends to paper money. The people of property would be sure to be on the side of the plan [the Constitution], and it was impolitic to purchase their further attachment with the loss of the opposite class of Citizens."

Oliver Elsworth of Connecticut pronounced himself of the opposite

view. He "thought this a favorable moment to shut and bar the door against paper money. The mischiefs of the various experiments which had been made, were now fresh in the public mind and had excited the disgust of all the respectable part of America. By withholding the power from the new Government more friends of influence would be gained to it than by almost any thing else. Paper money can in no case be necessary. Give the Government credit, and other resources will offer. The power [to emit bills of credit] may do harm, never good."

Edmund Randolph of Virginia still had doubts, for he said that "notwithstanding his antipathy to paper money, [he] could not agree to strike out the words, as he could not foresee all the occasions which might arise."

James Wilson of Pennsylvania favored removing the power: "It will have a most salutary influence on the credit of the United States to remove the possibility of paper money. This expedient can never succeed whilst its mischiefs are remembered, and as long as it can be resorted to, it will be a bar to other resources."

Pierce Butler "remarked that paper was a legal tender in no country in Europe. He was urgent for disarming the Government of such a power."

George Mason, however, "was still

The Integrity of the Coinage

... the whole aim and intent of State intervention in the monetary sphere is simply to release individuals from the necessity of testing the weight and fineness of the gold they receive, a task which can only be undertaken by experts and which involves very elaborate precautionary measures. The narrowness of the limits within which the weight and fineness of the coins is legally allowed to vary at the time of minting, and the establishment of a further limit to the permissible loss by wear of those in circulation, is a much better means of securing the integrity of the coinage than the use of scales and nitric acid on the part of all who have commercial dealings. Again, the right of free coinage, one of the basic principles of modern monetary law, is a protection in the opposite direction against the emergence of a difference in value between the coined and uncoined metal. In large-scale international trade, where differences that are negligible as far as single coins are concerned have a cumulative importance, coins are valued, not according to their number, but according to their weight; that is, they are treated not as coins but as pieces of metal.

LUDWIG VON MISES, *The Theory of Money and Credit*

averse to tying the hands of the Legislature *altogether*. If there was no example in Europe as just remarked, it might be observed on the other side, that there was none in which the Government was restrained on this head." His fellow delegates forebore to remind Mason that except for Britain there was hardly a government in Europe that was restrained on that or any other head by a written constitution.

In any case, the last remarks were made by men vehemently opposed to the power. George Read of Delaware "thought the words, if not struck out, would be as alarming as the mark of

the Beast in Revelations." John Langdon of New Hampshire "had rather reject the whole plan [the Constitution] than retain the three words," by which he meant "and emit bills."

Denying the Power to Emit Bills of Credit

The vote was overwhelmingly in favor of removing the authority of the United States to emit bills of credit. The delegates voted by states, and 9 states voted in favor of the motion while only 2 opposed it. (New York delegates were not in attendance, and Rhode Island, of course,

sent none.) It is a reasonable inference from the discussion that the delegates believed that by voting to strike out the words they had removed the power from the government to emit bills of credit. George Mason, who opposed the motion, admitted as much. Moreover, James Madison explained in a footnote that he voted for it when he "became satisfied that striking out the words would not disable the Government from the use of public notes as far as they could be safe & proper; & would only cut off the pretext for a paper currency, and particularly for making the bills a tender for public or private debts."¹³

The other discussion of paper money took place in connection with the powers to be denied to the states in the Constitution. The committee report had called for the states to be prohibited to emit bills of credit without the consent of the United States Congress. James Wilson and Roger Sherman, who was from Connecticut, "moved to insert after the words 'coin money' the words 'nor emit bills of credit, nor make any thing but gold & silver coin a tender in payment of debts'," thus, as they said, "making these prohibitions absolute, instead of making the measures allowable (as in the XIII article) *with the consent of the Legislature of the U.S.*"

Nathaniel Gorham "thought the purpose would be as well secured by

the provision of article XIII which makes the consent of the General Legislature necessary, and that in that mode, no opposition would be excited; whereas an absolute prohibition of paper money would rouse the most desperate opposition from its partizans."

To the contrary, Roger Sherman "thought this a favorable crisis for crushing paper money. If the consent of the Legislature could authorise emissions of it, the friends of paper money, would make every exertion to get into the Legislature in order to licence it."¹⁴

Eight states voted for the absolute prohibition against states issuing bills of credit. One voted against it, and the other state whose delegation was present was divided. The prohibition, as voted, became a part of the Constitution.

Paper Money Rejected

Three other points may be appropriate. The first has to do with any argument that there might be an implied power for the United States government to issue paper money since it is not specifically prohibited in the Constitution. Alexander Hamilton, the man credited with advancing the broad construction doctrine, maintained the opposite view in *The Federalist*. While he was making a case against the adding of a bill of rights, his argument was meant to have general validity. He

declared that such prohibitions "are not only unnecessary in the proposed Constitution but would even be dangerous. They would contain various exceptions to powers which are not granted; and, on this very account, would afford a colorable pretext to claim more than were granted. For why declare that things shall not be done which there is no power to do."¹⁵ In short, the government does not have all powers not prohibited but only those granted.

Second, this point was driven home by the 10th Amendment when a Bill of Rights was added to the Constitution. It reads, "The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people." The power to emit bills of credit or issue paper money was not delegated to the United States. More, it was specifically not delegated after deliberating upon whether to or not. The power was prohibited to the states. The logical conclusion is that such power as there may be to emit bills of credit was reserved to the people in their private capacities.

And third, not one word has been added to or subtracted from the Constitution since that time affecting the power of government to emit bills of credit or issue paper money.

Since the United States is once again in the toils of an ongoing monetary inflation, it is my hope that

this summary review of the experience, words, and deeds of the Founders might shed light on some of the vexing questions surrounding it. Ⓢ

—FOOTNOTES—

¹Actually, the phrase, "fiat money," did not come into use until the 1880s. It might have helped the Founders to specify more precisely what they had in mind to prevent, but they had no such term.

²E. H. Scott, ed., *Journal of the Federal Convention Kept by James Madison* (Chicago: Albert Scott and Co., 1893), p. 47.

³*Ibid.*, p. 60.

⁴Charles E. Tansill, ed., *Formation of the Union of the American States* (Washington: Government Printing Office, 1927), p. 306.

⁵Merrill Jensen, *The New Nation* (New York: Vintage Books, 1950), p. 324.

⁶Andrew C. McLaughlin, *The Confederation and the Constitution* (New York: Collier Books, 1962), pp. 107-08.

⁷John C. Miller, *Triumph of Freedom* (Boston: Little, Brown and Co., 1948), p. 438.

⁸*Ibid.*, p. 462.

⁹Quoted in Albert S. Bolles, *The Financial History of the United States*, vol. I (New York: D. Appleton, 1896, 4th ed.), p. 132.

¹⁰*Ibid.*, p. 139.

¹¹Quoted in *ibid.*, pp. 177-78.

¹²See Jensen, *op. cit.*, pp. 247-48.

¹³All the discussion and quotations can be found in Tansill, *op. cit.*, pp. 556-57. While there is no way to know if the record of the debates on this and other matters is complete, nothing has been omitted from Madison's notes.

¹⁴*Ibid.*, pp. 627-38. The committee on style eventually reduced the number of articles in the Constitution to seven, so there is not now an Article XIII, of course.

¹⁵Alexander Hamilton, *et. al.*, *The Federalist Papers* (New Rochelle, N. Y.: Arlington House, n. d.), pp. 513-14.

Why Anticapitalism Grows

Henry Hazlitt

A CORRESPONDENT who describes himself as “a 26-year old college graduate who strongly supports a system of free enterprise,” recently wrote me to say that he is “continuously confronted with questions that are most difficult to answer.” He appended a list of 10 of them, and asked for my comments.

I offer my answer here. To save space, I have not repeated his questions, assuming they can be clearly guessed from my replies.

* * *

Dear Mr. _____:

The number of faults that have been alleged against capitalism are without limit. Few of the allegations have any merit, and when they do the reason will usually be found to lie deep in the weaknesses of human nature itself. Practically all the criticisms tacitly assume that the imputed faults could be easily cured by some form of socialism or communism, or some ad hoc government intervention that would, in fact, usually make the complained-about condition much worse.

With these preliminary remarks, let me try to give brief answers to your ten questions.

1. Capitalism does depend upon the consumption of natural resources, and some of these could eventually be depleted. But this must happen under any conceivable system of production when the population becomes large enough in comparison with the resources. But capitalism has proved resourceful in finding substitutes or for providing for renewal of resources (as in scientific forestry, for example).

2. There will probably always be some efforts toward collusion and private price-fixing. Encouraging private competition is probably the best cure for this, plus appropriate laws against clearly harmful collusion.

3. Not only do utilities often give lower rates to those who use more power; nearly all sellers give lower rates to bigger consumers because they can be supplied with the commodity at a lower cost. If big automobile companies consume more steel than a small hardware manufacturer, this does not necessarily

mean that big companies are using steel more wastefully.

4. Private capitalism means free competition. Capitalism has far less tendency toward concentration than does socialism, and well-drafted laws can prevent coercive methods of concentration. True, big companies can sometimes lower prices excessively to try to drive out small competitors, but they can do this only at a serious cost to themselves. It is more often alleged than proved that such practices happen with any real frequency.

5. True, adequate capital is sometimes difficult for small producers to obtain. But it can be obtained by savings, by previous profits from small-scale operations, or by borrowing. The borrowing can be done if a would-be enterpriser can convince a friend or a bank that he is likely to be successful. For a government agency to supply capital to individuals to become producers would only breed favoritism, corruption, and scandalous waste.

6. True, officers or directors of big corporations can sometimes try to use the capital and man-

agement of their company primarily to enrich themselves. Such practices can be minimized by watchful stockholders and appropriate corporate laws and law enforcement. But companies in which the practices occur extensively will soon go broke and be eliminated in favor of honestly-run companies.

7. There is no scientific way of measuring "productivity" in a service-oriented economy. Most of the current attempts to measure it rest on fallacious assumptions. The total value of output is essentially subjective, and not objectively measurable. The official GNP calculations are largely fraudulent. A short crop of wheat or corn, for example, usually sells for a greater money total than an above-normal crop. If we could produce everything anybody wanted, the national income would be zero. As nothing would be scarce, nothing could command a price.

8. It is sometimes difficult to know what injuries on the job are the fault of the individual worker and what of bad working conditions supplied by the employer. In any case, almost everywhere

today the employer is legally obliged to pay "workmen's compensation" for most such injuries.

9. True, capitalism does not supply "equal" housing or "equal" pay. If we tried to do the latter, regardless of the difference between the skills and industry of different workers or even whether a man did not work at all, we would soon destroy all incentives to production and have little creation of housing or anything else.

10. There is nothing "inhuman" about capitalism itself. It does not legally compel compassion or charity on the part of private individuals, but neither does it stand in the way. Socialism assumes that nobody will help the poor unless the politicians compel him to. Capitalism is, in fact, the most "human" of all systems. It provides the greatest amount of material goods and services, both necessities and luxuries, for humanity. It supports the greatest number of human beings, and provides the more successful with a surplus above their needs capable of being turned over to the less successful, voluntarily or

through taxation. Without capitalism, in short, most of its present detractors wouldn't be around today to denounce it.

A Flawed System

One final word. Your questions tacitly assume that capitalism is the system we are now in fact living under. We are not. We are living under what the late Ludwig von Mises called "sabotaged" capitalism. We are living under a network of government interventions that discourage or prevent capitalism from doing its work. With the "progressive" income tax, the government expropriates a crucial part of precisely the funds that would otherwise be invested in increased production and employment. By imposing minimum wage laws, encouraging coercive unionism, and subsidizing unemployment, government has brought about excessive American wage rates in many lines—making our automobile and steel industries at the moment unable to compete against foreign imports, and bringing about chronic unemployment. Having done this, the politicians denounce our domestic manufacturers for no longer

being "competitive," "aggressive," or "innovative," and propose still more interventions to force them to be so. Thus anti-capitalism begets still more anticapitalism.

I enclose a copy of my short pamphlet "Understanding 'Austrian' Economics" (published by the Foundation for Economic Education) which adds a list of books that I hope will increase your understanding of the workings of capitalism and its proposed alternatives. ☉

Henry Hazlitt, a frequent contributor to *The Freeman*, has a long and distinguished career as an economist, journalist, editor, and literary critic.

His well-known *Economics in One Lesson* further answers many of the more common questions about capitalism. That book is available from The Foundation for Economic Education, Irvington-on-Hudson, NY 10533 @ \$4.95 in paperback.

Also available upon request, copies of "Understanding Austrian Economics":

| | |
|-------------|---------------|
| Single copy | no charge |
| 3 copies | \$1.00 |
| 10 or more | 20 cents each |

Donald B. Billings

The Moral Case for Competitive Capitalism



What is under attack is the capitalist system; and it is attacked mainly on ethical grounds, as being materialistic, selfish, unjust, immoral, savagely competitive, callous, cruel, destructive. If the capitalistic system is really worth preserving, it is futile today to defend it merely on technical grounds (as being more productive, for example) unless we can show also that the socialist attacks on ethical grounds are false and baseless.¹

—Henry Hazlitt

AS KARL MARX noted in the *Communist Manifesto*, capitalism is a great “engine of growth,” a proposition with which today few informed observers of the economic scene would disagree. Yet, the free-market system continues to be viewed as

materialistic, unjust, callous, cruel and therefore immoral by great numbers of people all over the world. This is especially true among many, if not most, intellectuals. Alexander Solzhenitsyn, in a *National Review* article in 1978, acknowledged that “. . . it is almost universally recognized that the West shows all the world a way to successful economic development.” However, and unfortunately, he goes on “. . . many people living in the West are dissatisfied with their own society. They despise it or accuse it of not being *up to the level of maturity attained by mankind.*” (italics added)² Following this line of thought, the world continues to witness attempts by supposedly beneficent dictators to remake mankind in terms of some utopian, and more often than not very vaguely specified, image. Unfortunately, societies designed from above to promote morality are rarely

Professor Billings is in the Department of Economics, School of Business, at Boise State University in Idaho.

successful. The Ayatollah's Iran is an excellent example of a "spiritual intolerance which does violence to mind and body."

Indeed, totalitarian regimes frequently appeal to morality as a convenient device to assist in the subjugation of their peoples. Henry Hazlitt cites an incident, recorded in Marx's correspondence with Engels, at the communist First International in which Marx admits that "I was obliged to insert in the preamble two phrases about 'duty and right,' ditto 'truth, morality, and justice.' But these lamentable phrases are placed in such a way that they can do no harm."³ In fact, as Max Eastman records, "The notion of an earthly paradise in which men shall dwell together in millennial brotherhood is used to justify crimes and depravities surpassing anything the modern world has seen."⁴

Consider the Alternatives

The morality or justice of the system of competitive capitalism, therefore, cannot be fully appreciated until the alternatives observed in the real world are evaluated. For as Arthur Shenfield reminds us, "It is a plain historical fact that the treatment of man by man became conspicuously more humane side by side with the rise of capitalism."⁵

Attitudes and policies toward the punishment of crime, treatment of women, lunatics, the feeble-minded,

the lame, and in attitudes toward slavery and serfdom, the treatment of workers, changed significantly for the better during the rise of industrial capitalism. There was even an "explosion of charitable endeavor in the countries which bore the most marked impress of capitalist principle and practice." The economic system of private property, voluntary exchange and free markets brought with it, according to Shenfield, an improvement on what had gone before and very definitely an improvement over the socialist dictatorships of the twentieth century.

For centuries in pre-capitalist Christendom men were insistently urged to lay up their treasure not in this world but in Heaven, to eschew greed and selfishness, to care for the poor, the sick, the widow and the orphan, to treat all Christians, if not others, as brothers. Yet the normal and universal treatment of man by man in every respect was so inhuman by our present standards that we would be unable to picture it to ourselves were it not that we know it to be matched in the post-capitalist socialist countries of our time. And these socialist countries are conspicuous not merely for their pervasive cruelty and oppression but also for their loud claims to be in process of building a comradely society free from greed and selfishness!⁶

Following the lead of the economist Benjamin Rogge, it is in fact the case that "... the most important part of the case for economic freedom is not its dramatic success

in promoting economic growth, but rather its consistency with certain fundamental moral principles of life itself.”⁷ For personal freedom, and therefore economic and political freedom, is not “ethically indifferent” but a necessary condition of morality. Friedrich Hayek reminds us of certain fundamental conditions of the moral life.

It is . . . an old discovery that morals and moral values will grow only in an environment of freedom, and that, in general, moral standards of people and classes are high only where they have long enjoyed freedom—and proportional to the amount of freedom they have possessed . . . That freedom is the matrix required for the growth of moral values—indeed not merely one value among many but the source of all values—is almost self-evident. It is only where the individual has choice, and its inherent responsibility, that he has occasion to affirm existing values, to contribute to their further growth, and to earn moral merit.⁸

Morality and the Market

It appears that the free market system, in which only voluntary and mutually beneficial exchange are permitted, is a necessary condition for a moral order in which the integrity of the individual conscience is respected. Hayek points out in *The Road to Serfdom* that only:

where we ourselves are responsible for our own interests . . . has our decision moral value. Freedom to order our own conduct in the sphere where material

circumstances force a choice upon us, and responsibility for the arrangement of our own life according to our own conscience, is the air in which alone moral sense grows and in which moral values are daily recreated in the free decision of the individual. Responsibility, not to a superior, but to one’s conscience, the awareness of a duty not exacted by compulsion . . . and to bear the consequences of one’s own decision, are the very essence of any morals which deserve the name.⁹

“Surely,” adds Hayek on another occasion, “it is unjust to blame a system as more materialistic because it leaves it to the individual to decide whether he prefers material gain to other kinds of excellence.”¹⁰ Whatever the goals of individuals, whether virtuous or not, the “vulgar calculus of the marketplace” still seems to be the most humane way mankind has found for dealing with the economic problems of scarcity and the difficult allocation of resources.

Murray Rothbard forcefully reminds us that “. . . in a world of voluntary social cooperation through mutually beneficial exchanges . . . it is obvious that great scope is provided for the development of social sympathy and human friendships.” Indeed, “it is far more likely that feelings of friendship and communion are the *effects* of a regime of contractual social cooperation rather than the cause.”¹¹

Capitalism tends to favor those who respect the sanctity of their

contracts because of the respect for and enforcement of private property rights. The work ethic, encouraged by the institution of private property, represents an important source of moral responsibility as well as a continuous reminder that our actions always entail costs—a pervasive characteristic of human existence. These essential ingredients of a free market order, Arthur Shenfield tells us, define a set of social institutions which encourages mutual respect for each and every individual.

What we want above all for ourselves, and which therefore we must accord to our neighbor, is freedom to pursue our own purposes . . . As a corollary to this freedom we want others to respect our individuality, independence, and status as responsible human beings . . . This is the fundamental morality which capitalism requires and which it nurtures. It alone among economic systems operates on the basis of respect for free, independent responsible persons. All other systems in varying degrees treat men as less than this.¹²

Peaceful Trade

The processes by which we satisfy human wants through social cooperation, do not, of course, exhaust the purposes to which individuals aspire. The search for personal happiness and inner peace must be found within the individual alone. Nevertheless, mankind's social relationships are generally far more peace-

ful under a system of private property and free trade. The period between the Napoleonic Wars and the first World War, the heyday of competitive capitalism, represented a century relatively free of the brutality of war.

Furthermore, Shenfield, Hayek and others remind us that competitive capitalism was the first social system in human history to direct man's desire to become rich to the peaceful supply of greater quantities of goods and services for his fellow human beings, especially greater abundance for the working class and the poor. And remember, Shenfield warns us, "The alternative to serving other men's wants" through voluntary exchange "is seizing power over them." Where socialism has prevailed it has invariably meant not only lower living standards for most people "but also their reductions to serfdom by the new privileged class of socialist rulers."¹³

The case for the morality and justice of the system of capitalism rests on the intimate and complementary connection which exists between private property and voluntary arrangements *and* the sovereignty of the individual over his own life. In fact, "one might say that capitalism, far from dehumanising man, allowed him at last to assume the full individuality which Christianity had always accorded him as the pos-

essor of a distinctive moral conscience." Paul Johnson reminds us, however, that "... we tend to take the concept of individuality for granted. Yet it is a comparatively modern idea—no older than capitalism; scarcely older than the Industrial Revolution."¹⁴

Free and Responsible

The "dawn of conscience," that point in history in which individuals were first argued to be morally free and therefore responsible for their actions, appeared in Egypt and was borrowed and developed by the Jews. Jesus and his interpreter, St. Paul, in the New Testament outlined a view which recognized the unique personality of each human being. It is essentially an individualistic view of mankind in which, for the first time, the individual's soul is the most important thing about him. Christianity provided an environment in which individuals, to gain salvation, made choices from a position of free will.

Not only did the Church find that individual souls were worth saving, but Christianity also "implanted the concept of the rule of law," and contributed importantly to the establishment of the idea of freehold property and the land deed in the western world. Admittedly, these contributions were largely to protect the Church and its institutions and property from the power of the State.

But over time the principle of the rule of law and the private ownership of property were progressively expanded to the relationships between individuals. "The connection between Christian morality and capitalism thus centers essentially around the role and importance of the individual," according to Paul Johnson:

More than to any other force, then we owe the acknowledgement of our individuality to capitalism, . . . And individualism is rooted in the Judaeo-Christian doctrine of conscience and free will. Free will implies choice: the moral function of society, the way in which it best serves the moral needs of the individuals who compose it, is when it facilitates the process of choice, permits consciences to inform themselves, and so offers the individual the greatest possible opportunity to fulfill his part . . . That, essentially, is the moral basis of capitalism.¹⁵

We conclude, therefore, that the system of free and open markets is most conducive to the perfection, or at least improvement, of man's free will and tends to generate and make possible moral behavior. While it is admitted that society itself cannot be moral or immoral, only individuals are moral agents, it would appear, following the arguments developed by Arthur Shenfield, that an economic system, "if its essential characteristics on balance positively nurture or reinforce moral or immoral individual behavior, it is a moral or immoral system *in its ef-*

fects." (italics added)¹⁶ Where justifiably acquired property rights are defended, and where contracts are enforced, and where the rule of law applies, then "the voluntary nature of capitalist transactions propels us into respect for others."

For John Stuart Mill, justice is likewise a moral issue:

Whether the injustice consists in depriving a person of a possession, or in breaking faith with him, or in treating him worse than he deserves, or worse than other people who have no greater claims, in each case the supposition implies two things—a wrong done, and some assignable person who is wronged . . . Justice implies something which it is not only right to do, and wrong not to do, but which some individual person can claim from us as his moral right.¹⁷

"Justice, in brief," Henry Hazlitt maintains in *The Foundations of Morality*, "consists of the social arrangements and rules that are most conducive to social cooperation." Therefore we conclude that a system of institutional arrangements called "capitalism" (a disparaging reference for many people, the reader is reminded) is unquestionably more consistent with justice in this sense than any alternative set of social arrangements even conceivably available to us. The obviously immoral character of the socialist dictatorships in Poland, Cuba, East Germany, the Peoples Republic of China, the Soviet Union, or for that matter

the right-wing fascist dictatorships which abound, where the most elementary human freedoms are suppressed and where millions of human beings have been murdered in the name of a new social order, documents the case for the private property, decentralized market system.

The great French economist and social critic Frederic Bastiat, writing in the nineteenth century, captured what would be the desirable characteristics of a truly just and moral order. He asked the question:

Which countries contain the most peaceful, the most moral, and the happiest people? Those people are found in the countries where the law least interferes with private affairs; where the government is least felt; where the individual has the greatest scope, and free opinion the greatest influence; where the administrative powers are fewest and simplest; where taxes are lightest and most nearly equal; . . . where individuals and groups most actively assume their responsibilities, and, consequently, where the morals of . . . human beings are constantly improving; where trade, assemblies, and associations are the least restricted; . . . where mankind most nearly follows its own natural inclinations; . . . in short, the happiest, more moral, and the most peaceful people are those who most nearly follow this principle: although mankind is not perfect, still, all hope rests upon the free and voluntary actions of persons within the limits of right; law or force is to be used for nothing except the administration of universal justice.¹⁸

In light of these arguments by Hazlitt, Shenfield, Bastiat and the others, a very interesting and important question remains to be asked. Why is it that a system of social organization which has produced historically unprecedented increases in living standards in those countries where the principles were practiced and which simultaneously did so much to reduce man's inhumanity to man during its ascendancy has come to have such a low standing in the minds of so many millions of people? Hayek is right when he insists that we must once again make the study of freedom an exciting intellectual issue. ☉

—FOOTNOTES—

¹Henry Hazlitt, *The Foundations of Morality* (Los Angeles: Nash Publishing Co., 1964), p. 302.

²Alexander Solzhenitsyn, "A World Split Apart," *National Review*, July 7, 1978, p. 839.

³Hazlitt, p. 340.

⁴*Ibid.*, p. 341.

⁵Arthur Shenfield, "Capitalism Under the Test of Ethics," *Imprimis* (Hillsdale College: Michigan), December 1981, p. 4.

⁶*Ibid.*, p. 4.

⁷Benjamin Rogge, "The Case for Economic Freedom," *The Freeman*, February 1981, p. 86.

⁸Hazlitt, p. 322.

⁹Friedrich A. Hayek, *The Road to Serfdom*, cited in Leslie Snyder, "Justice and Freedom," *The Freeman*, March 1980, pp. 186-187.

¹⁰Quoted in Hazlitt, p. 323.

¹¹Murray N. Rothbard, *Man, Economy and State* (Los Angeles: Nash Publishing Co., 1962), p. 86.

¹²Shenfield, p. 6.

¹³*Ibid.*, p. 5.

¹⁴Paul Johnson, "Is There a Moral Basis for Capitalism," *PAIDEIA*, Spring 1980, p. 3.

¹⁵*Ibid.*, p. 3.

¹⁶Shenfield, p. 4.

¹⁷Snyder, p. 183.

¹⁸*Ibid.*, p. 187.

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 subtleties as a technique for organizing resource use.

IDEAS ON



LIBERTY

Farm Policy— NOW WHAT?



PRESIDENT REAGAN proclaims his new payments-in-kind (PIK) program to give farmers surplus grain plus cash if they cut production substantially in the next two years as "highly innovative." Is it really? FDR had a similar program for cotton farmers, and President Kennedy had much the same scheme for feed-grain producers. Neither the Roosevelt nor Kennedy plan proved effective.

Indeed, more than a half-century of aggressive farm intervention costing hundreds of billions of dollars in subsidies spells out a record of unremitting failure and frustration, with the farmers themselves the ultimate losers.

In 1929, for example, President Hoover set up the Federal Farm Board to stabilize crop prices. By the end of his administration the Board had gone through more than \$300

million of its \$500 million in operating capital, with nothing to show for it but record farm foreclosures. Every time the Board had a modicum of success, production would shoot up, foreign markets would fade away, and heavy inventories would overhang the market like the sword of Damocles. Soon President Hoover recommended the next logical step of price intervention: production restrictions—withdrawing land from cultivation, slaughtering young animals, plowing under crops. President Roosevelt and his successors put these and other restrictions into practice.

Thus the pattern for some five decades of farm intervention was set: production incentives such as price supports and crop insurance, on the one hand, and production curbs such as acreage allotments and marketing quotas, on the other. Generally the production incentives have won, burdening the government and taxpayer with huge stockpiles of food

Dr. Peterson is the director of the Center for Economic Education and the Scott L. Probasco Jr. Professor of Free Enterprise at The University of Tennessee at Chattanooga.

and fiber over the years. The stock-piles, in turn, have forced the government into such welfare ventures as food stamps, school lunches, senior citizen "nutritional programs," "Food for Peace" foreign giveaways, and so on.

The rub with modern farm policy, then, is its useless and quite irrational attempt to repeal the law of supply and demand—to reinvent the wheel. The unhampered price mechanism, in other words, ever pulls supply and demand toward equilibrium, leading to optimum efficiency and economic growth and assuring that whenever shortages or surpluses do emerge they are fleeting and short-lived.

The further rub is that *the farmer to be saved wasn't*. Ultimately he was burned and he, like his forebears, quit the farm for other pursuits, causing a massive change in the composition of the American population. The *1981 Statistical Abstract of the U.S.* tells the story:

| | Farm population (millions) | Per cent of total population |
|------|----------------------------|------------------------------|
| 1930 | 30.5 | 24.9 |
| 1940 | 30.5 | 23.2 |
| 1950 | 23.0 | 15.3 |
| 1960 | 15.6 | 8.7 |
| 1970 | 9.7 | 4.8 |
| 1980 | 7.2 | 3.3 |

In a like way, American agriculture, notwithstanding the lure of

subsidies, offers fewer and fewer job opportunities as farmer-entrepreneurs have automated their production. Note how the number of full-time farm jobs, including those of farm operators, their family members doing farm work, and hired hands has plummeted over a 50-year span:

| | Farm employment (millions) | Per cent civilian labor force |
|------|----------------------------|-------------------------------|
| 1930 | 12.5 | 25.8 |
| 1940 | 11.0 | 19.8 |
| 1950 | 9.9 | 15.9 |
| 1960 | 7.1 | 10.2 |
| 1970 | 4.5 | 5.4 |
| 1980 | 3.7 | 3.5 |

But as the number of farms and farm employment has dropped in this period the size of farms has nearly tripled in entrepreneurial response to the economies of scale over the years:

| | Farms (millions) | Average farm size (acres) |
|------|------------------|---------------------------|
| 1930 | 6.5 | 151 |
| 1940 | 6.3 | 167 |
| 1950 | 5.6 | 213 |
| 1960 | 4.0 | 297 |
| 1970 | 2.9 | 374 |
| 1980 | 2.4 | 429 |

Moreover, despite all manner of government controls, farm produc-


tivity has generally raced ahead of nonfarm productivity in recent decades. From the 1950–1954 period to the 1975–1979 period, for example, the annual average yield of corn leaped from 39.4 to 95.2 bushels per acre, wheat from 17.3 to 31.4 bushels per acre, potatoes from 15,100 to 26,200 pounds per acre, milk from 5,400 to 11,000 pounds per cow, and eggs from 181 to 236 per laying chicken.

In the same periods, annual average manhours necessary to produce each 100 pounds of chicken broilers dropped from 2.4 to .1, reflecting enormous acceleration in automated broiler production and a reduction in manhour requirements by 96 per cent in a 25-year stretch. During this same period, turkey production automation was not quite so rapid. Here, 6.8 manhours were required to produce each 100 pounds of turkeys, on an annual average basis, in the 1950–1954 period, against only .5 manhours in the 1975–1979 period, thereby reflecting a 93 per cent manhour reduction in turkey production.

About the only winners I can find in America's farm picture are the farm politician and the farm bureaucrat. The bureaucrat really farms the farmer. While the number of farms and the farm population have plummeted, the number of employees at the Agriculture Depart-

ment has grown like weeds. In 1930 there were 26,050 employees, 98,694 in 1960, and 129,139 in 1980.

Clearly depopulation of the farm sector has weakened the farm bloc but only relatively. Last November all 21 Democratic members of the House Agriculture Committee seeking re-election held on to their seats while the GOP saw 5 of their 19 members defeated, including ranking member William D. Wampler of Virginia and second-ranking Paul Findley of Illinois, a key Administration supporter on farm bills. So regardless of the irrationality and colossal waste of modern farm policy, the immediate outlook is for more of the same.

But the longer-run outlook seems saner. As farms more and more come into stronger hands and grow in size, farmers will tend to demand more of a no-nonsense farm policy. Then increasingly unhampered farm entrepreneurship can play a more constructive role for the farmer, the consumer and the economy. For today's farmer, after all, is still a private property-holding, technologically astute, business entrepreneur. And when he becomes numerically smaller still and hence no longer fair game for politicians and bureaucrats, when, in other words, he becomes just another unsubsidized businessman (if in dungarees), he will thrive. 

Benefit Mandates Cause Unemployment

MOST PEOPLE expect more from their work than wages. They seek additional benefits, such as a sense of purpose, accomplishment, appreciation, companionship, etc. They desire all sorts of things in exchange for their labor. In the broadest sense all these things are "fringe benefits."

Psychic benefits have great economic significance as they may affect a person's spirit, disposition, and attitude. They influence his will and power of work, his contribution to the production effort. A wise employer is keenly aware of the importance of psychic benefits which he grants with great generosity. They never impoverish the giver, but always enrich the lives of those who receive them as well as those who confer them. They cannot be calculated in dollars and cents although

they affect personal productivity and income.

Fringe benefits appear on the production ledgers when they cost money. They provide additional remuneration to employees in the form of vacation and holiday pay, sick pay, the cost of pensions, and employer contributions to various benefit systems. These extra costs of labor are frequently overlooked in popular discussion, which is preoccupied with hourly, weekly, or monthly wages and salaries.

To obtain a true measure of production costs, businessmen must take all costs into account. To consider some costs and overlook others is to invite losses and failure. Employers cannot disregard the costs of fringe benefits, which amount to sizable proportions of total labor costs. They must be ever mindful of the fact that every penny of labor cost must come from the productive efforts and contributions of the workers themselves. There are no gratuities or

Dr. Sennholz heads the Department of Economics at Grove City College in Pennsylvania. He is a noted writer and lecturer on economic, political and monetary affairs.

transfer payments in the production and distribution process. Every participating factor receives an income that corresponds to the value of its productive contribution.

Many workers, unfortunately, look upon fringe benefits as "employer gratuities" that are taken out of business profits. There is no hourly, weekly, or monthly accounting and reporting of fringe benefit costs, which tends to obscure the fact that they are labor costs just like wages and overtime pay. Actually, it does not matter how the costs are allocated among the various benefit accounts, as long as the total costs of labor do not exceed the value of labor production. If total labor costs, for any reason, are made to exceed the value of a worker's contribution, he is inflicting losses on his employer. He becomes "destructive" rather than productive, a "liability" rather than a productive partner, he becomes a candidate for "disemployment."

Labor Legislation

The common failure to view fringe benefit costs as labor costs probably stems from the sphere of politics where transfer payments are popular devices. Government is made to serve as a giant transfer agency that seizes income and wealth from some people and allocates them to others as "entitlements" and "benefits." If legislators can bestow gratuities

through government, why should they not grant favors through mandates to business? No new taxes need to be levied, no costly bureaucratic apparatus of transfer needs to be established, the legislators merely issue a mandate and government agents enforce it.

The mandate of costly fringe benefits draws ideological strength and support from the precedent of past labor legislation that aimed at improving working conditions. Beginning in the 1830s and 1840s, some state laws regulated the number of hours worked by children. During the 1920s it became popular for state governments to regulate the working conditions for women. In 1938, finally, the federal government assumed the lead with the Fair Labor Standards Act, which not only imposed minimum wage rates but also provided for a 40-hour week, allowing for overtime work if paid at time-and-one-half.

Public opinion is fully convinced that all labor improvements are an achievement of the combined efforts of labor legislation and union activity. It credits humanitarian legislators and courageous union leaders not only with the phenomenal rise in wage rates, but also with the reduction of daily hours of work, the disappearance of child labor, the limitation of woman labor, and many other results. If legislation and unionism did have such powers in

the past, they must have similar powers in the present. With courage and dedication they must be able to exact ever greater benefits from reluctant employers.

Persistent Political Errors

Unfortunately, there are political errors which, once they sway public opinion, become public virtue and policy. They may lend an age its singularity and hallmark that persist for many generations despite their ominous consequences. When future historians research our age they cannot help but be confounded by our undaunted faith in labor legislation and unionism that give our age a conspicuous characteristic: mass unemployment. They will be mystified by our steadfast refusal to see that neither government nor unions do have the coercive powers to improve working and living conditions. They did not have them during the 19th century, and do not have them in the 20th. The remarkable improvements were brought about by the formation of productive capital that provided labor with ever more efficient tools and equipment. Labor legislation and labor unions tend to shackle productivity, hamper output and, therefore, keep society poorer than it otherwise would be.

Child labor laws and regulations of women's working hours usually followed the improvements brought about by capital investment and

productive technology. The legislators merely sanctioned what already had taken place. But in true political fashion they were always quick to claim full credit for the achievements of others, especially countless investors and entrepreneurs. Their vainglorious pretensions unfortunately persuaded many gullible followers.

In some cases the laws and regulations actually pushed further than conditions allowed, which caused disruption and stagnation. It harmed everyone, but especially those individuals it meant to benefit. It drove many into idleness and poverty, or led them to ignore the law that denied their freedom to work. The underground economy was born on the very day the first restrictive labor law went into effect.

To raise the costs of labor by benefit mandate is to set into motion an array of adjustments and readjustments that redistribute the burden among all market participants. The reaction manifests an important distinction between two main categories of labor costs:

1. Contractual employer payments to employees or on their behalf. They include not only all items of cash payment and supplementary remuneration payable directly to employees, but also contractual expenditures on their behalf, including contributions to pension and other funds.

2. Mandated benefits that are exacted by political force on behalf of employees, including contributions to Social Security, unemployment and workmen's compensation, disability benefits, and several others. They are meant to be "transfer payments" taken out of employer profits.

In the world of economic reality, both categories of benefits—the contractual remuneration and the mandated benefits—are derived from one and the same source: employee effort and production. Backed by the state apparatus of force the mandated benefits take precedence over the contractual benefits, which must adjust continually to the former, acting as a residual that can be paid after the mandates have been satisfied. The adjustment is a market process that shifts the costs of production to the factors that incur them. In particular, it shifts the costs of mandated benefits to the very beneficiaries by forcing them to suffer reductions in contractual remuneration. The shifting is painful in the short run, but beneficial in the end. It corrects the disarrangement prompted by the government intervention.

A Crucial Difference Between Old and New Benefits

The shifting process is the source of much economic confusion. Some observers look only at the adjust-

ment process, others only at its consequences; some reflect only on old government intervention, others only on new laws and mandates. The distinction between the two rests on strict theoretical analysis and can be defined precisely. Old intervention is that government restriction or interposition to which the economy has fully adjusted. And we speak of new intervention when the economy has not yet adjusted to the new data, or is in the process of adjustment. The difference is crucial in any appraisal of the effects of government-mandated benefits.

Legislation or regulation that aims to benefit some people at the expense of others, may be successful in the short run, but rarely is so in the long run. It causes an immediate reaction and readjustment of price, wages, and other costs that shift and redistribute the burden to all market participants. The costs of mandated labor benefits imposed on employers are shifted in time to the workers themselves. The shifting is a short-run process, the final burden to workers a long-run effect.

A boost in Social Security levies, unemployment taxes, Workmen's Compensation Insurance levies, Occupational Safety and Health Act costs, or Employee Retirement Income Security Act premiums, constitutes a boost in labor costs, which reduces the profitability of business—a short-run effect.

Employers may react by seeking to offset the mandated increase in costs with reductions in contractual labor costs, such as take-home pay and fringe benefits. But such an offset may be resisted and rejected by the other contract party, the workers. After all, politicians and government officials have told them time and again—and the benefit law expressly stipulates—that employers must grant the benefits gratuitously. The law may even affix fines and imprisonment for employers who neglect or refuse to provide the benefits. Therefore, it is rather unlikely that employers would openly seek to reduce contractual labor benefits in reaction to increases in mandated benefits.

How Inflation Shifts the Burden of Employment Costs

In periods of inflation when periodic wage adjustments are made, employers may be rather successful in hiding the needed offset by offering lower raises than they otherwise would. In a year when inflation reduces the purchasing power of the dollar and, therefore, the real costs of labor by 15 percent, an employer may, without much resentment on the part of his employees, grant a 10 percent wage adjustment and allocate more funds to Social Security, unemployment levies, and other mandated costs. His real costs of labor may not rise at all. But his em-

ployees now must forgo a part of their real incomes in favor of their “gratuitous” benefits.

Other employers yet may succeed in offsetting mandated boosts in labor benefits by leading and exhorting their workers to greater effort and productivity. But such offsets are rather difficult. Workers may resist the exhortations openly aiming at shifting the burden of their benefit “entitlements” from employers to themselves. Most such offset attempts, therefore, may prove to be futile, which forces employers to brace for higher production costs.

Rising labor costs, like any other rise in production costs, may have different effects on three distinct groups of enterprises found in nearly every industry: a few are profitable, many are marginal, and a few submarginal.

When government mandates higher labor costs, the few employers who were earning *genuine profits* are forced to curtail their expansion or modernization projects. They may not need to discharge any workers, but may be reluctant to add more. The *marginal employers* who were just breaking even, earning the going rate of interest on the capital invested, will be made “submarginal” by the boost in labor cost. Their yields now fall below the minimum rates needed to attract and preserve the necessary capital. They are forced to curtail their opera-

tions, close loss-inflicting plants, stores, or departments, and lay off some workers. The *submarginal employers*, who were earning meager returns or even suffering losses before the mandated cost increases, are further encumbered by the boost, which may push them over the edge into liquidation or bankruptcy. Output declines and the supply of goods and services is diminished. There is business stagnation—a short-term effect of the newly mandated labor benefits.

The Market Adjusts

The stagnation is keenly felt in many labor markets that lack the flexibility and mobility for the needed adjustment. It gives rise to mass unemployment that exerts a powerful pressure toward lower labor costs—until they have fallen to the rates allowed by the market. If the labor market is permitted to adjust and government abstains from any new mandates that raise labor costs, unemployment will gradually diminish until everyone willing to work can find his job.

But the long-term effects of the labor mandate will be felt as long as it remains in effect. They are less conspicuous than the short-term effects and difficult to demonstrate. After all, who can perceive that the mandated costs have been offset by a reduction in contractual compensation, and that the worker himself now

is laboring for every penny of benefit exacted from his employer? Who can perceive that he alone is paying for his Social Security benefits, his unemployment compensation, Workman's Compensation, OSHA and ERISA benefits?

This inability to perceive the painful shifting process that allocates the costs of benefit mandates to the workers themselves may explain why there are so many advocates of ever more government intervention. They point at old benefits imposed ten or twenty years ago and fail to see any ill effects in the present. They have forgotten the months and years of painful adjustment, and never learned that, in the end, the workers themselves are bearing all costs.

Whether government intervention is old or new, it constitutes a substitution of political coercion for economic freedom of choice, and the rule of politicians over consumers, employers and workers. It is a substitution that rests solely on gross deception and economic ignorance. Surely, most American workers and their union agents are convinced that their benefit entitlements from unemployment compensation to ERISA bounty are exacted from employer profits. Therefore, they are applauding politicians who promise and legislate ever more expensive gratuities. If they actually knew that there are, and can be, no gratuities

in production, that every penny of benefit is taken out of their own pockets, they would probably rise in anger and call an immediate halt to the mandates.

Social Security

The benefit mandates of the 1960s and 1970s did not differ in substance from the labor mandates of the 1930s. Both forcibly raised labor costs, created disruptions in the production process, and in the short run, caused mass unemployment. In the long run, when all price and cost adjustments had run their course, they lowered the contractual remuneration of the intended beneficiaries. In the case of Social Security, which provides old-age, survivor, and disability benefits, as well as hospital insurance, government injected an additional transfer feature. It conferred generous benefits on the retirees and exacted the needed funds from the working people, many of whom were forced to suffer both the short-run and long-run pains of adjustment, that is, unemployment in the short run and lower take-home pay in the long run.

Old-age, survivors, and disability insurance covers almost all jobs in which people work for wages or salaries, as well as most work for self-employed individuals. The system is financed by payroll taxes levied on an employer's taxable payroll; half the tax is deducted from the employ-

ees' wage, and one-half is taken from employer income. While the first half merely reduces the employee's take-home pay, the second half actually raises labor costs and thereby reduces the demand for labor. It causes unemployment.

Small increases in payroll taxes imposed on employers affect all workers, but "disemploy" only a small number. Employers may be able, through managerial effort and leadership, to make labor more productive and thus cover the additional expense. If profits permit, they may introduce more productive tools and equipment that raise the productivity of labor. Or, inflation may reduce the real cost of labor, which may permit employers to pay higher payroll taxes—provided that contractual labor costs are not indexed, which would prevent the decline in real cost. Where cost adjustments are not feasible, the boost in payroll taxes, no matter how small, must have disemployment effects. A mere rise of one-tenth of one percent of labor cost may cause the demand for labor to decline by one-tenth of one percent or more, which in the American labor market would mean unemployment for 100,000 workers or more.

Boosts in Taxes

The frequent boosts in Social Security taxes have not always been small. In some years Congress raised

the rate, in others the maximum wage base. At times both were boosted substantially. In 1950, the employer levy rose by 50 percent, in 1954 by 33 percent, 1959 by 27 percent, 1966 by 59 percent, 1973 by 35 percent, 1979 by 31 percent, 1981 by 24 percent.¹ But no matter whether the boosts were large or small, they all constitute additions to labor costs. The magnitude of the boost merely determines the severity of the adjustment process and the measure of reduction of contractual benefits.

Social Security tax boosts obviously are not the only cause of rising unemployment; there are many other cost factors that may cause labor to become uneconomical and unemployable. In the depth of a recession, both federal and state governments may boost the unemployment insurance tax on employers, which raises labor costs and thereby further reduces the demand for labor. It inevitably aggravates and prolongs the recession. But it is also conceivable that the cost mandates of government are partially or completely offset by inflationary policies that tend to lower the real cost of labor. When one branch of government raises labor cost and another lowers it, it is difficult to foresee which branch will prevail in the end. The offsetting process itself is very disruptive as it affects different employers unevenly and disproportionately.

It is illogical and irrational to defend the boosts in payroll taxes with explanations and descriptions of the urgent needs of elderly people. Surely, their needs and wants play an important role in politics, which has made the Social Security System the largest transfer system ever devised. But regardless of want and need, payroll taxes levied on behalf of the elderly or for any other reason do raise the cost of labor, which in turn lowers the demand for labor. In the short run, they may cause unemployment; in the long run, they tend to lower contractual wages and benefits by the amount of the tax boost.

Unemployment Compensation

Before the Great Depression public opinion had lumped the unemployed and the unemployable together and made them the objects of charity. During the 1930s, under the influence of changing economic thought, public opinion began to adopt the concept that unemployment is a fault of the competitive private-property system, and therefore, a serious concern of government.

Unemployment insurance is based on the popular notion that the system makes a certain amount of unemployment inevitable. If it cannot be prevented, at least the workers and their families must be protected from the loss of income. And since it

is not the fault of either employers or workers, but the natural consequence of the free enterprise system, the costs should be shared by all. In most countries, unemployment insurance is financed by contributions from workers, employers, and government.

In the United States, the Roosevelt New Deal went much further. It adopted the theory that employers, as the principal beneficiaries and advocates of the enterprise system, can control the rate of unemployment inflicted on workers. Therefore, they alone must pay the unemployment tax levies. The rates were made to vary in accordance with the amount of unemployment that is attributed to the individual firm. Some employers may achieve comparatively low rates of taxation, others must pay higher rates, each based on his "experience rating." The variation in tax rates is supposed to exert a restraining influence on employers and induce them to stabilize employment.

A Counterproductive Burden Upon the Workers Themselves

This New Deal theory of unemployment and the unemployment compensation system built thereon, have inflicted, and continue to inflict, incalculable harm on millions of American workers. When, for any reason, business turns down and unemployment rises, the payroll taxes

imposed on employers increase the cost of labor, which further reduces the demand for labor and worsens the unemployment. The tax burden is highest on employers who suffer most severely from the business downturn, which keeps their labor costs up and their demand for labor down. In a lengthy recession, the tax levies are boosted substantially, which tend to aggravate and prolong the recession. In fact, it would be difficult to devise a more counterproductive social program than the unemployment insurance tax levied on employers.

Unlike Social Security, which is entirely a federal program, the unemployment compensation system is a joint federal-state effort. The system was created by the Social Security Act in 1935, which imposed a payroll tax on all employers with eight or more employees in "covered" employment. The Act permitted an offset of 90 percent of the tax if the employer paid unemployment insurance taxes under a state law. This offset provision soon induced every state to enact its own unemployment insurance laws.

The system now covers about 97 percent of wage and salaried employment. Its outlays amounted to \$25.2 billion in 1982 and are estimated to exceed \$36 billion in 1983. Regular benefits (usually 26 weeks) are financed by state taxes on employers. State and federal adminis-

trative costs are financed by a federal tax on employers. In any state where the unemployment rate exceeds 5 percent for 13 consecutive weeks, the benefits are extended for another 13 weeks. The extended benefits are financed one-half from state taxes on employers and one-half from the federal tax on employers.² A temporary program, Federal supplemental compensation (FSC), pays additional weeks of benefits to workers who exhaust their regular and extended benefits. As originally enacted, it provided for 10 additional weeks of benefits which were promptly extended to 16 weeks. Altogether, unemployed workers are entitled to 55 weeks of full benefits.³

The Growing Burden of Unemployment Tax Rates

Under the Federal Unemployment Tax Act, as amended by the Tax Equity and Fiscal Responsibility Act of 1982, the federal tax rate is 3.5 percent on the first \$7,000 paid to each employee of employers with one or more employees. The rate is scheduled to rise to 6.2 percent in 1985. The law allows a credit of up to 2.7 percent for taxes paid under state unemployment insurance laws, which leaves the federal share at 0.8 percent of taxable wages. The states are required to meet their own unemployment insurance costs. But they are permitted to borrow funds, interest-free, from the federal gov-

ernment. During lengthy recessions, when the federal government can be expected to extend the duration of benefits, a large number of states is forced to borrow the needed benefit funds. The heavy payouts of benefits and the rising debt then force the states to raise both the tax base and tax rates on employers.⁴ Some states levy an additional "subsidiary" or balancing tax on all employers when the state's unemployment compensation fund is low.

Unemployment insurance taxes represent a relatively small burden, less than one-third of the other Social Security levies. Until 1980 they averaged only 1.2 percent of total wages, but have been rising steadily ever since. As a proportion of net profits they may amount to large sums that lower profits substantially. During years of recession, when many businesses are operating without a net profit or even suffering losses, the unemployment insurance taxes are keenly felt. And as a proportion of labor cost for new employees who may prove to be only temporary, they may be utterly prohibitive. A worker who earns \$5,000 in wages and then draws \$2,500 in unemployment benefits, may cost his employer \$7,500, which on a per-hour basis amounts to time and a half.

It is significant that the industrial states in the North and Northeast are the high-tax states, which also suffer from high rates of unemploy-

ment. Deep in debt to the federal government, they must levy such a high average tax on employers that little room is left for experience rating. Michigan exacts as much as 10.5 percent on \$8,000 of taxable wage base; Minnesota and West Virginia charge 7.5 percent. Several states have lifted their tax bases considerably above the federal level: Puerto Rico taxes all wages, Idaho and Utah levy their rates on \$14,400 of taxable income. Such exactions no longer constitute a small burden on the workers who ultimately must bear the costs through lower take-home pay and lower contractual benefits. And, worst of all, while the levies are rising they face the intense danger of disemployment.

Subsidizing Unionized Industries

Taxation according to experience rating, which is so popular with full-employment planners, actually may intensify the disemployment pressures. If the American automobile industry, steel industry, construction industry, the garment industry of New York, or any other unionized industry, were taxed to pay their full unemployment insurance costs, labor costs would be significantly higher, which would force many employers to go out of business. Therefore, state governments never dare to subject these industries to experience ratings. Instead, they are placing heavier tax burdens on all

other industries, forcing them to "subsidize" the depressed industries. In the end, workers throughout the state must suffer lower net wages so that the army of unemployed from the unionized industries can be supported appropriately.

The significance of unemployment compensation must be sought not only in the rising burden of taxation that is limiting the demand for labor, but also in the benefits that are discouraging many workers from seeking employment. A Detroit automobile worker or Pittsburgh steel worker who loses his \$40,000 job (\$20 per hour) surely faces serious problems of readjustment to \$10,000 in regular unemployment compensation, extended benefits, and supplemental compensation. But it is unlikely that he will seek other employment. His job opportunities at these union rates are non-existent outside the fold of his union shop. His labor productivity in the open market as a semiskilled worker probably does not exceed his rate of unemployment compensation, which makes it unlikely that he will look for employment as long as the benefits continue.⁵

Workman's Compensation, OSHA, ERISA, and EEOC

The *Workman's Compensation laws* in effect in all states hold employers liable for injuries suffered by

workmen regardless of cause. They eliminate the element of legal negligence that is basic to Common Law, and establish the principle of "employer liability without fault." They require employers to insure against potential financial liabilities to injured workers. In many states, the insurance may be provided by private insurance companies, in some states only by state-operated insurance funds. In a few states employers may bring proof of their financial ability to carry their own risk and provide "self-insurance," for which ordinarily only very large firms can qualify.

The compensation system developed after 1917 when the U.S. Supreme Court agreed to the constitutionality of "employer liability without fault." Until the 1970s its costs rarely exceeded one percent of payroll despite increases in dollar payments and extended coverage. But they began to rise significantly after 1970, when the Occupational Safety and Health Act (OSHA) largely ignored the workers' role in accident and disease prevention and placed new demands on employers. Under the influence of OSHA thought and recommendation, the states substantially changed their workers' compensation laws. Traditional exemptions for farm workers and domestics were eliminated, small firms were included, more work-related diseases were covered, and,

above all, the benefits paid to workers were increased substantially.

A National Commission established by OSHA to examine the state compensation systems recommended a wide variety of reforms that would multiply the expenses and make the federal government the compliance guarantor. They would deny employers the right to appeal workman's compensation agency decisions in court—except on questions of law. They would authorize the workman's compensation administrator to regulate attorneys' fees. They would establish a "retroactive benefit fund" that would adjust benefits for past inflation and bring them up to "current levels." In 84 reform proposals⁶ the National Commission is pointing at the compensation system of the future. The message is clear: employers and workers beware!

Safety and Health Standards and Their Enforcement

The Occupational Safety and Health Act of 1970 requires of all employers that every job must be "free from recognized hazards that are causing or likely to cause death or serious physical harm." To that effect it directed the Secretary of Labor to establish an administration and adopt safety and health standards for all enterprises engaged in interstate commerce, except federal, state, and local governments. Em-

ployers are penalized if an unsafe condition has been discovered and cited by an OSHA inspector and the employer neglected to correct it in a specified time.

The standards established and enforced now cover 800 pages in the Code of Federal Regulations and number some 4,400. They range from 140-odd regulations pertaining to the use and construction of portable wood ladders to dozens of regulations on workers' sanitary facilities. Do OSHA standards have a marked effect on the injury rate? According to many serious studies, they do not. Most injuries result from some behavioral problem or transitory hazard over which employers have little or no control. Only relatively few injuries involve a permanent physical hazard under employer control.

Notwithstanding OSHA and its army of inspectors, employers do not determine the levels of physical hazard in factories or workshops, nor do they ultimately bear the costs and reap the benefits of added safety. In the competitive enterprise system each factor of production must bear all costs incurred by its employment. Labor must bear all costs incurred on its behalf, whether they are contractual or mandatory, wages or fringe benefits, employee lavatories or cafeterias, earplugs or safety belts. Employers merely act as middlemen between workers willing to render a service at a wage and con-

sumers willing to pay for the product or service.

Allocating Costs and Benefits

Through buying or abstaining from buying, consumers determine the sum total of costs which a businessman may incur in the production process. For its participation and contribution, labor receives its full share of the sum total. But workers determine how their share of costs, which constitutes their wages and benefits, is to be distributed among the several methods of compensation. They make this determination, without talking or bargaining, through their offers on the labor market. Businessmen competing for labor must give heed to the worker preferences or face higher labor costs.

If more workers prefer to offer their services to employers with greatest possible job safety, their wage rates tend to decline, granting profits to the safety-minded employers. Other businessmen competing for labor would rush to imitate the former in order to remain competitive in the labor market. If more workers choose higher wages, but are willing to assume greater on-the-job risk, they flock to employers offering higher pay but lower safety expenditures. Alert employers immediately perceive the worker preference that is visible in the employment cost of the last worker needed, the "marginal worker." To ignore him is to face

higher labor costs and invite business losses. In short, as businessmen receive their production orders from their customers, who set narrow limits to labor expenditures, so they receive their instructions on the distribution of labor benefits from their workers.⁷

High Costs of Compliance

It is difficult to estimate the labor costs of compliance with OSHA regulations. A 1974 survey by the National Association of Manufacturers (NAM), which is probably exaggerating the case, estimated the costs for small firms (up to 100 employees) at \$35,000, for firms with 101–500 employees at \$73,500, and for firms with 501–1000 employees at \$350,000.⁸ Small businesses applying for loans from the Small Business Administration requested an average of \$200,000 in order to comply with OSHA regulations. But no matter what the actual costs of compliance proved to be, and continue to be, they probably amount to tens of billions of dollars. OSHA contributed significantly not only to the rising unemployment and decline in real wages, but also to the extraordinary rise in goods prices throughout the 1970s.

Since the birth of the transfer state older Americans forcefully asserted their political rights to transfer benefits from younger Americans. They made the support for the elderly a

primary objective of government policies—from subsidized health and housing, to special tax allowances, improved old-age benefits, and the *Employee Retirement Income Security Act of 1974* (ERISA). The act meant to make it easier for them to qualify for pensions. But as is mostly the case with government intervention in economic affairs, it actually brought about the opposite of what it set out to achieve. It caused the termination of nearly 30 percent of all private pension plans,⁹ and imposed conditions that, in the end, may destroy the rest.

Before ERISA, the federal government had actively promoted private industrial pension plans. The 1942 Internal Revenue Act had made pension contributions by employers tax-deductible, made employee contributions tax-exempt, and offered deferred taxation of pension fund income until it was paid out as retirement benefits. With steeply progressive income taxation these deductions, exemptions, and deferrals provided powerful incentives for employer pension plans.

Private pension systems also multiplied as a result of radical government intervention in economic production. During periods of price and wage controls, as in World War II, the Korean War, and the Nixon era, many employers sought to circumvent the government controls by giving hidden wage increases in the

form of pension benefits. Eager to remain competitive in the labor market, but prevented from raising wages, they introduced generous pension plans. Some funds actually meant to provide benefits for retirement, others were to be liquidated through distribution of assets after the controls were lifted.

After the passage of the Labor Management Relations Act of 1947, which made pension benefits a legitimate issue for collective bargaining, labor unions joined government in actively promoting pension systems. Facing frequent layoffs and chronic unemployment of their members, they directed their great strength toward gaining pension concessions for older workers in order to make room for younger unemployed members.

ERISA radically altered the basic nature of the pension system by placing government and its apparatus of coercion in the center of pension relations that heretofore had been completely contractual and noncoercive. Pension arrangements between a firm and its employees had been fringe benefits that reflected the choices and preferences of the contract parties. ERISA substituted mandates for contracts, and assigned additional benefits to employees at the expense of the firm's owners.

Through a comprehensive set of rules governing certain features of

private pension plans, ERISA made it easier for workers to acquire legal rights to pension benefits. It prescribed certain rules of eligibility and "vesting" of nonforfeitable pension rights. It made the employer, instead of the pension fund, solely liable for pension obligations and imposed minimum funding standards. To satisfy pension claims, the pension fund may claim up to 30 percent of the firm's net worth. The claim has the same status as a tax lien, that is, it is senior to all other private corporate debt. Pension funds must be insured either with private insurance companies or the Pension Benefit Guaranty Corporation, an ERISA quasi-governmental agency. In case of pension default PBGC may force the firm into bankruptcy.¹⁰

Private Pension Systems Jeopardized by ERISA

The general attitude of businessmen toward the private pension system is one of deep concern and uneasiness. ERISA has severely curtailed their freedom to contract and administer pension plans and substantially raised their costs. What used to be a widely used tool in personnel management has become a serious liability that may threaten the future of private enterprises. But looking beyond the burdens and dangers of the present, employers and employees alike may derive comfort from the certain fact that

politicians, in Congress assembled, may command, but individuals may evade, go around, outwit, and thwart the command.

Many pension plans have been terminated, many more will never be launched. The funds allocated to pension plans may be given directly to employees who may invest them in individual retirement accounts or just spend them. Where the ERISA mandates do raise labor costs, contractual fringe benefits and take-home pay will, in time, be reduced by the amount of ERISA cost so that, once again, the workers themselves will bear the total costs of their employment. Where such price and cost adjustments are impractical for any reason, they must expect lengthy periods of disemployment. For many elderly, who were supposed to be the main beneficiaries, ERISA may have erected the final barrier to employment and shattered the last hope for a pension.

Antidiscrimination Measures

The Equal Employment Opportunity Commission (EEOC) of the U.S. Treasury Department contributes its share of difficulties not only for the elderly, but also all other minorities. The Civil Rights Act of 1964 granted protected status according to race and sex; the Age Discrimination in Employment Act of 1967 extended the protection to the elderly. Later amendments to the acts

further broadened government authority in all matters of discrimination.¹¹

EEOC guidelines aim to ensure that employee selection does not discriminate against any group on the basis of race, color, religion, sex or national origin.¹² To that effect every employer is expected to engage the percentages of minority people that comprise the labor force in his locality. In a community where the population is preponderantly black, a plant must employ a corresponding percentage of blacks; in a Spanish-speaking community it must engage the proper percentage of Hispanic workers.

As any student of human action could anticipate, the EEOC strategy backfired immediately. It forced many employers to hire unqualified applicants just because they are members of a minority group and live in the community. Qualification, productivity and cost were relegated to secondary consideration, though these are the very factors that create jobs and assure economic survival in a competitive world.

To force companies to hire unqualified workers for any reason is to force them out of business. It cannot be surprising that EEOC contributed significantly to the exodus of business from the inner cities where millions of uneducated and untrained minority workers subsist on public assistance. To avoid the

entire problem many companies have located new plants in largely white communities where minority workers face yet greater difficulty obtaining jobs.

Large corporations usually fear adverse publicity and, therefore, readily accede to the Commission's demands. They may commit themselves to an affirmative action program with specific hiring quotas, but are quick to close the plant as soon as it begins to suffer losses. While their spokesmen may lay the blame on antiquated equipment or foreign competition, every observer knows full well that the plant was destined to close by orders of the EEOC.

False labor doctrines, held by a great number of people and enacted by the U.S. Congress, have wrought much evil. Many millions of workers whom the laws were supposed to benefit now are walking the streets in idleness and despair. Their suffering manifests anew that political power is no substitute for equity and justice, and no surrogate for the inexorable laws of the market. ☉

—FOOTNOTES—

¹*Handbook of Labor Statistics*, U.S. Department of Labor, Bureau of Labor Statistics, 1980, p. 62; also *Budget of the United States Government*, Fiscal Year 1983, pp. 4-18. Also H.F. Sennholz, *Social Security—Is Reform Possible?* (Grove City, Pa.: Public Policy Education Fund).

²*Budget of the United States Government*, Fiscal Year 1983, pp. 5-149.

³*Budget of the United States Government*, 1984, pp. 5-120.

⁴*Unemployment Compensation: Final Report* (Washington, D.C.: National Commission on Unemployment Compensation, July, 1980), p. 78.

⁵Joseph M. Becker, *Unemployment Insurance Financing, An Evaluation*, American Enterprise Institute, Washington, 1981; G.L. Reid and D.J. Robertson, editors, *Fringe Benefits, Labour Costs, and Social Security* (London: George Allen & Unwin, 1965).

⁶*The Report of the National Commission on State Workman's Compensation Laws*, Washington, D.C., 1972.

⁷The determination of risk and safety does not basically differ from the determination of the length of work day. Contrary to prevailing opinion, which credits courageous union leaders and wise politicians with the gradual shortening of the work day during the 19th century, it was the workers themselves who determined the number of hours during which industry could operate most profitably. When wage rates rose due to capital formation and rising labor productivity, more workers chose more leisure over labor. They signalled their preferences to employers through cost differentials to which employers had to adjust. Labor union agitation for legislation aimed at restricting those workers in low-productivity occupations who still chose to work longer hours. Legislative restriction was designed to benefit union members at the expense of non-union workers.

⁸"What It's Costing Industry to Comply with OSHA," *Occupational Hazards*, Fall 1974, pp. 8-9.

⁹*The New York Times*, Sept. 8, 1977, section 4, p. 2.

¹⁰Dennis E. Logue, *Legislative Influence on Corporate Pension Plans*, AEI, 1979, p. 62 *et seq.*

¹¹Robert M. Macdonald, *Mandatory Retirement and the Law*, AEI, 1978; Murray L. Weidenbaum, *Government-Mandated Price Increase*, AEI, 1975.

¹²EEOC, *Uniform Guidelines on Employee Selection Procedures*, June 24, 1974, p. 1.

Ernest G. Ross

THE SIREN OF PARTNERSHIP



AN ANCIENT SOUND echoes across the troubled waters of American politics—a haunting, alluring chant. Free economy advocates must recognize that this is not a call which would lead America forward to a safe harbor of economic rejuvenation, but one which beckons ominously back onto the reefs of economic stagnation and decay.

This deceptive sound is none other than the plea for formation of a partnership between government and business. Several outspoken politicians have been pounding podiums about business and government “pulling together” to spark the economy. The essentials always come out the same: We must have a conscious, national decision to unify the major purposes of government and business.

The idea can be superficially at-

Mr. Ross is an Oregon commentator and writer especially concerned with new developments in human freedom.

tractive. After all, if both partners decided to move in the same direction, wouldn't much otherwise wasted energy be saved? In business, cooperative partners tend to do better than feuding ones. So why not seek the same kind of cooperation between government and business?

There is a fundamental reason why not. In a government partnership with business, it is always the government which becomes the more powerful, or “senior” partner. It is ultimately government which ends up setting the direction. And when that happens, the efficiency and morality of the free market are sacrificed.

The entire idea of free markets is that they be able to function without government intervention. Bringing government into the markets “merely” as a partner guarantees intervention. To see why this is so, let us review some of the major ways in which government might act as a

partner with business: (1) by setting economic development goals, (2) by protecting preferred industries, (3) by subsidizing research and development, (4) by establishing favorable tax policies.

Setting Economic Development Goals

The argument for having the government set priorities in development is usually a variant of arguing for economic stability. If we had a national policy for development, goes the rhetoric, everyone would be able to plan better, to make business decisions without having to worry about conflicting viewpoints and antagonism between government and business. We'd all be setting our sails in a way that would best catch the wind and speed our jointly-run vessel ahead.

It sounds so easy—yet it is an impossible idea, one that has never worked. It is merely the old controlled-economy tenet put into slightly new language. And the central refutation of this tenet is still that no government, no national consensus, is capable of predetermining the market. The market is too vast, too complex, outside the scope of even the greatest minds to direct. Setting aside the fact that our economic planning bureaus are not suffused with the greatest of minds to begin with (as fifty years of government-managed economic boon-

doggles demonstrate), it is patently absurd to believe that deciding on economic development goals will make economic rejuvenation possible.

Will is not enough; that which is willed must also be consonant with reality; reality in this case is that the market cannot be accurately predetermined—only a god could do that, and men are not gods, nor can they become so by passing laws which assign themselves godlike duties. And since it is the senior partner of the government-business partnership which retains the power to make and enforce laws through coercion, it is to the senior partner, proven the less efficient of the two, that these godlike duties would accrue. Not only would we assign our partnership an impossible task; we would choose the less competent partner to make and enforce our economic decisions!

Even if economic development goals of this type could work, there still would be a serious moral barrier in the way: mandating certain goals automatically requires government to thwart other goals, the goals of individual producers (and consumers) who may not agree with the government. Their individual rights would be violated, they would be left with the dregs, with whatever tidbits of freedom of enterprise the government allowed them after its own major priorities and customers were served.

This situation cannot be avoided under a government-business partnership. For when government swings its massive legislative and taxing powers behind certain favorite areas of economic development, other areas must suffer. This should become clear as we consider our next three major ways in which government might act as a partner with business.

Protecting Preferred Industries

The main form of industrial protection in our modern age is not the tariff, the tax break, or the subsidy. It is favoritism through government contracts. Establishing national development goals presumes that specific types of industries are necessary for the goals' achievement. A national goal of putting a base on the moon is unlikely to require much help from the lumber industry; a national goal of increasing employment by building thousands of new timber mills is unlikely to require the skills of those capable of building a moon base.

We've had a real example very similar to this. When Congress agreed with President Kennedy in the early 1960s that America should land a man on the moon, the redistributed tax dollars went to favored electronics, aerospace, chemical, and other related high-tech firms—economically, at the expense of other industries. And while the actual

achievement of the moon landing was wonderful, a tribute to man's ingenuity, very few people thought to ask: What other companies might have grown up, what other firms might have survived—but did not—had all that tax money spent on the moon project been left to circulate freely in the economy? Would the same industries have thrived? Possibly—but good arguments can be made otherwise. The same questions can be asked about hundreds of government projects ranging from freeway construction, to public housing, to dam building, to economic consulting, to banking, to defense programs.

Further, because political pull is always a powerful factor in determining which firms receive bids for government contracts (despite assurances by the government of its own objectivity!), the case can be made that favored companies are not necessarily the best, not necessarily the ones most “deserving” to survive—not if we measure survival by the standards of the free market. Broadly applied, government protection of preferred industries tends to populate the market with the less able, the less efficient, the weaker. This in turn encourages malinvestment, lowers productivity, and depletes the overall health of the economy which the partnership was originally intended to strengthen!

As has been well documented

elsewhere, other forms of protectionism have similar effects. But considering the enormous amount of government spending today, protectionism through government contract favoritism is by far and away the biggest form of it, if not the worst form.

Subsidizing Research and Development

We are often told that one of the ways the United States can regain its technological lead is by accelerating government subsidies of research and development. This is a central premise of the new "Atari" liberals, that group which wants a new government-business partnership to favor the high-tech industries.

But again, it is the main partner, government, which would be dealing the cards, deciding which areas of research and development are "most" worthy. We've all heard of the Golden Fleece Award type R&D projects receiving often quite substantial government funding—projects which, if R&D funding were left to the free market, would very likely stand a much tougher time getting the needed dollars. Perhaps to most of us, such projects seem the epitome of waste. Yet, they are precisely the result of our existing, implicit partnership between government and the scientific community. Worse than the questionable nature of such obscure

projects is the economics involved: When government redistributes wealth to fund these pursuits, there is that much less money available in the market for perhaps much more productive endeavors.

What would those endeavors be? Neither you nor I can say, and that is precisely the point. It is the free market in scientific research which is distorted when the government is a priority-setting partner. How many new consumer products would we have seen, how many as yet unmade scientific discoveries might have occurred, how many new technologies would have been born had the market determined where R&D should go?

All we can say is that undoubtedly free markets make many different decisions about what is important to human beings—different from the decisions of governments. While we cannot predict the differences, we can confidently assert that the decisions would have more closely matched the preferences of the American public because that is what free markets are most adept at doing.

(As a counter to the contention that government R&D funding necessarily spawns government interference in research and development, it is often argued that much of the money goes to universities or other institutions which are free to determine for themselves how to spend the money. However, this misses the central

point that a free market may not have given *any* funding to those universities and institutions—or, perhaps, many times *more!* Governments are no more proficient at determining “worthy” institutions or schools than they are at determining “worthy” individual scientific projects.)

Establishing Tax Policies

Setting the tax structure has always been a major function—and weapon—of government. Tax breaks or deductions would be a key tool of any new government-business partnership.

The power to selectively lower taxes is an effective way for the state to encourage the growth and development of industries which its goals require. When one industry is allowed to keep more of its wealth than another, it will stand a much better chance of survival. In a sense, it is a bizarre sort of favoritism.

One cannot morally begrudge a policy which allows an industry to keep more of what it has rightfully earned. But one can begrudge the fact that other industries are allowed to keep less. This is the way the situation should be viewed. Both morally and economically, the emphasis should not be on the “unfair” tax breaks some companies get; it should be on the higher tax rates which remain imposed on other industries. The tax money is not the

government’s first; it is the producers’. The chief inequity is not in the selectively lowered taxes, but in the majority of selectively higher ones.

Higher taxation discrimination against some industries is a method for keeping those industries from becoming dominant in a way the government might consider inappropriate (or less appropriate) to national goals. This is the other side of the goal-setting coin: The “senior partner” must not only actively aid the industries it favors; it must keep penalties on those it disfavors. If it did not, the latter would rise in the marketplace, impudently reflecting the priorities of those whose choices the government has ultimately usurped: the buying public.

It should be clear that the call for a “new” partnership between government and business is not only a bad idea, but an old one. It is merely another cry from the haggard Siren of central planning.

In order to attain economic rejuvenation of the American economy, it is not a partnership we need. Rather, it is a dissolution of a *de facto* partnership. Government has already muscled in too heavily as a participant in business planning. The more we can push government back out of the market place, the faster we’ll free Adam Smith’s invisible hand to help bring a lasting recovery to America. ☉

HERBERT HOOVER: *The Engineer*

GEORGE NASH, the author of *The Conservative Intellectual Movement in America Since 1945*, was an inspired choice to write a definitive biography of Herbert Hoover, who had the bad luck to be President at the onset of a depression that turned many an intellectual to an ill-considered radicalism that still dogs our political life. As the historian of the contemporary conservative revival, Nash is just the man to touch hands with an earlier America, when an orphaned Bertie Hoover, the son of an Iowa blacksmith, could scratch his way through geology courses at Stanford University to make his fortune in mining ventures all over the world and "retire," at age 40, to start a second career in public service that led to the White House at a most inopportune time.

Mr. Nash has been at work on his Hoover biography since 1975, when the Herbert Hoover Presidential Library Association of West Branch, Iowa, picked him to carry through with a job of research that is still several years from completion. The first installment of Nash's undertaking, *The Life of Herbert Hoover:*

The Engineer, 1874-1914 (New York: W. W. Norton and Co., 768 pp., \$25.00), is at hand, a work of tremendous detail that recreates a vanished world in a way that stresses many an irony.

The world that Herbert Hoover was so busy building as a young engineer and financier was brutally murdered, when, in 1914, the "guns of August" signalled the end of a hundred years of peace. World War I gave Herbert Hoover the opportunity to make a reputation as a public servant, but it utterly cancelled the meaning of many of the projects that had engaged his attention in the years when he was building his fortune by wresting mineral wealth from gold and zinc mines in Australia, coal mines in northeastern China, copper mines in Russia, and lead and silver slag piles in Burma.

Hoover's first mining labors, as a young American engineer sent to the "outback" of West Australia by the English firm of Bewick, Moreing, were to bring some order and continuity to gold mining in places where the yield demanded the most careful kind of cost-cutting. The trick, even

along the so-called Golden Mile at Kalgoorlie in the "Westralian" bush, was to make low grade ore deposits pay a margin of profit over a long enough period to justify the expense of good stamping equipment.

The irony of Hoover's career in gold mining is that it presupposed a world in which gold would continue to be the "unit of account" in currency systems. But the pre-1914 world of the gold standard barely outlasted Hoover's mining engineer career. And it was England's attempt to revive the standard at an unrealistic level after the war that helped bring on the depression that ruined the Hoover presidency.

Hoover's cost-cutting success in the Australian "outback" was repeated in China, where he took on the job of getting rid of "squeeze" in the operation of the rich Kaiping coal mine. But political troubles doomed the efforts of Hoover's boss, C. Algernon Moreing, to make a good thing out of any Chinese concession. It was the time of the Boxer uprising. Hoover and his young wife, Lou Henry, survived the Boxer troubles, but his company couldn't solve the problem of dealing with Chinese officials who had to reckon with laws that gave to the Imperial Court the ownership of all minerals in the ground. Hoover had a low opinion of the Chinese as workers—they "lacked mechanical instincts." He argued that China would never manage to accumulate

The Life of Herbert Hoover: The Engineer may be received post-paid, by sending a check or money order in amount of \$25.00 to Herbert Hoover Presidential Library Association, Inc., P.O. Box 696, West Branch, Iowa 52358.

a "social surplus" for modernizing its economy until it had found a way to control its population growth.

If the "squalor of Asia" depressed Hoover, he had greater hopes for Russia. In his last days in London as an engineer-financier, he played a big part, mostly behind the scenes, in putting the Kyshtim copper mines in the southern Urals on a paying basis. He helped run pools in Kyshtim stock, he raised debenture money for the enterprise, and he profited by taking stock options. He made two trips to Russia, where he approved the "humane and progressive" attitude of the Baron Vladimir Meller-Zakomelsky in trying to improve the conditions of the peasants and workers at the bottom of the Kyshtim "pyramid." But at a rail station in Russia Hoover caught sight of a chain gang of prisoners headed for Siberia. The horror of the scene gave him nightmares. He felt that "some day the country would blow up." This was in 1912.

Despite the chain gangs, Hoover believed that western money and engineering expertise could do much

for Russia. In 1913 and 1914 he backed his friend, the ebullient and optimistic Leslie Urquhart, in Russian ventures. Urquhart launched the Russo-Asiatic Corporation, with Hoover on his board. The corporation acquired three extraordinary mining concessions in Siberia, including 3,000 square miles in the southern Altai mountains not far from the Mongolian border. By the summer of 1914 Hoover's Russian mining enterprises were in sight of spectacular success. Hoover also had oil interests in the foothills of the Caucasus Mountains in southern Russia.

Nash quotes Hoover as saying he stood to obtain "more than is good for anybody" out of his Russian enterprises. But "it was not to be." The enterprises that Hoover and his associates helped to guide in the Urals and Siberia all evolved toward eventual prosperity. But the Bolsheviks got all the benefits.

Hoover's long absences from America only served to make him feel more and more American. He took special pains to take time off from money-making in London to become a big benefactor of Stanford University, which made him a trustee. It was Hoover who insisted on raising the salary levels of the Stanford faculty at a time when the university was having trouble luring good teachers to its Palo Alto campus. If World War I had not in-

tervened Hoover would have returned to California, where he hoped to settle himself and his family on the Stanford campus.

Nash is remarkably even-handed when it comes to dealing with Hoover's quarrels with his London partner C. Algernon Moreing, who made Hoover promise to refrain from practicing his profession of mining engineer on British Empire soil as a condition of leaving Bewick, Moreing to become a financier. Hoover and Moreing had always kept their distances from each other. Their quarrels were not always seemly on either side. Nash remarks on Hoover's "marked sensitivity to criticism." Hoover, he says, would go to "extraordinary lengths . . . throughout his life to rebut alleged misrepresentation."

What Nash implies is that Hoover was too thin-skinned to be a politician. But that is something for another volume. Ⓢ

DEATH AND TAXES

by Hans F. Sennholz

(Center for Futures Education, P.O. Box 489, Cedar Falls, Iowa 50613), 1982

105 pages ■ \$5.95 paperback

Reviewed by Brian Summers

HERBERT HOOVER put it right on the line: "The American people have from the earliest moments been alive

to the evils of inherited economic power. Several million dollars is economic power and too often it falls into the hands of persons of little intention to use that power for public benefit either in expansion of enterprise and employment or for public services. It is the breeding ground of playboys and playgirls of morally obnoxious and degenerating character."

For once, President Hoover was in touch with the majority of the American people. Most Americans dislike playboys and snobs, and estate taxes are a good way to give them their comeuppance. Estate taxes make good political sense.

But estate taxes make no economic sense. As Hans Sennholz clearly shows, estate taxes produce very little revenue (less than 1 per cent of projected 1983 federal receipts), consume scarce capital, distort the structure of production, lead to costly avoidance schemes, and promote more conspicuous consumption than perhaps any other tax.

Of course, estate taxes do not level factories like a B-29. But when the tax comes due, stocks, bonds, farms, and family businesses must be sold to pay the bill. This consumes productive capital which is needed in other sectors of the economy. The old factory remains standing; the new factory is never built.

Confiscatory taxation leads to avoidance and evasion. The simplest

way to avoid estate taxes is to avoid leaving an estate. Sell the business, retire early, and spend it all while you can. Thus, even in the grips of recession, luxury items sell at a brisk pace, while essential industries languish for lack of investment capital.

Jewelry, furs, precious metals, gems, works of art, and bearer bonds are easily transferred, difficult to trace, and thus particularly amenable to tax evasion. When all else fails, there is always the Swiss bank account or Liechtenstein family foundation.

Having taken such a dim view of estate taxation, it is not surprising that Professor Sennholz offers a few avoidance techniques of his own. An expert on inflation, he shows how the inflation that can destroy a family fortune can be used to facilitate the tax-free transfer of wealth between generations. These sections on family annuities, limited partnerships, revocable living trusts, family mortgages, corporations, holding companies and other techniques are required reading for those who want to protect family wealth in an age of inflation and estate taxation. ☉

Death and Taxes also is available and may be ordered at \$5.95 from The Foundation for Economic Education, Inc., Irvington-on-Hudson, NY 10533.

the Freeman

VOL. 33, NO. 8 • AUGUST 1983

- The Thatcher Revolution** **John T. Murray** 451
The challenges and achievements of the Thatcher administration in Britain.
- No Nukes, No Consistency** **Frederick C. Foote** 460
Political and economic principles that make for war or for peace.
- Privatization: Is It the Answer?** **E. C. Pasour, Jr.** 462
An appeal to turn back to the market for goods and services.
- Is Forced Sharing a Panacea?** **Dennis Bechara** 470
Income redistribution policies create new victims.
- Is There a Moral Basis for Capitalism?** **Charles Dykes** 474
Of all forms of economic organization, capitalism alone rests upon a solid moral foundation.
- Lasers, Harobeds, and World Hunger** **Howard Baetjer Jr.** 482
Not redistribution, but capitalism, holds the cure for hunger.
- The General Welfare** **Clarence B. Carson** 487
The modern use of the term, as distinguished from the Constitutional intent.
- Commare N' Ciuzza and the Loan Shark** **James Doti** 495
Concerning the inefficiency of the laws against usury.
- The Importance of the Obvious** **Dennis L. Peterson** 502
Six simple principles of the free market philosophy.
- Book Reviews:** 508
"Political Economy and Freedom: A Collection of Essays" by G. Warren Nutter, edited by Jane Couch Nutter
"Pink and Brown People and Other Controversial Essays" by Thomas Sowell
"America: A Minority Viewpoint" by Walter Williams

Anyone wishing to communicate with authors may send first-class mail in care of THE FREEMAN for forwarding.



the Freeman

A MONTHLY JOURNAL OF IDEAS ON LIBERTY

FOUNDATION FOR ECONOMIC EDUCATION

Irvington-on-Hudson, N.Y. 10533

Tel: (914) 591-7230

Leonard E. Read, 1898-1983

Managing Editor: Paul L. Poirot

Production Editor: Beth A. Hoffman

Contributing Editors: Robert G. Anderson

Bettina Bien Greaves

Edmund A. Opitz (Book Reviews)

Brian Summers

THE FREEMAN is published monthly by the Foundation for Economic Education, Inc., a nonpolitical, nonprofit, educational champion of private property, the free market, the profit and loss system, and limited government.

The costs of Foundation projects and services are met through donations. Total expenses average \$18.00 a year per person on the mailing list. Donations are invited in any amount. THE FREEMAN is available to any interested person in the United States for the asking. For foreign delivery, a donation is required sufficient to cover direct mailing cost of \$10.00 a year.

Copyright, 1983. The Foundation for Economic Education, Inc. Printed in U.S.A. Additional copies, postpaid: single copy \$1.00; 10 or more, 50 cents each.

THE FREEMAN is available on microfilm from University Microfilms International, 300 North Zeeb Road, Ann Arbor, Mich. 48106.

Some articles available as reprints at cost; state quantity desired. Permission granted to reprint any article from this issue, with appropriate credit, except "Lasers, Harobeds, and World Hunger."

The Thatcher Revolution

ON May 4, 1979, the British Conservative Party brought forth a new leader, selected democratically, and dedicated to the proposition that an ounce of personal effort is worth a ton of public charity. Mrs. Margaret Thatcher, in her sex, her origins and her convictions symbolizes a transformation in the Conservative Party, which had become associated in the public mind with stick-in-the-mud attitudes. The truth is that the British people as a whole had developed an alarming resistance to change. Enormous damage had been done by a succession of governments, mostly socialist, which, despite much revolutionary rhetoric, had acted on the assumption that the good old days could be resurrected by persisting in our bad old habits.

Mr. Murray is a long-time observer of the British economic and industrial scene.

Mrs. Thatcher ushered in a real revolution by challenging the two sacred cows of contemporary economic thought, the Keynesian notion that endless prosperity could be assured by giving state handouts to those who were out of work, and the Marxist view that this Utopia should be financed by expropriating the earnings and savings of those in work. The situation which led the Conservative Party to choose such a leader, and the progress she has already made in correcting that situation, is in many respects peculiar to Britain, but it has a wider relevance.

The British political scene differs from the American in one important feature. In Britain we have a Socialist Party, dedicated in its written constitution to the public ownership of the means of production, distri-

bution and exchange. It is the political arm of the trade union movement and is largely financed by a special political levy on union members and a similar levy made on purchases in the associated national network of cooperative shops. The politically active unions, exercising monopoly control of labor in most industries, and enjoying remarkable immunity from normal legal process, are well placed to blackmail the rest of the community and to inflict great damage on the national economy.

To recognize the dangers inherent in this situation it is only necessary to recall Lenin's instruction to his comrades operating in foreign countries: "We must be able to agree to any sacrifice and even—if need be—to resort to all sorts of stratagems, artifices, illegal methods, to evasions and subterfuges, only so as to get into the trade unions, to remain in them, and to carry out Communist work within them at all costs."

Working-class movements tend to attract middle-class supporters whose compassion for the underdog is greater than their passion for Marxism. Many of such recruits, notably the late Hugh Gaitskell, have tried to wean the British Labour Party away from the pure milk of the socialist gospel to a watered-down version, in which belief in equality rather than public ownership was to be the acknowledged criterion of or-

thodoxy. The attempt failed, but because of it Britain has suffered from a succession of Labour governments which have adopted policies not only of nationalization and central economic planning but also of statutory leveling, principally though not exclusively, through penal taxation.

Equality vs. Liberty

Imposed equality and statutory expropriation strike at the heart of free societies. For enterprise, invention, daring and unstinting effort are the children of freedom—freedom to stretch for personal reward and to keep it. They are brought forth in an individual when the objectives to which they are harnessed are compatible with his own interest as he sees it. Tocqueville held that liberty and equality are incompatible aims, for men who are free will not long remain equal, and if you would have men equal you must first deprive them of their liberty.

Alongside these philosophical truths one may place some practical observations of human behavior. Men look after their own possessions much more carefully than they do those of other people. Even the idealists of the early Israeli Kibbutz had to abandon communal ownership of tools. Where no one owns, no one cares. The abuses prevalent in the British National Health Service are a public scandal. That which is free is seldom valued. Certainly people



Mrs. Margaret Thatcher
(Photograph courtesy of British
Information Services)

spend other people's money more irresponsibly than they spend their own. Economic disciplines are most poignant when they are most personal.

None of this is to disparage idealism. The ideal is the polestar of human progress. But ideals are realizable only by the self-reliant; parasites build nothing. John F. Kennedy touched the mainspring of national greatness when he said: "Ask not what your country can do for you. Ask what you can do for your country." Only a man who has met the

challenge to look after himself will have in him the strength and ability to help others. Only a government which calls for the maximum effort from the vast majority of its citizens who are fit and able-bodied can command the abundance with which to care for the poor and unfortunate. Charity therefore begins at work, for the fruitfulness of our labors determines the scope of our generosity.

The child is father to the man. For half a century we have been teaching our children that capitalism is exploitation of the poor by the rich, that the wicked white man corrupted and enslaved the "noble savage," and that our nineteenth-century forebears devoted themselves to creating slums, overworking infants and waging war, with a relish which only the darkest insights of Dr. Freud can explain. Little mention has been made of the fact that capitalism alone created the modern world, with its unique abundance and greatly extended life span, by developing and harnessing science; and that our ancestors showed the world the way to civilized living by abolishing slavery, introducing public health regulations and establishing education for all.

The Myth of Utopia

The myth of primitive Utopia, propagated by such naive or phony anthropological studies as Margaret Meade's recently debunked *Coming*

of Age in Samoa, has masked the fact that the "noble savage" was more corrupt, more enslaved and more diseased before he received the white man's visitation. The benisons the white man brought have been forgotten; a whole industry has been built on reminding the world of his shortcomings. We will not build a more peaceful world by cherishing these hateful distortions of history. The greatest danger to Western civilization comes not from the enemies without, but from the treason of intellectuals within, who have made our children ashamed of their heritage.

The typical British left-wing intellectual is visionary, sentimental and revolutionary in an amateurish way. He demands a fuller life for all as a natural right, and prefers mystic insight and apocalyptic utterance to mundane concern with productivity, industrial costs and market signals. He studiously avoids real problems and current events, preferring to concentrate instead on nostalgic adulation of the "pioneers" and impassioned, though somewhat imprecise, intimations of the millennium.

Such types usually come from, or enjoy, a bourgeois life style and practice professions or occupations in which their capacity to manipulate intellectual abstractions is almost never brought to the acid test of practical execution. They constantly

underestimate the precariousness of the hard-won civilization which they are bent on changing, and project the assumptions of their own comfortable and sheltered lives into all their thinking, whether it be some Utopian idealization of working-class aspirations, or some purblind reliance on Soviet sincerity. They command the support of the dreamers, the failures and the misguided; all those in fact for whom the burden of reality has become too great and who yearn to cast it upon some miracle-working system or omniscient superman, so that they may explain away failure and frustration as someone else's fault.

All such potential Fascists are doomed, when they achieve office, to increasing invasions of the democratic process and destruction of individual freedoms as they struggle to make intractable humanity conform to their smooth premises. In the modern world the accession of such revolutionary simpletons to power is doubly dangerous, for as they recklessly destroy traditional controls and institutions, democratic capitalist society becomes increasingly unworkable and that anarchical situation develops in which the disciples of Lenin flourish.

No intelligent industrialist would underestimate the importance of industrial communications, or deny the historical role of the trade unions in improving them. Certainly in any

society which calls itself civilized each citizen should have an important say in the terms and conditions under which he works. But entitling workers to a seat on the Board of Directors is another matter. In a world of universal educational opportunity anyone in our society can achieve Board status. Look around any company and you will find plenty of directors who came through the ranks.

Empowering Workers to Manage

The future of our industrial society depends on people earning power and responsibility, not being given it as a political or trade union perk. There is little sense in imposing directors on industrial boards in a free enterprise society where promotion is already open to talent and acquired expertise. Abraham Lincoln once pointed out that a sheep does not have five legs if you call the tail a leg, for you do not make a tail into a leg merely by calling it one. Likewise you do not make a worker into a director merely by calling him one.

There is a popular notion that we should buy industrial peace by giving workers shares in industry. But capitalism involves the clear recognition that the rewards of capital for denial of immediate satisfactions, for risk bearing, for acceptance of losses as well as profits, and for patient enterprise, are quite distinct and separate from the immediate and effec-

tually contractual rewards of labor. This is a very fundamental distinction, a line which we blur at our peril. You do not, to use a socialist phrase, "bring ownership to the people" without issuing a license to expropriate the property of others, which is the essence of Communism.

Capitalism is about people earning their own money, saving some of it to acquire property, and subsequently being permitted to enjoy the fruits of that property, if any. The process has long been freely available to anyone in Britain who cared to participate. Significantly, only 3.8 per cent of the working population have sought to avail themselves of this opportunity to participate in industrial ventures. Clearly workers do not want the responsibilities and downside risks of shareholding but, understandably, they would not be averse to being given free entitlement to its rewards.

It would be difficult to conceive of a single measure better calculated to weaken the mainspring of capitalist free enterprise. Yet many decent people clutch at this purported panacea which, they think, would provide a viable half-way house between capitalism and communism. Such people, including an eminent religious leader who has recently taken to anathematizing both systems as if there were nothing to choose between them, should take note of Bertrand Russell's observa-

tion that on the frontiers which run between capitalist and communist countries, the refugees are all moving in one direction.

Opening the Books

Another idea now favored by the British trade unions and their Socialist friends is that companies should be compelled to open their books to continuous inspection by union officials, in order that they may monitor management performance and, if they think fit, ask the government to intervene in the company's affairs. The proposal reveals a complete failure to comprehend the nature of management in a free market economy. Apart from the vital importance of commercial and technical security, which is recognized in Company Law by the limitations placed on information given to shareholders, they have not grasped the primary role of management which is to make decisions, and, which is more, to make decisions continuously and quickly, often on the basis of inadequate information.

The mercurial shift in the pace and pattern of commercial events seldom leaves top management time for deliberation and research. Under such conditions no manager can be infallible. The best one can hope is that he will be more often right than wrong. If, however, you place him in a situation where every decision he makes is the subject of continuous

scrutiny and criticism and endless inquests—if you place him permanently in a kind of public pillory—then you will achieve only one result, he will cease to make any decisions at all. That is the end of all enterprise, the beginning of bureaucratic procrastination and industrial stagnation.

Coping with Uncertainty

One of the great delusions of the present century is that human rewards can be determined by what are usually referred to as prices and incomes policies. Adam Smith taught us long ago, and Hayek has brilliantly updated the lesson, that individual freedom is the prerequisite of economic efficiency. Only the fluid coupling of a free market system can keep the motor of demand and the wheels of production in continuous and fruitful harmony. What free individuals will collectively want cannot be foreseen because you cannot forecast fancy and you cannot anticipate innovation.

There is now incontrovertible evidence that centrally directed economies cannot supply the abundance and variety produced by free market economies. The fundamental principle of free market economics is that prices and incomes cannot be fixed but must flex to market requirements. Ignoring this principle has cost us dear, for labor is a commodity and in a market embarrassed with

surplus labor the price of labor must fall to clear the market and stimulate new demand.

Wages have not fallen as they should have done in recent years because politicians infected with half-baked Keynesian notions have introduced all kinds of artificial dampers to price responses to market signals, preferring to keep workers in subsidized idleness rather than encouraging them to adapt to ruling economic conditions. Having thus inhibited the market coordinating and clearing functions, we are now faced with massive unemployment of workers who have priced themselves out of a job.

The bureaucratic mandarins who conspire with the politicians to design national plans for instant Utopia, will not understand that even if the feat were possible without doing violence to our liberty, it still would not please us. Human beings are perverse. They prefer self-government even to good government. They want freedom not only to do what they like but to do what the planners think they should not like. Socialists will have none of this, for at the heart of every socialist there is a censor, and Utopia must be drawn in their colors.

Remaking the Individual

If man as he is will not conform to their wonderful plans then additional plans must be drawn up to

improve him so that he will conform. Thus the walls of the prison house are fashioned with kindly hands and all around us, in our social planning, our economic planning and our town planning, the monuments of misguided benevolence cast their shadows wherein no spirit dwells.

Paradoxically, in the planned economy the only equality which matters, equality before the law, what A. V. Dicey called equality of consideration, soon joins liberty in the collectivist dust bin. Justice resides in equal application of rules which reflect the moral sense of the community, and not in the selective application of regulations aimed at establishing an arbitrary interpretation of Utopia. When a Socialist talks about justice he usually means punishing those who do not conform to his plan.

You cannot expect much justice from those who share Proudhon's premise that private property is theft. The right to own private property and to have the state ensure the protection of that right is one of the oldest and most fundamental conditions of a civilized society. Yet collectivist administrations throughout the world have been for so long insidiously nibbling away at that right that we scarcely recognize the scale and importance of our loss. This is the root of the crime wave surging through our societies.

Moral decay and economic nonsense flourish in our society under the camouflage of such high-sounding euphemisms as "redistribution of wealth," "the planned economy" and "the just society." The penal levels of taxation, effectively forced labor at the behest of the state, are excused as charity, or even as some sort of deserved penance for the wickedness of having become rich. Yet stealing in the name of charity is still stealing and discouraging the wealth makers is no service to the homeless and the hungry.

There is no system at once so self-adjusting and so productive as that which enables men of talent, thrift and effort to acquire capital which they can then plough back into the system, backing their own judgment with their own money. The cumulative investment decisions of such individuals, men of proven shrewdness, are obviously going to be more careful and more correct than the huge central investment decisions of bureaucrats investing other people's money.

The annals of British industry are filled with endless illustrations of this truth, from the successes of our merchant venturers and the rags-to-riches sagas of engineering geniuses like Lord Nuffield (Morris Motors) and Henry Royce (Rolls-Royce), to the chronic loss-making record of almost all our state-owned enterprises. Marx said that the only true

wealth comes from work but his modern disciples in Britain deliberately discourage work, telling their supporters that by working they are only lining the capitalist's pocket.

Capitalism Triumphs by Offering Consumer Satisfaction

Fortunately capitalism has triumphed over this nonsense by showing the worker the jam, an incredible abundance of consumer satisfactions, ranged tier upon tier in our capitalist supermarkets, changing in assortment and specification continuously in precise response to the signals of consumer demand. That does not happen in Omsk. And despite all the egalitarian claptrap to which he has been subjected, the average man recognizes that his living standard and that of his children depends on more able men than himself and he is prepared to hire that ability.

The wonders of the modern world which surround him, the space ships and the nuclear power, the computers and the new world of genetic engineering, no less than the press-button magic which increasingly transforms modern living and which creates in the lay mind an awe and admiration for the technician and the scientist formerly reserved for the witch doctor and the high priest, are tangible rewards for which John Citizen will pay. Everyone pays the messenger bearing gifts. Capitalism

is a cornucopia, a veritable horn of plenty.

Our experience, our traditions and our wisest philosophers are now delivering one clear message. The centrally planned state, with its egalitarian measures and its assumptions of economic omniscience is a recipe for economic failure, social sterility and political tyranny. The Thatcher revolution is therefore founded on three simple themes. Restore the authority of free markets. Encourage effort and discourage idleness. Reduce the role of the state and promote the sense of personal responsibility. Pursuing these policies she has, in four years of office, transformed the British situation.

The rate of inflation which as re-

cently as 1975 was twenty-six per cent has been reduced to only five per cent. She has shaken up management and shaken out chronic overmanning, causing a dramatic rise in individual productivity and considerably reducing the time lost in industrial disputes. The complex process of denationalizing the basic industries has begun and the pruning knife has been systematically applied to the public services. Despite the inevitable transitional increase in unemployment caused by these new disciplines her personal popularity with the electorate remains high. Not since Churchill in war has Britain had a Prime Minister who so completely measured up to the challenge of the times. ☉

W. M. Curtiss

THE removal of tariffs restores justice to consumers—to millions and millions of consumers. The fact that it may seem to result in a temporary inconvenience for a few producers is merely the correction of an injustice previously established.

Free trade is such a simple solution for so many of the world's ills. It doesn't require endless hours of debate in the United Nations or the International Labor Organization or the Food and Agriculture Organization, or any other world-wide debating society. It requires only that *one nation* see the light and remove *its* restrictions. The results will be immediate and widespread.

It isn't necessary for all nations to agree jointly and simultaneously to remove restrictions. If only one nation does it, some good is accomplished—both for itself and for its customers. A great nation, such as the United States, could do it and thus set an example for others to follow. It would not be meddling in the affairs of other nations; it would merely be looking after the best interests of its own citizens. And instead of being resentful, other nations would be grateful.

IDEAS ON



LIBERTY



"So what have you got against nuclear holocausts," I recently asked a student friend of mine wearing a little, orange "No Nukes" button. We both laughed, the message was clear: Nobody, obviously, wants a nuclear holocaust.

Nor does anybody delight in spending the billions of dollars needed to protect this country from the Soviet Union. I'm a little dismayed, then, by those "peaceniks" whose little buttons seem to imply that *they* have come to the conscientious realization that amassing weapons that can destroy the world is undesirable, whereas President Reagan and others, presumably, have not.

Rather than simply lamenting the arms race, though, there is a deeper issue here that I would like to address, and this issue seems to evade

the consciences of the button bearers.

What is the philosophical basis of the arms race from the Soviets' point of view? It is this: that the use of aggressive force against some is unavoidable, or justified in the interests of the "greater good." I call it the "socialist premise" and it is the bankrupt yet uncontested philosophy of our day.

The Soviet Union provides the boldest expression of this philosophy in the modern world. For the "greater good" it is justified that the lives and properties of all Russians be subjugated to the State. Millions of individuals who would prefer to live for themselves, their children, or even their God are brutally murdered, detained in labor camps, or forced to lead lives of desperate servitude.

And Soviet "leaders," moreover, do not limit their warfare to the inhabitants of their country. Today, the Red Army is poisoning and slaugh-

Fred Foote is the editor of *Prospect* magazine published for Princeton University Alumni. He will be enrolled next year in Harvard Law School.

tering innocent Afghans, letting the lifeblood of the Polish people, and, clearly, continuing its crusade to advance Soviet hegemony until it imprisons the entire free world.

The fuel that runs this machine is the philosophy that has caused wars in the past, and will cause them in the future: the philosophy that some individuals (blacks, Jews, the rich, whoever) are wholly or partially expendable for the benefit of others.

There is something obscene, therefore, in that those most vehemently opposed to the arms race *have accepted the doctrine that has precipitated it*: the socialist premise.

Consider the people who are most frequently seen wearing the "No Nukes" buttons. Are they not the same ones who argue for federal money to subsidize their educations, abortions, contraceptives, hospital bills, food stamps, fuel costs, retirements, camping trails, and solar roofs? Are they not the same ones who argue, in fact, on behalf of nearly every new federal program that comes down the pike, and ignore (or perhaps *relish*) the fact that these programs must be force-funded, at least in part, by the taxes of others?

Where there are "No Nukes" buttons, there often seems to be no consistent thinking either. Advocates of Marxist or even mixed economies cannot deny the philosophical premise they share with the Soviet Union. Nor can they deny that this premise

similarly involves the sacrifice of other men's lives and properties in the name of the "greater good."

Laissez-faire capitalism, in contrast, is the only social system that consistently upholds individual rights and bans the use of force against peaceful citizens. It is the only system under which no group, however large, can use force against another group, however small. *In theory and in practice, laissez-faire capitalism is the only social system fundamentally opposed to war.*

Yet, blinded by their envy of the productive and the industrious and the deserving, the "peaceniks," their professors, and republicans and democrats alike, refuse to acknowledge the unprecedented material benefits and unparalleled moral justification of laissez-faire capitalism. Instead, they doggedly adhere to the socialist premise. They avert their eyes from the plunder and misery that cruelly scars the face of every socialist scheme from the command economies of the Eastern Bloc to the Indian reservations of America. And they wish, with their referendums, buttons, and marches, to outlaw war with *armed* enemies as they advocate war with the *unarmed* and *innocent* citizens of this country.

I'm looking for a little, orange button of my own: "No Force." Don't expect most "peaceniks" to snap them up. Ⓜ

PRIVATIZATION: Is It the Answer?

DURING the past 50 years, there has been a pronounced shift in economic activity from the private to the public sector as government expenditures (local, state, and federal) increased from an eighth to a third of Gross National Product. In recent years, mounting budget deficits and dissatisfaction with both the quality and cost of governmentally provided goods and services—including education, law enforcement, roads, mail service, health care, public utilities, and welfare programs—have heightened interest in the appropriate role of government at all levels. This growing interest in the appropriate role of government coincides with the “privatization” movement.

Privatization involves the extension of market principles to goods and

services currently financed and/or produced by government. Relying on mounting empirical evidence, it suggests that many activities currently performed by government could better be done by private firms. This paper explores the advantages of privatization and the limits of half-way privatization measures which are not rooted in private property and private control.

In his recent book, *Privatizing the Public Sector*, E. S. Savas cites evidence that private companies relative to government agencies can provide fire protection, mail service, garbage collection, health care and a host of other services at lower cost.¹ Savas discusses a number of ways to halt and reverse the role of government. Four of the most important ways of increasing the role of market forces in the delivery of goods and services are contracting out, franchises, user fees, and “load shedding.”

Dr. Pasour is Professor of Economics at North Carolina State University at Raleigh. Some of the material in this article was adapted from his “Government Provision and Production of Goods and Services,” *Tar Heel Economist*, North Carolina State University, Raleigh, April 1983.

Market Processes

In contracting out such activities as refuse collection and fire protection services, government remains responsible for financing but selects one or more providers through competitive bidding. In contrast, an exclusive franchise is an award of monopoly privilege to a private firm to provide a particular service usually with price regulation by an agency of government. Electric power, gas and water distribution, telephone service and cable TV are often provided as franchise services. Whereas government pays the producer for services contracted out, the consumer pays the producer for franchise services.

In the case of user fees, users bear some or all of the cost of the good or service provided by government. During the past five years, for example, a number of cities have instituted specific fees to pay exclusively for garbage service.² The use of user charges is technically feasible wherever nonpayers can be excluded from the use of a good or service.³

Finally, "load-shedding" is complete privatization where government bows out and allows the private sector to produce the service and offer it directly to consumers. An example is municipal refuse collection where towns and cities get completely out of the garbage collection business and allow free competition. A recent proposal to have the fed-

eral government sell some of the publicly owned timber and grazing lands is another timely example of "load shedding."⁴

What are the advantages of privatization? Most people value the freedom to choose, and competition among suppliers of goods and services is important in maintaining consumer choice. It is ironic that while private sector monopolies in the United States are legally prohibited by antitrust laws, it is often assumed that firms competing with the Post Office and other public sector agencies constitute wasteful duplication. It is the thesis of this paper that increased market competition is important in improving mail service and many other activities currently financed and produced by government.

Expanding choice and diversity of consumer goods and services thus involves a strategy of increasing competition in activities where government is now dominant including mail services, education, Social Security, and other areas where competition, if not prohibited, is at least inhibited. In so far as it serves to increase competition, privatization has the potential to reduce the stultifying effects of government provision and production of goods and services. Consider some of the problems inherent in government financing and production of goods and services.

Pricing Problems in Education and Other Government Projects

Private and secondary education is the largest function of state and local government in the United States as measured by size of budget or number of employees. Although state-run schools do not have a legal monopoly, parents of children in privately financed schools must pay twice for education—once through taxes to support state-run schools and again through tuition payments to the schools of their choice. Consequently, financial considerations induce many students to attend state-run schools. A range of proposals, including tax deductions for tuition expenses and compensatory tuition vouchers to low-income families, are increasingly being discussed as ways to increase competition and expand parental choice. Regardless of the merits of these particular proposals, they illustrate the fact that government *provision* of education (educational financing) does not imply government *production* of educational services (government-run schools). A failure to maintain the distinction between government financing and government production has undoubtedly contributed to the current strongly centralized educational system.

At least some of the increase in government production of goods and services is due to pricing methods used. When the price of a good or

service is reduced below the market-clearing level, consumers are not able to obtain as much as they desire at the going price. Although shortages of government services including water, parks, other recreational facilities, and so on, are often taken as evidence that government is spending too little on these activities, shortages merely reflect prices arbitrarily set too low on the basis of current supply and demand conditions. That is, a shortage is created whenever price is arbitrarily held below the market-clearing level.

Government goods and services are priced below cost to users for at least two reasons. First, local and state expenditures for public transportation, health care, environmental protection, and other services have been increased because of revenue-sharing arrangements involving matching federal funds. In these cases, the cost borne by taxpayers at the local or state level to provide the service is not the full cost of the service. If an owner of a grocery store were to price milk or bread at half the normal price, customers would buy considerably more milk than when the price reflects the full cost. Similarly, the demand for governmental services at the local or state level is increased by “revenue-sharing” arrangements where citizens, ostensibly at least, can obtain a larger amount of goods and services for a given outlay.

Of course the "shared revenue" involves a cost, but it is largely borne by other taxpayers. Communities which forgo revenue sharing and finance services on their own must pay twice—once through taxes to support revenue sharing and again through local taxes to provide the service in question. Consequently as long as the revenue-sharing system exists, every qualifying unit of government has a financial incentive to "get its share."

Second, even when financing occurs fully at the state, local, or federal level, publicly provided goods and services such as water, garbage collection, libraries, parks, golf courses, and so on, are often underpriced due to political considerations or equity reasons. There is a strong feeling on the part of many people that water, education, and other "necessities" should be provided below cost to assure that the service is provided to lower-income groups. In addition, since the quantity demanded of a product is greater the lower the price, there are advantages both to political incumbents and to government employees in pricing goods and services below cost. Thus, water, museums, recreational facilities, governmental publications, and other collectively provided goods and services are frequently underpriced regardless of the income level of the recipient. Users are then induced to demand "too

much" of these goods and services.

The preceding discussion implies an expanded role in the use of user charges, where nonpayers can readily be excluded, for a wide variety of government activities including such services as roads, bridges, airport landing rights, elementary, secondary, and higher education, water, refuse collection, museums, public parks and many other recreational facilities.

How about roads? Toll roads and streets are technically feasible but involve high transactions costs. However, technological improvements in electronic sensing devices permitting autos to be charged for the use of particular roads could greatly reduce the high transactions costs associated with toll roads and streets. Automated vehicle identification systems which would allow vehicles so equipped to bypass toll booths and be billed monthly are nearing commercial feasibility.⁵

There are also opportunities, as Savas suggests, to have private firms produce many of the services traditionally provided by government, including fire protection, mail service, health care, and garbage collection. In the case of garbage collection, for example, contracting out of residential collection has shown impressive savings: "Nationwide studies in the United States, Canada, and Switzerland, as well as regional studies in Connecticut and the Mid-

west, have shown that government garbage collection is 29 to 37 percent more costly than private contract collection."⁶ Thus, even if "load shedding" is not achieved, improvements can be made in the production and pricing of many government services.

Limits of Increased Efficiency

As shown below, however, it isn't possible to achieve the full advantages of "load shedding"—of private provision and production in decentralized markets—through the use of user charges, contracting out, franchise, and other half-way privatization measures. That is, there are limits in the extent to which the advantages of decentralized markets can be achieved in government provision and production, or in government monitoring of goods and services produced under contracting out and franchise arrangements.

Attempts to apply market methods to the provision and production of goods and services produced under the aegis of the state must overcome inherent information and incentive problems. Consider first the information problems confronting taxpayers and other citizens in monitoring prices charged for goods and services produced by government. Even if the price of water, garbage collection (or other service) is set high enough to prevent a shortage, there is no objective basis in the absence

of competition for determining whether the price charged is too high. That is, the individual user in the absence of alternatives has no objective way to evaluate prices of government services such as garbage collection and fire protection.

The information problem is no less tractable in the case of government monitoring of prices of electricity and other utilities produced under government franchise. Any monitoring agency, presumably in attempting to set price on the basis of cost, only has access to firm accounting costs. These past outlays, however, have no relevance to today's decisions. It is the *expected* costs and returns based on *future* economic conditions which influence current entrepreneurial decisions. And, since the future is always uncertain, there is no reason to expect the outside observer in the monitoring agency to make the same assessment of these conditions as the decision-maker in the regulated firm.

The incentive problems associated with government financing and production of goods and services are no less formidable than the information problems just discussed. In competitive markets, decisions are made on the basis of expected profits or losses, and the conduct of the entrepreneur is constrained by profit considerations. In order to reap financial rewards, the private entrepreneur must successfully anti-

pate consumer wishes and satisfy them at a competitive price. The market process provides an incentive for good performance and a mechanism to reallocate resources to those best able to use them. Thus, the businessman is induced by profit reasons to hire competent labor, to economize in purchasing inputs, to price products competitively, and to maintain product quality. In the words of Ludwig von Mises:

Because this is so, there is no danger in leaving important decisions to his discretion. He will not waste money in the purchase of products and services. He will not hire incompetent assistants and workers; he will not discharge able collaborators in order to replace them by incompetent personal friends or relatives. His conduct is subject to the incorruptible judgment of an unbribable tribunal: the account of profit and loss.⁷

The situation is likely to be quite different under government financing, production, or monitoring. Government agencies are generally not profit-seeking enterprises, and profit and loss considerations have relatively little effect on production and marketing decisions. That is, bureaucrats and politicians do not face incentives that foster good performance. The results of central planning whether for land, garbage collection, production of electric power, or for the entire economy are clear. Resources publicly owned or controlled cannot efficiently accommo-

date consumer wishes when contrasted with private ownership and control.

Even if information problems could be overcome, incentive problems would prevent the efficient use of resources allocated through central direction.⁸ In contracting out or franchise arrangements, for example, opportunities for financial gain by decision-makers in government agencies are created by the method of selecting the firm to provide the service. Thus if government selects only one supplier for a service—whether it is for bus transportation, refuse collection, cable TV or some other service—the potential windfall gains to the firm obtaining the franchise provide an incentive for firms to engage in bribery and other “rent-seeking” activity and for public officials to respond.

Furthermore, firms operating under profit controls have an incentive to use the controls to their own advantage. In the case of a firm operating under government franchise where price charged is to be based on production cost, for example, management has an incentive to inflate costs by padding expense accounts, by taking expensive business trips, and by taking returns in the form of such nonmonetary perquisites as lavishly decorated offices including thick carpeting, expensive furniture, expensive paintings, and so on.

Similar information and incentive problems are also endemic in the "scientific" approach to management of public land. The aim of the early conservation movement in the United States was to introduce "scientific management" into government.⁹ If government is to function efficiently, according to this view, politics must be confined to specifying general policy directions, leaving the actual administration to skilled professionals. In view of the information and incentive problems inherent both in government production and in governmental monitoring of private production, widespread dissatisfaction with the results of "scientific management" of rangelands, forests and other publicly owned lands is not surprising.

Conclusions and Implications

Savas, after analyzing a number of studies comparing public and private provision of services, concludes that "... those who believe on a priori grounds that private services are best can find considerable support for their position."¹⁰ Information and incentive problems are endemic in *all* non-market production and financing arrangements. First, as described above, there is a separation of power and knowledge—creating information problems. Those in power do not have and cannot obtain the information which is automatically conveyed between producers

and consumers through market prices.

Second, in the provision and production of goods and services through government, there is a separation of power and responsibility creating incentive problems. Politicians and bureaucrats are typically motivated by short-run considerations such as the next election and are never solely responsible for their actions. Ramsey, in making a case for the privatization of the New York City subway system, emphasizes the incentive problems inherent in public ownership:


Private management is far more efficient than public management, simply because of the difference in the pressures it faces. In publicly owned firms not only are there fewer and smaller personal incentives to be efficient but the politically expedient response, which tends to solve today's difficulty at tomorrow's expense, is ever present. This is because the time horizon for the payoff from political decisions is very short, often less than a year and seldom greater than a couple of years. Better for the politician to curry favor now and leave the problems to the next administration, the next generation of users.¹¹

It is not possible to obtain the advantages of competitive markets in government provision or production of goods and services. While shifting productive activities from the federal to state or local governments along with the adoption of user fees,

contracting out, franchises, and other quasi-market arrangements may improve collectively provided or produced goods and services, these arrangements do not and cannot provide the incentive and informational advantages of load shedding—that is, of decentralized competitive markets.

Competitive markets are rooted in private property, and there is no way to simulate competitive conditions under conditions of government financing or government production. F. A. Hayek and Ludwig von Mises, in the economic calculation debate, demonstrated that the concept of markets without property is a “grand illusion” and that economic calculation is impossible unless markets are organized on the basis of private ownership of property. Thus, while the efficiency of government activity may be increased by the imposition of user charges, by maintaining flexible prices to eliminate shortages and surpluses, by contracting out and franchise arrangements, or by other half-way privatization measures, there is no reliable benchmark against which to compare governmentally produced goods and services in the absence of private property.

In short, regardless of whether the economic problem concerns land use, garbage collection, electricity, milk, or another good or service, there is no other way to achieve the benefits

of decentralized competitive markets. Privatization, as a way to avoid the information and incentive problems inherent in government ownership and control, requires private ownership and control. 

—FOOTNOTES—

¹E. S. Savas, *Privatizing the Public Sector* (Chatham, N.J.: Chatham House Publishers, Inc., 1982).

²Robert W. Poole, Jr., “Municipal Services: The Privatization Option,” *The Heritage Foundation, A New Federation Task Force Report* No. 238, January 11, 1983.

³Where a service, if provided, will benefit nonpayers as well as payers, each individual has an incentive to “free ride”—to accept the benefits of the service provided by others without paying the cost. This “free-rider” incentive (arising only when nonpayers cannot be excluded) is a major justification for government provision of law and order (including national defense).

⁴Steve H. Hanke, “Privatize Those Lands,” *Reason*, Vol. 13., No. 11, March 1982.

⁵R. S. Taylor-Radford, “Rush-Hour Remedy,” *Reason*, Vol. 13, No. 9, January 1982.

⁶Poole, *op. cit.*, p. 6.

⁷Ludwig von Mises, *Bureaucracy* (New Rochelle, N.Y.: Arlington House, 1969), p. 35.

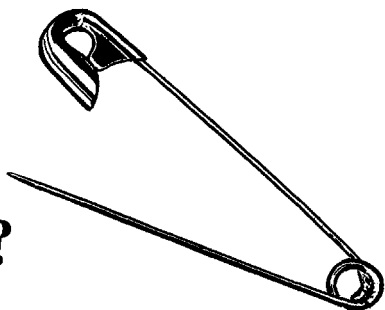
⁸For a discussion of the adverse effects of the subsidy-masked “low” price of education see: Ernest G. Ross, “The Price of Education,” *The Freeman*, February 1983.

⁹Robert A. Nelson, “Making Sense of the Sagebrush Rebellion: A Long Time Strategy for the Public Lands” (paper presented at the Third Annual Conference of the Association for Public Policy Analysis and Management, Washington, D.C., October 23–25, 1981).

¹⁰Savas, *op. cit.*, p. 111.

¹¹James B. Ramsey, “Selling the New York Subways,” *National Review*, February 4, 1983, p. 115.

Is Forced Sharing a Panacea?



DETRACTORS of the free market proclaim that most social problems may be solved through the political process of coercive income redistribution. It is often pointed out, for example, that if the government had additional powers to redistribute income, many existing social problems would disappear. This criticism of the workings of the market order rests on a vast oversimplification.

Social problems have a number of causes, many of which are the result of previous government interference. For example, unemployment is, in large part, a result of the labor laws and minimum wage structure. It is naive to think that government spending will eliminate unemployment while the laws that created the

unemployment in the first place are left in effect. The result would be a misallocation of resources in the economy, not a higher productivity from redistributive policies.

This does not mean that government is powerless to eliminate unemployment, only that the programs generally followed have been erroneous. So it is with the majority of the other social problems common in the world today. Most of these problems—usually a shortage or a surplus of goods and services caused by price controls—would be eliminated if the controls were withdrawn. However, by advocating a spending program, the politicians give the impression of doing something positive to eliminate the problem—and loyalties are inevitably created. There is a self-interest on

Mr. Bechara is an attorney in Mayaguez, Puerto Rico.

the part of the politicians to continue the "spend and spend, tax and tax, elect and elect" practices.

It is imperative to address the resolution of social ills with an analysis of both the pre-existing structural barriers as well as the proposed redistributive solutions. Many of today's economic ills may be traced to diverse governmental interferences in the workings of the market. But it may be more instructive to visualize some of the effects that redistribution or spending policies have on the economy.

It is customary for economists to analyze the market sector by sector. However, all sectors of the market are interrelated. Specifically, consumer behavior affects the availability of consumer goods, the allocation of the factors of production, and individual income. When the government interferes in any one of those areas by engaging in redistributive policies, it inevitably sets off disturbances in the other two.

Transfer of Factors of Production

When a demand exists for a particular consumer good, entrepreneurs are quick to transfer some factors of production toward this more profitable use. For instance, if demand increases for furniture, entrepreneurs will invest capital in those areas which provide the natural resources for the production of furniture as well as in the manufacturing

process. The demand for the factors of production is therefore derivative of the demand for consumer goods.

Similarly, income is generated when entrepreneurs are able to successfully serve consumers. The greater the popularity of goods and services provided, the higher the income earned. High profits in an industry signal competitors that the business is attractive. Cost-saving measures are brought about by the profit incentive, all to the benefit of consumers. But what happens when these market relationships are severed by the political process of income redistribution?

When income is expropriated and redistributed, consumer choices are inevitably frustrated. The severity of the consequences depends on the magnitude of the confiscation and the universality of the measures. If certain areas of production are more heavily taxed than others, profit margins will decrease accordingly, and there will be less incentive for outsiders to enter the field and compete. If taxes are levied against consumer goods, the public will tend to readjust its demand. Consumers may substitute other goods, or they may curtail their demand for other things in order to purchase the goods which are more costly due to the tax. Or, marginal producers may withdraw from the field as demand slackens.

The range of adjustment is as varied as the forms of governmental

taxation. Subsidies play a significant role in the behavior of consumers. Goods that would not otherwise have been produced in the quantities that the governmental authorities deem necessary are demanded because of the attraction of the subsidies or because of the protection of a tariff. These devices distort communications between consumers and producers at the expense of the taxpayer.

The Impact Upon Society of Market Interventions

Society in general is affected by interventions in the market place. Goods that consumers want are not being produced because of the governmental measures taken to alter production. Factors of production are misallocated, and their further supply becomes dependent upon the governmental program that generated the shift in demand. Therefore, political forces are created that lobby for the maintenance and expansion of these programs. If the government eliminates a subsidy or a tariff for a particular product line, the voters are reminded that many families will be affected with the certain loss of jobs that a shift in demand would create.

The true issue, however, will be muddled by these arguments. The question is whether one respects consumer freedom of choice, or substitutes governmental controls. In-

variably, the groups most adversely affected by a change in governmental policy will lobby for the retention of measures that benefit them. This activity, however, does not detract from the real issues; it only serves to bring some of the ugly consequences of intervention into focus.

Thus, we see that redistribution of income can take the form not just of taxing Peter to give to Paul, but of subsidizing goods and services, controlling prices, and engaging in countless other interventionist policies.

One of the most common examples of government intervention is in response to the charge that capitalism fosters bad literature. The frequent solution to this supposed problem lies in government promotion of the fine arts. The argument is that the economic system does not accurately reflect the wishes of the people. The free market economy tends to produce that which is demanded by consumers. What the critics are really saying is that they disagree with the public's choice. Their solution is to persuade the public that the fine arts are preferable to whatever is being produced.

Capitalism as a system is at fault in the same sense as a mirror is at fault: it reflects a reality. The viewer may wish the mirror to portray a more handsome face, but it can only reflect that which is in front of it. The free market produces that which

the public demands. If the government intervenes to change the extent of production, it only succeeds in substituting goods that are less desirable to the public than those that would have been produced. Far from eliminating social ills, the policies of redistribution exacerbate new ones by misallocating scarce resources.

Schemes that redistribute the wealth affect not only the victims of the programs but also the public at large. Measures taken to foster some special behavior may very well bring forth unforeseen consequences. Ad-

ditionally, the idea that income may be divorced from the rest of the market forces is based on the false assumption that income will always be generated as if from a machine running on an inexhaustible supply of fuel. Yet, the reality is that the incentive to obtain a profit is the fuel that generates income. Income redistribution policies only serve to deplete the efforts aimed at the production of wealth. Instead of ameliorating social evils, redistributive policies lower productivity, misallocate resources, and create new victims of the political process. ●

Redistributing the Wealth

WHAT'S wrong with redistributing the wealth? Actually, there's nothing wrong with sharing wealth as long as it is done voluntarily. In a free economy, wealth is redistributed myriads of times daily. It is the *forced* and *compulsive* redistribution which is wrong—the element of coercion. When tax laws are imposed not to raise revenue but to redistribute wealth, such laws are wrong.

Why redistribute wealth anyway? What would be the purpose of such an act? If the purpose were to destroy initiative and incentive to work, that purpose would surely be fulfilled. Under continuous equalization of wealth, there would be no will to work. If anybody created more wealth, it would automatically be taken and redistributed to maintain the state of equality. With no incentive to create—and indeed a penalty in the form of confiscation—the total to be divided among all the people would steadily go down, as would everybody's equal share. As food supplies were eaten and as clothing and tools and machinery wore out, we would soon reduce ourselves to a state of equal poverty.

IDEAS ON



LIBERTY

Is There a Moral Basis for Capitalism?

THE contemporary indictment of capitalism usually takes two basic forms. First, there is the *economic* indictment. Those who make the attack from this perspective argue that capitalism is not viable because it is afflicted with insurmountable contradictions which result in a permanent state of crisis, or problems which can only be temporarily resolved by palliatives. Second, there is the *moral* indictment. Capitalism, according to this view, is the exploitation of man by man, the profit motive and the rule of money supreme, with an inevitable cruel injustice everywhere manifest.

The claim that capitalism provides the best economic structure for man's moral development, long a virtual article of faith in American

life, is met with derision these days by politicians, journalists, university professors, and theologians. Clergymen daily rage with indignation against the "evils" and "injustice" of the competitive market. Capitalism is, so we are told, "intrinsically immoral." "Soul dead, stomach well alive," was Thomas Carlyle's estimate of the market system, and all the cultured despisers of commercial civilization are in hearty agreement.

The market order, we are informed, promotes a materialistic view of life. "Things," Emerson once said bitterly, "are in the saddle and ride mankind." The capitalistic form of economic organization is said to be dehumanizing. Owen Chadwick has brilliantly summarized the thought of Karl Marx for us on this point: "The structure of society derives from

Mr. Dykes is a businessman, free-lance writer and enthusiastic advocate of the free market.

the work which men do. In bourgeois society the worker provides goods, to serve not the needs of men but the needs of the market. Then, instead of men controlling goods, goods control men; so that, the more workers produce, the wider the gap between rich and poor. This ill-arrangement may be called the 'alienation' of man's work. A man's work is 'natural,' part of the structure of living. Therefore the alienation of his work creates an alienation of man from nature, from his fellow-worker, even from himself. Economic nonsense pushed all relations awry. Men and women become things and treat each other like things."¹

Hostility Against Capitalism

The animus of many theologians against capitalism is especially bitter. Michael Novak gives a not uncommon example: "Jurgen Moltmann portrays capitalism as though it were outside the law, destructive of true community, reducing all relations to impersonal monetary relations, inspiring wolflike animosity between man and man and irrational in its pursuit of growth for the sake of growth and work for the sake of work."²

Writing in *The Christian Century* in 1976, Bruce Douglass admits that most of the political and economic comment coming from theologians has a socialist flavor. He then goes on to insist that defenders of capital-

ism are engaged in what amounts to a justification of injustice, selfishness, and other forms of sin. The case for socialism, we are given to understand, is primarily concerned with justice, and is thus exactly the opposite.

What of these charges? Does capitalism "make the world free for sinners," at the same time relentlessly alienating man from his fellows and himself, even as it dehumanizes him? Does it unleash, and then callously celebrate as virtue, a rampant and rapacious selfishness? Is it oblivious to, indeed destructive of, the demands of justice in human relations? Is it, in sum, without moral justification, and thus guilty as charged of being "intrinsically immoral"?

It is our conviction that these charges are entirely fallacious. Not only that: We are soundly convinced the market economy is securely anchored to the Judeo-Christian revelation. Neither the caricatures of its enemies, nor the perversions of its friends, can alter this fact.

A System of Relationships

The critics are right when they demand that our economic system rest on a firm moral basis. If it can be shown that it does not, then we should abandon it immediately and seek to establish a more just order. At the outset, however, important distinctions and clarifications must

be made. Arthur Shenfield calls attention to one of the most vital, viz., "the economic system called capitalism is a system of relationships. It is a composition of markets, and markets are by definition systems of relationships, not purposive bodies. It follows that we can apply the tests of morality to capitalism only by considering the behavior of individuals who operate within it, not as a system capable in itself of being moral or immoral."

It is Shenfield's contention that since capitalism is "a system of relationships it cannot be moral or immoral in the sense that a purposive group can be. . . ." He denies, however, that such a system is morally neutral. "If its essential characteristics on balance positively nurture or reinforce moral or immoral individual behavior, it is a moral or immoral system in its effects."³

Furthermore, we must repudiate the erroneous tendency of many critics to attribute to capitalistic economic phenomena, human behavior, social ills, or political crimes to which history bore witness before the birth of the capitalist system. And again, enemies of capitalism are prone to identify the market economy with society as a whole. For them, capitalism forms and permeates the whole of society, and in so doing destroys and corrupts human relationships other than those contracted for strictly economic pur-

poses. But the truth is, the competitive market is only a part or aspect of any society.

"The market," as John Davenport correctly observes, "is not an end in itself, but the means to higher ends." The market is merely an element in a society which transcends and extends far beyond it. The market is but a method of recording consumer preferences and allocating resources, an information system which transmits knowledge spontaneously through the signals sent out by prices.

Allocation of Scarce Resources

All economic goods are, by definition, scarce, while the hunger of man for these goods is nearly infinite. Thus a workable economic system concerns the allocation of scarce resources—e.g., labor, materials, or capital—to human wants. Socialism assigns to a supposed omnicompetent state the task of deciding what people *need*, and then the development of a master plan as to what goods will be produced in what amounts. In the market economy, on the other hand, consumers bid on what they *want* via the price mechanism.

No matter what system a society employs for organizing its economic life, certain common decisions must be made. For example, all economies must decide what goods will be produced, and how the fruits of this

production will be distributed. All economic systems coordinate men and materials in making these decisions in some way. The market system makes these decisions and achieves this coordination through an institution of private property rights and voluntary exchange.

From the days of Adam Smith, advocates of the free market have argued that market processes have a strong tendency to equate public benefits and private profits. Following the argument of Bernard Mandeville's *Fable of the Bees*, Smith held that private vices—e.g., greed—are converted into public benefits.

A Harmony of Interests

There is, in a free market, a harmony of interests between the public and the private. Does this imply, then, that the free market, in some way, nurtures or reinforces unjust rather than just behavior? Not at all. The free market economy is the most productive form of economic organization just because it is most consistent with eternal moral principles. The economy of any society is integrally related to the moral principles and consequent values to which the society is committed and substantially adheres. Or, as Paul Johnson puts it, "The level of social morality is directly linked to the performance of the economy."⁴

Consider the testimony of Wilhelm Roepke, one of the greatest

economists of the twentieth century. He wrote: "One of the most dangerous errors of our time is to believe that economic freedom and the society which is based upon it are hardly compatible with the moral standards of a strictly Christian attitude." In Roepke's view, "the very opposite of this popular belief is true: the strongest reasons to defend economic freedom and the market economy are precisely of a moral character. It is economic freedom and the market economy which the moral standards of Christianity require, not the opposite economic system. At the same time, however, we have to say with equal force that economic freedom and the market economy require these moral standards. One conditions the other."

Roepke understood that "Socialists and non-socialists are divided by fundamentally different concepts of life and life's meaning. What we judge man's position in the universe to be will in the end decide whether we believe our highest values to be realized in man or in society, and our decision for either the former or the latter will also be the watershed of our political thinking. Once more we find Cardinal Manning's famous statement to be true: 'All human differences are ultimately religious ones.'" The conclusion: "we should stand for a free economic order even if it implied material sacrifice and if socialism gave the certain prospect

of material increase. It is our undeserved luck that the exact opposite is true."⁵

The Family Unit

While keeping in mind that the market economy is only a part or aspect of society, we do contend that capitalism is more than just an economic system of voluntary relationships. Specifically, it is an economic system based on the right of private ownership of property and a free market for goods and services, consistent with the second table of the moral law.

The fifth commandment of the Decalogue, "honor thy father and thy mother," implies that the family, not the state, is the basic social and economic unit of society and should be the strongest. R. J. Rushdoony has noted that "throughout history the basic welfare agency has been the family. The family, in providing for its sick and needy members, in educating children, caring for parents, and in coping with emergencies and disasters, has done and is doing more than the state has ever done or can do."⁶ A society characterized by a significant degree of economic freedom is always a society dominated by strong family units who provide for their own. This contrasts with socialism, whose basic goals, if realized, would destroy the family in the interests of the larger collective.

The sixth commandment, "Thou

shalt not kill," is, according to John Chamberlain "simply the other face of Locke's and Jefferson's 'unalienable' right to life."⁷ John Calvin explained it this way: "The sum of this commandment is, that we should not unjustly do violence to anyone." "Thou shalt not kill" is thus a generic expression which also forbids wounding, violent threatening, and any unjust coercion by an individual, group, or state that would restrain legitimate liberty.

Economic freedom is born and thrives only in nations or communities where reverence for all human life is widely held to be a supreme value, where the personal safety of the neighbor and his family is generally regarded as inviolably sacred, and where compassionate individuals, acting either alone or through voluntary associations, are encouraged to offer substantial assistance to the poor and needy. This differs radically from the command society of socialism, whose adherents are frequently found not only approving but actively promoting violence, terrorism, and the destruction of the middle class. In such societies (and this would include the Welfare State) "compassion" is institutionalized, and becomes a monopoly of the state.

The seventh commandment, "Thou shalt not commit adultery," teaches us, as does the ninth commandment, that contracts must be honored and double-dealing scorned. "The his-

toric link between the biblical idea of binding covenants and the Western idea of binding contracts," writes Gary North, "is obvious enough."⁸ The very idea of contracting for joint benefit presupposes a high level of moral integrity and faithfulness on the part of all the parties engaged in the transaction.

In socialism the paternal state seeks to vitiate the necessity for the sanctity of contracts by substituting its omnipotent controls and decrees. Opportunity for moral development and the growth of trust between free men is thereby suppressed. The socialist ethic in this area is readily illustrated in the attitude of contemporary socialist bloc nations toward the fulfillment of treaty obligations. The Soviet Union, for example, has violated every treaty it has ever made. Lacking an unchanging moral foundation, there is nothing in the socialist ethic to condemn such action.

Private Ownership

The right of private ownership is based on the eighth commandment, "Thou shalt not steal." According to the Westminster Shorter Catechism, this commandment requires "the lawful procuring and furthering the wealth and outward estate of ourselves and others." The commandment forbids "whatsoever doth or may unjustly hinder our own or our neighbor's wealth or outward

estate." The eighth commandment "means that the Bible countenances private property—for if a thing is not owned in the first place it can hardly be stolen."⁹

Harold Lindsell, in the course of explicating the hatred of socialist intellectuals for private property, unmasks the latent hypocrisy usually present. He observes that "ideas are property too. Professors who write books to expound their ideas secure copyrights which protect their words against plagiarism. *Das Kapital* by Karl Marx was protected by copyright. Just try to find a new book published by a socialist which is not protected by a copyright! The simple truth is that socialists consistently violate their basic premise about private property in areas such as this so that they may profit from their labors!"¹⁰

The ninth commandment forbids lying. The whole idea of a free market implies that the parties to this voluntary exchange will not deceive each other. The doctrine of the harmony of interests in freedom largely depends for its working upon substantial voluntary compliance with this command.

Lying is an inescapable concomitant of socialism. The socialists must forever condemn profits, for instance, and the profit motive. But the truth is, socialist nations are just as profit-minded as are capitalist nations. The difference: In capitalist

nations the individual reaps the profits and decides how they will be used; in Socialist nations the state reaps the profits and determines what to do with them. So lying, even about its basic tenets, is crucial to socialism.

The tenth commandment, "Thou shalt not covet," "means that it is sinful even to contemplate the seizure of another man's goods—which is something which Socialists, whether Christians or otherwise, have never managed to explain away."¹¹ Coveting is a root of all social evil.

How Envy Destroys

Envy, a central aspect of covetousness, involves not only the desire to possess another's property, but also—and perhaps more heinous—the desire to see another's wealth or station reduced to the level of one's own. "Envy is ineluctable, implacable and irreconcilable, is irritated by the slightest differences, is independent of the degree of inequality, appears in its worst form in social proximity or among near relations, provides the dynamic for every social revolution, yet cannot of itself produce any kind of coherent revolutionary programme."¹²

Rushdoony points out that the tenth commandment "forbids the expropriation by fraud or deceit of that which belongs to our neighbor. The tenth commandment therefore

does sum up commandments six through nine and gives them an additional perspective. The other commandments deal with obviously illegal acts, i.e., clear cut violations of law. The tenth commandment can be broken within these laws." This law forbidding dishonest gain "is directed by God, not merely to the individual, but to the state and all institutions. The state can be and often is as guilty as are any individuals, and the state is often used as the legal means whereby others are defrauded of their possessions."¹³ Socialism, through its employment of the police powers of the state for the purpose of expropriating the wealth of producers to transfer to nonproducers, is a form of institutionalized envy.

Christ summarized the second table of the law like this: "Thou shalt love thy neighbor as thyself." Shenfield observes that we usually understand the command to love our neighbor "to mean to heal the sick, to succor the poor, to relieve human distress of all kinds, and the like." He then suggests that whatever else such love means, "It must mean that one wishes one's neighbor to have what one most values for oneself. . . ." In the final analysis, "what we want above all for ourselves, and which therefore we must accord to our neighbor, is freedom to pursue our own purposes."¹⁴

Our conclusion, then, is that the

claim that capitalism is inherently immoral is not only false, but the exact opposite of the truth. Only the much-maligned capitalism, of all contemporary forms of economic organization, is founded upon and consistent with an immutable moral foundation. ☉

—FOOTNOTES—

¹Owen Chadwick, *The Secularization of the European Mind in the Nineteenth Century* (Cambridge University Press, 1975), p. 64.

²Michael Novak, *The Spirit of Democratic Capitalism* (New York: Simon & Schuster, 1982), p. 262.

³Arthur Shenfield, *Imprimis*, "Capitalism Under the Tests of Ethics," Vol. 10, No. 12, December 1981, pp. 1, 2, 5.

⁴Paul Johnson, *Enemies of Society* (New York: Atheneum, 1977), p. 191.

⁵All quotations from Roepke are found in "The Moral Necessity of Economic Freedom," Intercollegiate Studies Institute, Inc., ISI Brief Essay Series, No. 1. Reprinted by permission from *Christian Economics*.

⁶R. J. Rushdoony, *The Institutes of Biblical Law* (Nutley, NJ: The Craig Press, 1973), p. 181.

⁷John Chamberlain, *The Roots of Capitalism* (Princeton, NJ: D. Van Nostrand Company, Inc., 1965), p. 46.

⁸Gary North, *Chalcedon Report*, "The Yoke of Co-operative Service," No. 123, November, 1975.

⁹Chamberlain, *op. cit.*, p. 46.

¹⁰Harold Lindsell, *Free Enterprise* (Wheaton, Illinois: Tyndale House Publishers, Inc., 1982), pp. 52-53.

¹¹Chamberlain, *op. cit.*, p. 46.

¹²Helmut Schoeck, *Envy* (New York: Harcourt, Brace & World, Inc., 1970), p. 247.

¹³Rushdoony, *op. cit.*, pp. 634-5.

¹⁴Shenfield, *op. cit.*, p. 6.

The Moral Case for Economic Freedom

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

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 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.

IDEAS ON



LIBERTY

Howard Baetjer Jr.



LASERS, HAROBEDS, AND WORLD HUNGER

WHAT do lasers have to do with world hunger? They help decrease it, that's what. Of course it is a complex story, though it all transpired in a remarkably short time. Development of the laser won a Nobel Prize in 1962, and less than twenty years later lasers were being used to level fields in the parched Humboldt River Valley of Nevada (among other places), to improve irrigation. When a field 1200 ft. long drops off at the rate of .21 ft. in every hundred, given the kind of soil they have in the Humboldt Valley, water released into the field at the high end will slide out just as evenly as can be and soak into the entire field in precisely the same amount all over.

The laser allows the rancher to get the fields absolutely flat, and dropping off at exactly the right rate. At one end of the field an instrument is

set up and adjusted so that it emits a plane of laser light at exactly the right angle. This light is read by a sensor attached to a huge machine with a scraping blade and a reservoir of topsoil. When the ground rises up, the sensor tells the blade to shave the area down some; when the ground drops off, it tells the machine to dump some soil.

Once a field has been laser-planed, if the irrigator lets in the right amount of water at the right rate, irrigation will be perfectly even, and the alfalfa growing there will soak up the water and the hot Nevada sun, and grow up so thick and so fast that it looks like something out of Walt Disney Productions. And it will grow like that over every square foot of the field: all the way to all the edges, with no dry spots and no muddy areas the way there always used to be. It is an amazing thing, I assure you—I have cut both kinds of fields.

The importance of all this to world hunger is that alfalfa is terrific feed for livestock. By making alfalfa pro-

Mr. Baetjer is a graduate student in political science at Boston College. This article first appeared in the March 17, 1983 issue of *The Observer of Boston College* and is reprinted here by permission.

duction more efficient, laser technology provides us a means of feeding more livestock, one source of food for the hungry of the world. Those fields produce an average of 37 and a half 135-pound bales per acre, three times a summer. That's 15,187.5 pounds of hay per acre.

When you figure that a healthy cow eats about 24 pounds of hay a day, that means each acre of those fields produces enough hay in a summer to feed a cow for 633 days, or a herd of 21 cows for a month. An acre, bear in mind, is smaller than a football field. A standard 40-acre field (almost all of which I could cut myself in a single ten-hour day) would yield enough hay to feed 70 cows for a year. That's a whole lot of milk and cheese and butter. The point is that if we could get more areas of the world producing the way the Humboldt River Valley does, the world hunger problem would start to disappear.

The Inadequacy of Redistribution

I use this little illustration from my own experience by way of disagreement with my college's World Hunger Committee, and similar groups which advocate redistribution as a solution to the world's dreadful problem of want. In our campus cafeteria there is a poster put up by the World Hunger Committee, which gives some figures about production, consumption and

hunger in different parts of the world. It points out that we in the United States consume far more per person than people in other nations and concludes with this: "Redistribution is necessary for the future."

Though the World Hunger Committee is to be applauded for its concern and efforts to bring the problem to our attention, their poster does not point out the reason for the problem, and the solution it proposes is utterly inadequate and ill-advised. Hunger is not a distribution problem, and redistribution cannot possibly solve it. Hunger is a production problem; the only thing that can solve it is the political and economic change that will allow production to occur.

Redistribution as a "solution" to the problem of hunger is apparently premised on the assumption that there is only a certain amount to go around. Reallocating what food there is now in the world might, under ideal circumstances, alleviate the hunger problem for a while. It could never do away with it. Even now there is not enough to go around with any sort of bounty, and in any case the population of the world is growing. Relying on redistribution would mean resigning ourselves to progressively less and less for each as "the world's goods" were split up among more and more. This is an unnecessarily despairing response to the problem, for it is not true that

“there is only a certain amount to go around.”

The Productive Potential

Potentially, there is plenty to go around. There are many areas of the world which could be supplying food at tremendously greater rates than currently. Land presently in cultivation could be made to produce more; the crops grown there could be improved or replaced with others more suited to a given soil or climate; land presently out of cultivation could be made productive with irrigation, drainage, fertilizers and the like; planting and harvesting methods could be improved; transportation of crops to markets could be improved; refrigeration could reduce spoilage, and so on. The potential to improve production is, if not boundless, limited only by people's ingenuity, which has throughout history produced tremendous gains wherever it has been left free to work its miracles.

Consider the case of the ranch in Nevada. One hundred years ago, maybe much less, a lot of the land now bursting with alfalfa was desert, considered inarable. Nothing much grew there but sagebrush, and the Humboldt River flowed by at a distance, gradually evaporating and finally drying up completely in one of those amazingly barren Nevada salt basins. How did that land come to be such a cornucopia?

• Labor, for one thing. The first irrigation ditches were probably dug with picks and shovels, the first fields smoothed out as well as possible by hand, the ranchers filling in the low spots as well as they could by eye. Machines do most of the physical work now, but there is still a whole lot of labor in maintaining them, driving them, building fences, and the like.

• Tools, for another: picks, shovels and hoes were the staples at first, I suppose, and then mule-drawn plows and harrows, rudimentary surveying gear to help smooth out the fields, scythes for the harvesting and so on. Better techniques and materials contributed, too: fertilizers, irrigation by sections (with levees to keep the water level more even) and so on.

As time went by, the tools were improved, and for the same amount of labor the amount that could be produced increased steadily. With the internal combustion engine there came self-powered machines for digging the irrigation ditches, pulling the plows and hay wagons, and running the balers. With modern chemistry there came better fertilizers; biologists developed better strains of alfalfa; metallurgists provided cutting blades that kept an edge longer. With each step the same land and labor produced more hay.

Finally—most recently, I should say, for who knows what next year

will bring—there came laser planes and harobeds (that's *Deborah* backwards, named after the wife of the man who invented them): truck-like machines which, with a scoop and a system of conveyors and platforms, pick up and arrange seventy bales at a time, carry them to the stack lot, and put them down neatly (if the driver is skillful!), to wait for the big flatbeds that will take them away to markets in four or five states. The newest harobeds at the ranch where I work have a little computer that keeps track of the bales and lays them together in an interlocking fashion that stacks better than was possible previously, reducing moisture loss. Step by step, improvement by improvement, machine by machine, the desert bloomed and burgeoned forth with ever greater quantities of hay.

This same kind of process can go on, according to the necessities of each climate and location, all over the world. Lands that are poor can become rich. People who now lean over all day planting rice shoot by shoot can go to other productive endeavors, leaving behind them ever fewer others, who will grow ever more rice with ever better machines, fertilizers and techniques. As the desert bloomed, so can the swamplands, the hillsides and the jungles (not to mention the good lands now way below potential) as long as labor and ever-better tools are applied to them.

The Heart of the Problem

From this point of view, we can begin to see why there are so many hungry people in the world. Certainly there is no lack of labor—in the poorest countries everyone works in every available way to try to make ends meet. The problem lies with the productivity of that labor. The back-breaking labor of twenty men working with trowels could not plant in a day what a single one of them could plant in the same time on a modern planter. The same twenty men with sickles could not harvest in a day the forty acres of alfalfa I can cut, sitting comfortably in the air-conditioned cab of a Sperry-New Holland "swather." Until they have better tools, the poor areas of the world will stay poor.

And this brings us to the heart of the matter. In order to have good tools, particularly the complex machinery that can bring about plenty, there must be a highly complex and efficient economic system in which production and maintenance of such tools is possible. There must be room for innovation, so that new, more efficient ideas may be put into practice. There must be hard work, so that plans are thoughtfully made and thoroughly executed. There must be efficient allocation of resources. There must be risk-taking, for in an uncertain world one cannot know what tools will work well and therefore be in demand. Inefficient or ob-

solete processes and means of production must disappear, to make room for the newer and better. Above all, there must be the accumulation of capital: people must save money in large quantities, so that the funds will be available to support the complex and time-consuming process of machine-building.

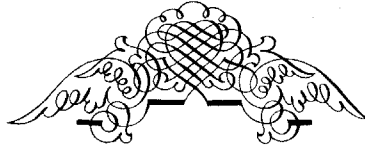
This means, in turn, that there must be economic freedom. What must be avoided above all are the repressive economic policies that grow out of a redistributive approach to society. People cannot innovate by command, or when burdened by regulation. There is no incentive to work hard when the fruits of one's labor are taken from him (presumably to be "redistributed"). There can be no efficient resource allocation where prices cannot vary according to the laws of supply and demand. There will be no risk-taking if people are not allowed to realize the rewards of taking them. Inefficient and obsolete practices will not give way to newer and better when they are protected by government. And there will be no capital accumulation—the lifeblood of production—when savings are heavily taxed, when profits are taken away, when inheritance is outlawed. The redistributive ethos, which inhibits production at every step, could reasonably be said to be the fundamental reason why hunger

persists in the world so long after the technical means of eradicating it have been available.

The Solution

If the tools necessary to feed the world are going to come into existence, the world must take a big political step forward. Government intervention in the economy must be abandoned. People must be left free to produce, and they must be allowed to have the benefit of their productivity. They must be allowed to own the means of production, to accumulate fortunes, and to trade freely with one another, without restraint by some authority which purports to know what is good for them better than they themselves.

Ultimately, the solution to the problem of world hunger lies in free enterprise, in the profit and loss system, in the private property order—in *capitalism*. Only in this kind of economic freedom are the marvelous creative abilities of human beings released. Redistribution is impossible without prior production. Redistribution could never have turned that Nevada desert green. But with swathers and balers and harobeds, with tractors and irrigation ditches and laser-planes—with the fruits of enterprise and accumulated capital, in short—the desert blooms. Redistribution is not necessary for the future; capitalism is. Ⓜ



THE GENERAL WELFARE

"I wish the Constitution was not so vague," one of my daughters said. My first reaction to that was to deny that the document is particularly vague or, for that matter, obscure. "Why," she persisted, "does it contain a clause on the general welfare?" Actually, her question was a good one, and it gave point to her observation on the vagueness of the Constitution, if, as I think, I know where she was coming from, as they say. She is a college sophomore and is taking courses in American history and government, among others. Undoubtedly, she had hoped to find that the Constitution would be a bulwark against the claims of the welfare state. Yet, after studying it in her classes, she has been struck by its ambiguity and what appears to be the slipperiness of its phrases. It is my hope that what follows may

throw some light on the troublesome phrase, both for sophomores and the rest of us as well.

The phrase, "general welfare," occurs twice in the Constitution. It occurs first in the Preamble, which announces that one of the purposes of the Constitution is to "promote the general Welfare." Since this is a statement of purpose, not a grant of power, it need not detain us beyond noting that it is there. The other use of the phrase, however, is much more significant. It is contained in the first sentence of Article I, Section 8, which lists the powers of Congress. Equally important, it is used in connection with the grant of the power of taxation, which, then as now, was reckoned to be an essential power of government. The relevant clause reads, "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. . . ." Clearly, Congress is empowered to levy taxes to provide for the general welfare. Viewed from the

Dr. Carson has written and taught extensively, specializing in American intellectual history. He is the author of several books, his most recent being *Organized Against Whom? The Labor Union in America*. He is working at present on *A Basic History of the United States to be published by Western Goals, Inc.*

present perspective, this gives color, at least, to the idea that the welfare state has some constitutional foundation.

But that is to look at the matter wrong-end-to. What counts, in the first place, is what the words meant when they were used. "Welfare" is commonly used today to refer to or denote government programs to provide for the poor, the disabled, those without work, and those reckoned to be without sufficient means to provide for their basic wants. It is so used in such phrases as, welfare state, welfare programs, welfare worker, and welfare recipient. Until quite recently it was used in that way in the name of a cabinet rank department, namely, the Department of Health, Education and Welfare. This usage, however, was unknown to the makers of the Constitution. If they had intended to authorize what are nowadays called welfare programs, they would not have used the word, "welfare," to express that intent. It is the other way around: welfare programs bear that name to give the color of constitutionality to them. But let that wait for a bit.

What Americans began calling welfare programs in the late 1930s, or thereabouts, the Founders would have known by the name of "poor relief," so far as they were familiar with it at all. In England, tax supported relief of the poor was re-

quired under the poor laws, more specifically, the Elizabethan Poor Law, during the American colonial period. Poor laws were passed in the wake of the Reformation, the suppression of monasteries, and the confiscation of church lands. The destitute had received aid before that time from organizations within the church, but when much of the wealth of the church was taken away, the state took over last resort poor relief. Actually, Parliament simply required that local communities tax for and provide such relief.

A similar system took shape in the American colonies. In New England, relief for the poor was a charge upon the villages and towns, paid for from locally levied tax monies. Where the Anglican Church was established, poor relief was a duty of the parishes, and parishioners were taxed to pay for it.

Poor relief was hardly a sumptuous affair in the colonies, or, for that matter, in 19th-century America. Unless the person were totally incapacitated, more attention was given to reforming the poor, i.e., getting them to become productive and self-supporting, than helping them to fare well. For example, "The vestries in Virginia disposed of the able-bodied poor, destitute orphans, and the illegitimate children of indentured servants by binding them to masters as apprentices or servants."¹ Workhouses were set up in

some places for those who had no visible means of support. In New England, "The town provided materials and tools with which the inmates were required to earn a living."² The incapacitated were sometimes provided almshouses, or otherwise given some minimal aid.

No one at the time of the writing of the Constitution would have associated the life of the poor dependent upon public relief with the word welfare. "Welfare," in common usage for centuries, stems from the roots "well" and "fare", and means basically, according to my dictionary, a "state of faring well; well-being." Synonyms are: "prosperity, success, happiness, weal." No sensible person would have confused poor relief with prosperity, success, or even faring well. Indeed, it was in every respect the opposite.

So far as my researches have revealed, the word, "welfare," began to take on a new connotation around the beginning of the 20th century. The phrase, "welfare-manager," appeared in print in England in 1904. Some factories, it seems, were employing people to assist workers in improving their well-being. Thus, the *London Daily Express* declared in 1916 that "Welfare work tends to improve the condition of life for women and girls employed in factories."³ However, the word still had no clear connection with relief for the poor.

That connection was made in the United States in the course of the routinization, regularization, and bureaucratization of government aid programs in the 1930s. The key piece of legislation for making this change was the Social Security Act, passed in 1935. There is reason to believe that the adoption of the word "welfare" in place of relief was a more or less deliberate action. It served a highly important political and constitutional purpose. Much of the early New Deal legislation was tied up in court tests by 1934. As it turned out, the central pieces of New Deal legislation were nullified in the next year or so. New Dealers were casting about frantically for ways to overcome the constitutional impasse.

Secretary of Labor Frances Perkins remarked to Supreme Court Justice Harlan Stone, in 1934, that she was worried that the social security system they were devising might not pass the constitutionality test. "The taxing power of the Federal Government, my dear," Stone replied; "the taxing power is sufficient for everything you want and need." This pointed clearly toward the general welfare phrase in the clause of the Constitution authorizing taxation. In the same year Professor E. S. Corwin, a recognized constitutional authority, maintained that the taxing and spending authority of Congress was un-

checked by the Constitution. Another law professor declared, after the Supreme Court nullified crucial portions of the NRA: "The waters dammed by judicial restriction on the commerce power may break out in unwelcome fields of taxing and spending. What seems a great victory against national regulation may prove to be a Pyrrhic one."⁴

Indeed, it did. The Social Security Act leaned heavily upon the general welfare phrase in the Constitution. It opens with the claim that it is "An Act to provide for the *general welfare* by establishing a system of Federal old-age benefits, and by enabling the several States to make more adequate provision for aged persons, blind persons, dependent and crippled children, maternal and child welfare, public health, and the administration of their unemployment compensation laws. . . ."⁵

Social Security Involves a Bundle of Programs

Since many people may not think of Social Security as a welfare measure, it may be well to emphasize that, however old age benefits—the phrase then used to describe Social Security payments to the retired—should be classified, there was a bundle of programs provided in the act which formed the core of the welfare programs. The bundle included such things as pensions to those who had not contributed to Social Secu-

urity and aid to dependent children, among others.

Moreover, these programs were administered in the states by what generally became known as welfare departments in the 1940s and 1950s. Frequently, they were formally titled, Department of Public Welfare (DPW), and those who administered the programs were referred to as welfare workers. In 1953, an assortment of these programs were moved into the new cabinet ranked Department of Health, Education and *Welfare*. In this fashion, the shift from referring to these programs as poor relief to public welfare was completed, and the claim that such government activities were sanctioned by the reference in the Constitution to general welfare was linguistically ratified after the fact.

The main point, of course, is that the Founders could not have intended to include what they knew as poor relief in their reference to the general welfare. Poor relief was the last resort of local governments to provide minimal means for survival; it was at the opposite end of the scale from faring well. Beyond that, the evidence presented here points toward the conclusion that as late as the early 1930s it took a great deal of straining to make the beginnings of an identification between relief and welfare.

But there is much more involved in this claim that the federal gov-

ernment is constitutionally authorized to provide for the general welfare than such programs as have been identified, however spuriously, with welfare. The whole concatenation of redistributionist and interventionist programs which comprise the welfare state find their main justification under it. Thus, we are brought back to the consideration of the claim regardless of what meanings may be attached to the word welfare.

The crucial question then becomes whether or not there is a grant of power in the Constitution to provide for the general welfare. There are at least two approaches that can be taken to answering this question. One is to try to discern the meaning of the phrase, "general welfare," in the clause in which it occurs. The other is to see the clause within the context of the whole Constitution.

The Taxing Power

First, then, let us look at the clause again, which reads: "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. . . ." One thing is certain: Congress is authorized to levy taxes. Is it authorized to do anything else? My view is that it is not. What follows the word "Excises" is restrictive rather than being a grant of powers, restrictive of the taxing power. The operative words,

in my reading of the relevant parts, would be that taxes are to be levied to "provide for the *common* Defence and *general* Welfare of the *United* States."

What was being guarded against by these restrictions was the levying of taxes on the whole people to pay for some benefit to some locale, state, or region of the country. For example, by this reading, taxes could not be properly levied to pay for an undertaking such as the Tennessee Valley Authority. There was a definite interest in the Constitutional Convention to restrict such practices. At one point, Benjamin Franklin proposed that the general government be given "a power to provide for cutting canals where deemed necessary." Roger Sherman "objected. The expence in such cases will fall on the U. States, and the benefit accrue to the places where the canals may be cut."⁶ Franklin's motion was defeated by a vote of 8 states to 3.

But let me hasten to add that there is no way to make certain that my interpretation of the words as being restrictive is correct simply by reading the clause and selecting emphases within it. Furthermore, even if it were restrictive to the *general* welfare, there might still remain a potentially broad power to provide for the general welfare. After all, in ordinary usage the granting of the power to pay for something tacitly

authorizes the buying of it. For example, if I tell my daughter that she may write checks to pay for her college expenses, it is a logical inference that I am authorizing such expenses. The same might be expected to apply to statements in the Constitution. To see that they do not it is necessary to place the clause thus far examined in the context of the whole Constitution. Phrases and clauses that may appear to be vague and general when considered in isolation take on much more precision when viewed from the angle of the whole.

A Limited Government

The Constitution of the United States is no ordinary set of statements or document. It is, if not unique, a very special case among documents. It describes the form for and grants power to a limited government. There are no omnibus grants of power in the Constitution; every power granted is limited in one or more and usually several ways (though not necessarily in the clause that grants it). It does not grant the powers of government generally to the United States government.

What makes the Constitution almost unique is that the government it authorizes has only such powers as are granted to it. Thus, what can be inferred from ordinary speech or, for that matter, the general run of legal documents, is no guide in con-

struing the provisions of the Constitution. It is concerned with granting and limiting power in an arrangement for which there are few, if any, parallels in ordinary life situations.

It is contrary to the whole tenor of the Constitution that the power to provide for the general welfare should have been granted in the sentence authorizing taxation. The men who drew the Constitution did not assume that by granting the power to tax in order to pay debts that they had authorized indebtedness. On the contrary, the very next sentence authorizes Congress "To borrow Money on the credit of the United States." Nor did they assume that by authorizing taxation to pay for the common defense that they had granted the power to bring into being a military establishment. On the contrary, again, there is a list of powers to accomplish this purpose granted to Congress:

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 . . . ;

To provide and maintain a Navy;

To make Rules for the Gov-

ernment and Regulation of the land and naval Forces. . . .

If the power to provide for the common defense had been granted in the taxing power, each of these powers would have been implied by it. Such an enumeration of powers would have been redundant. Redundancies are commonplace, of course, in ordinary legal documents nowadays, but the Constitution is remarkably free of them. It is spare, lean, and once stated, repetition of a position is avoided.

Indeed, the powers which the Founders reckoned necessary to the general welfare of the United States are enumerated along with those mentioned above. Among them are the power of Congress to enact uniform laws on bankruptcies, to coin money, to fix standards of weights and measures, to establish post offices and post roads, to give authors and inventors exclusive right for a time to their writings and discoveries, and the like. Undoubtedly, they considered all the powers granted useful or necessary to the general welfare, including the powers of taxation and those for a military establishment. But my point is that the powers granted were enumerated, and those not so enumerated were reserved to the states or to the people.

That did not keep some from claiming or asserting that some ob-

ject they wanted to achieve by government was provided for in the phrases of the taxation clause, even in the early years of the Republic. The issue came up for President Madison in 1817, when he was presented with a bill for making internal improvements such as roads and canals. He vetoed it on constitutional grounds.

Madison's Interpretation of Enumerated Powers

Madison said, in part, "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. . . ." Regarding the general welfare phrase specifically, he said: "To refer the power in question to the clause 'to provide for the common defense and general welfare' would be contrary to the established and consistent rules of interpretation, as rendering the special and careful enumeration of powers which follow the clause nugatory and improper. Such a view of the Constitution would have the effect of giving to Congress a general power of legislation instead of the defined and limited one hitherto understood to belong to them. . . ."⁷⁷

President Monroe echoed Madison's views, and added some of his own, in vetoing a bill for maintain-

ing the Cumberland Road in 1822. He denied that Congress had the power to do this. "If the power exist," he said, "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 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." Among those from which he could not trace the power, he declared, was the clause "to pay the debts and provide for the common defense and general welfare."⁸ In an addendum to his veto message, he included this thought: "Have Congress a right to raise and appropriate the 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."⁹

In sum, then, it is most unlikely that the makers of the Constitution would have chosen the phrase, "general welfare," to authorize the federal government to provide what they understood to be poor relief. It would have violated both their understanding of the meaning of words and the common practice as to what level of government should provide the relief. On the contrary, it appears that relief came to be called welfare to give it a semblance of constitu-

tionality. Indeed, close analysis within the sentence and the context of the Constitution points to the conclusion that the reference "to provide for the general welfare" was the restriction of the taxing power rather than a separate grant of power.

In short, no powers were enumerated granting authority to the federal government either to enact relief measures or to erect what has come to be called a welfare state. Nor is the language of the Constitution especially vague or carelessly general when it is viewed within the context of the whole document. It only appears to be so when wrenched out of context and construed to cover purposes not intended. ☉

—FOOTNOTES—

¹Curtis P. Nettels, *The Roots of American Civilization* (New York: Appleton-Century-Crofts, 1963), p. 463.

²*Ibid.*, p. 462.

³This information comes from the *Oxford English Dictionary*.

⁴See Arthur M. Schlesinger, Jr., *The Politics of Upheaval* (Boston: Houghton Mifflin, 1960), pp. 398-99.

⁵Henry S. Commager, *Documents of American History*, vol. II (New York: Appleton-Century-Crofts, 1962), p. 326. Italics added.

⁶Charles C. Tansill, ed., *Formation of the Union of the American States* (Washington: Government Printing Office, 1927), p. 724.

⁷James D. Richardson, ed., *A Compilation of the Messages and Papers of the Presidents*, vol. II (New York: Bureau of National Literature, 1897), pp. 569-70.

⁸*Ibid.*, p. 712.

⁹*Ibid.*, p. 736.



Commare N'Ciuzza and the Loan Shark

I had just purchased an Italian lemonade and was contentedly licking a chunk of lemon peel embedded in the ice as I walked across the intersection of Aberdeen and Taylor. Just then, two black sedans screeched around the corner, and I froze in my tracks as I heard the nerve-shattering sound of guns being fired. The next moment I felt I was being dragged and pulled by someone whose powerful hands were firmly gripped around my shoulder. Several minutes later I was pleased to find I was sitting in the kitchen of the woman who had done the dragging and pulling—Commare N'Ciuzza.

Almost a year earlier I had met and befriended Commare N'Ciuzza.

Dr. James Doti is Associate Professor of Economics and Director of the Center for Economic Research, Chapman College, Orange, California.

At the time I was a student at a new university that was built on a large portion of an old neighborhood known as "Little Italy." This neighborhood had once served as the melting pot for newly immigrating Italians into Chicago. Those who still lived in the small portion of neighborhood that survived the university's construction looked upon the few students who lived there with a mingling of fear and suspicion. It was only after people noticed my special friendship with Commare N'Ciuzza that I was allowed to take part in the many neighborhood rituals.

One of these rituals included my being allowed to enter the hallowed doors of the Italo-American Lodge Hall (Post #28). The Lodge Hall consisted of a motley assortment of kitchen chairs arranged around an old rattan coffee table that held back

issues of the *Fra Noi* newspaper. The stark interior, however, belied the heated exchanges that generally involved the relative merits (usually demerits) of the Chicago White Sox and Chicago Cubs. In another important ritual, I felt proud to be invited on Friday nights to join families on their front porches to engage in lively conversations that typically involved comparing the vocal range of Mario Lanza with the old maestro Enrico Caruso.

With the sound of gunfire still ringing in my ears, I sensed the strong taste of Commare N'Ciuzza's homemade Italian wine on my lips and realized that she was maternally treating my shock in the best way she knew how.

"Mangia, Mangia!" she commanded as she brought cookies to the table.

The sight of the familiar "S"-shaped cookies which are intended for wine-dunking calmed my nerves. So, too, did the bountiful supply of food that was accumulating on the table as a result of the rapid-fire trips that Commare N'Ciuzza was making to and from the refrigerator. That is, rapid-fire for someone whose large slipped feet never left the ground but, rather, slid along the floor.

Commare N'Ciuzza was a large woman. I first saw her on my way home from school when she would invariably be sitting with her head out the window and her bosom sup-

ported by the windowsill. As a result of her husband's passing ten years earlier, she was still wearing the familiar black Sicilian mourning dress that I noticed adorned many of the older women in the neighborhood. Our friendship was slow to develop. But from the moment she discovered that my mother came from her hometown in Sicily, she decided it was her calling in life to protect and watch over me. With Commare N'Ciuzza, as with most Italians, that meant making sure I was always well fed. In fact, everyone in the neighborhood called her "Commare" (Godmother) because of her strong maternal instincts.

"Mangia, Mangia!" she continued to command as I slowly dunked the "S"-shaped cookies into the wine.

Big Jake

When she noticed my still frozen white countenance, she said, "Figgiu mio, don't-a be scared. That's-a only Big-a Jake and his-a boys. They come-a to collect-a their money."

She went on to explain that Big Jake, the local loan shark, had recently loaned money to a family that everyone in the neighborhood (I never found out why) called gypsies. She shrugged in a characteristic Italian way as she said, "They buy-a car but they don't-a pay so Big-a Jake come-a to scare them."

When I began to deride Commare N'Ciuzza for accepting the likes of

Big Jake as a normal part of neighborhood, she interrupted me before I could complete my harangue.

"Don't-a say bad things about Big-a Jake. He's-a good-a man. I light-a candle for him on-a Sundays."

The high regard that Commare N'Ciuzza evidently held for Big Jake aroused my interest. When I began to ask her more direct questions about her association with him I noticed she looked over me in silence, obviously pleased with the interest she had succeeded in arousing.

"Mangia, Mangia!" she continued as her latest sortie to the refrigerator resulted in an unfamiliar eggplant dish being set in front of me.

When I asked her, pleadingly, to get on with the story, I half-expected to hear a story that would prove beyond all doubt the noble intentions of Big Jake. Her story, however, did little to romanticize him.

It all happened thirty years earlier during the worst part of the Great Depression. Commare N'Ciuzza, her husband Tony and their five children were renting a small apartment. But when Commare N'Ciuzza's three year old son urinated on one of the landlord's pepper plants, a fierce battle ensued and the upshot was that Commare N'Ciuzza and her family were ordered to leave.

With Tony out of a job and Commare N'Ciuzza just able to make ends

meet with her work as a seamstress, the family had no place to go. But with a loan from Big Jake, they were able to buy the house where she still lived.

When I asked her how she was able to make payments to Big Jake, she replied, "We rent-a bedroom in-a my house and my Tony he find-a work. Big-a Jake we pay-off in-a two years."

When I asked why she didn't go to a bank for the money, she smiled at my naiveté and said, "Figgiu mio, you think-a the banks are gonna give-a money when my Tony no have-a job. They don't-a even give money to my-a brother Salvatore and he works-a for the city."

But could she accept the shooting—the unrelenting pressure that must have sent chills through the hearts of people who just could not pay? When I put this question to her, she could only shrug and remind me that I had stopped eating.

Commare N'Ciuzza was bringing more food to the table as I got up to leave. The only strategy that worked at this point was to leave as quickly as possible. As I turned to thank her, I heard her mutter something in Italian about how the youth of today were all too thin and undernourished.

On the way home I was startled to see the head of the "gypsy" clan, Rocco, happily engaged in washing his newly purchased used '58 DeSoto. When I asked him if every-

thing was OK he smiled and said, "Sure, I forget-a to pay, but Big-a Jake remind-a me. I pay him, and now Big Jake he's-a happy."

When I asked him how he was going to continue making the payments, he said having a car would make it possible for him to drive to work in the suburbs where his brother-in-law had just bought a pizza parlor.

I tried to question him further about his dealings with Big Jake but it was difficult to get his attention away from the DeSoto. As he worked feverishly on polishing a large strip of chrome, I noticed the proud and satisfied look on his face that so distinguishes a new car purchaser from the rest of humanity. Not wishing to disturb him from his euphoria, I quietly walked away. As I left, I noticed he was happily applying a Brillo pad to the three-inch whitewalls that adorned his tires.

Principles of Economics

I always relate a shortened version of this story to my principles classes in economics when I discuss the determination of interest rates in a free market. As with other goods, the price of loanable funds is determined by supply and demand. A simple analysis of the supply and demand of loanable funds in a free market, however, offers no economic rationale for the illegal operations practiced by Big Jake. When inter-

est rates are allowed to reach their natural levels, the demand and supply of loanable funds will be equal. Of course, higher interest rates will be necessary for those loans that involve greater risk—otherwise, loanable funds will not be supplied to high-risk borrowers.

Thus, we should not expect to see a single determined market rate of interest but, rather, a variety of interest rates that depend on the specific circumstances and, in particular, on the risks associated with various loans. This description of capital markets, however, suggests that high-risk loan candidates like a Commare N'Ciuzza or Rocco would be able to obtain legal loans in the free market if they were willing to pay the market-determined price. What, then, explains the existence of illegal loan operations?

By and large, the Big Jakes of this world are created as a result of governmental policies that take the form of usury laws (ceilings on the maximum interest rate that can be legally charged). Such laws serve to cut off the supply of loanable funds to high risk borrowers by making it legally impossible to compensate lenders for the added risks they assume when granting such loans.

Contempt for lenders in general and in particular for lenders-of-last-resort has a long historical tradition. This is evidenced by the fact that usury laws have been enacted

throughout most of recorded history. The rationale for such laws can be found in many scholarly works, including the writings of Aristotle and Thomas Aquinas and the Bible.

Protestations against "lending at usury" are even found in the unlikeliest place of all—*The Wealth of Nations*. Adam Smith contradicts his basic belief in the efficacy of the free market when he states:

In countries where interest is permitted, the law, in order to prevent the extortion of usury, generally fixes the highest rate which can be taken without incurring a penalty. . . . The legal rate, it is to be observed, though it ought to be somewhat above, ought not to be much above the lowest market rate. If the legal rate of interest in Great Britain, for example, was fixed so high as eight or ten per cent, the greater part of the money which was to be lent, would be lent to prodigals and projectors, who alone would be willing to give this high interest. Sober people, who will give for the use of money no more than a part of what they are likely to make by the use of it, would not venture into the competition. A great part of the capital of the country would thus be kept out of the hands which were most likely to make a profitable and advantageous use of it, and thrown into those which were most likely to waste and destroy it. Where the legal rate of interest, on the contrary, is fixed but a very little above the lowest market rate, sober people are universally preferred, as borrowers, to prodigals and projectors. The person who lends money gets nearly as much interest from the former as he dares

to take from the latter, and his money is much safer in the hands of the one set of people, than in those of the other. A great part of the capital of the country is thus thrown into the hands in which it is most likely to be employed with advantage. (The Modern Library edition, pp. 339–40.)

But setting the maximum interest rate that can be charged to "very little above the lowest market rate" would preclude the granting of loans to those individuals and businesses that entail a greater degree of risk. Rather than preventing the lending of capital to "prodigals and projectors," usury laws would prevent or, at least, make it legally difficult to lend to high-risk borrowers—generally low-income individuals.

Laws Against the Poor

Even though the most noble intentions may be behind the existence of usury laws, their impact is to take away alternatives and eliminate legal options that lower-income individuals can use to succeed in the marketplace. How can people be better off when such legal alternatives are taken away?

It should be noted that the inequitable and inefficient aspects of usury laws also apply to the ceilings that governmental agencies place on the interest rates that financial institutions are allowed to pay on deposits. Such deposits can be interpreted as loans that savers have

extended to financial institutions. To be sure, the deregulation of financial markets in recent years has helped savers receive a more competitive return. But because of delays in the deregulation process, many kinds of deposits, particularly those below a specified minimum balance, are still subject to interest rate ceilings. As a result, depositors who have lower checking and savings account balances (usually lower-income families and individuals) are receiving a less than competitive return.

Perhaps Commare N'Ciuzza was able to understand all of this in observing life outside her kitchen window. I tend to think, though, that it was her good common sense and the practical impact that such laws have on the most disadvantaged that allowed her to understand something that has eluded even the greatest of scholars.

The impact of usury laws, however, cuts far deeper than discriminating against the poor and disadvantaged. This is something even Commare N'Ciuzza did not fully understand. The fact that illegal loan markets develop in free markets to get around the restrictive impact of usury laws does not mean that an efficient market solution is achieved in spite of the existence of usury laws. Illegal loans are unenforceable in our courts, and since more expensive and morally intolerable methods of en-

forcement are applied, Big Jake's interest rates are higher than would have occurred if market-determination rates were allowed.

Adam Smith seemed to sense this in the following statement:

In some countries the interest of money has been prohibited by law. But as something can every-where be made by the use of money, something ought every-where to be paid for the use of it. This regulation, instead of preventing, has been found from experience to increase the evil of usury; the debtor being obliged to pay, not only for the use of the money, but for the risk which his creditor runs by accepting a compensation for that use. He is obliged, if one may say so, to insure his creditor from the penalties of usury. . . . If this legal rate should be fixed below the lowest market rate, the effects of this fixation must be nearly the same as those of a total prohibition of interest. The creditor will not lend his money for less than the use of it is worth, and the debtor must pay him for the risk which he runs by accepting the full value of that use. If it is fixed precisely at the lowest market price, it ruins with honest people, who respect the laws of their country, the credit of all those who cannot give the very best security, and obliges them to have recourse to exorbitant usurers. (p.339.)

Thus, the gun-toting tactics of Big Jake that Commare N'Ciuzza could only shrug over result from laws that place a ceiling on the legal interest rate that can be charged. Big Jake had no legal recourse in enforcing his contract. As a result, the most

abhorrent aspects of loan-sharking—the tactics that caused my momentary fright on Aberdeen Street—take place because of laws that make market-determined interest rates illegal.

Several years ago I returned to “Little Italy.” Commare N’Ciuza was gone, of course, and even her home was replaced by a new residence that took on a Spanish motif but had a strange contemporary look about it. The bespectacled professor who answered the door of the residence had never heard of Commare N’Ciuza.

Even the Lodge Hall was taken over by a new “greenbelt” park. As far as I could figure, a statue of Garibaldi stood on the spot where lodge

members spent countless hours arguing sports trivia.

Asking around, I found that the Lodge Hall had been moved to a room in the newly constructed Senior Citizens’ Center. When I got there, I found a brightly painted and sparsely furnished room with the latest issues of *Time*, *Newsweek* and the *Chicago Tribune*, but no *Fra Noi*. I also noticed that no one was there.

On my way out of the building I heard an elderly man ask his companion, “Did your son-in-law get a good rate from Big-a Jake?”

“No, he go to First-a Federal and-a do better.”

Well, at least Big Jake is still around. But now even Big Jake has competition. ☉

The Only Sound Policy

WHAT elevates the wage rates paid to the American workers above the rates paid in foreign countries is the fact that the investment of capital per worker is in this country higher than abroad. Saving, the accumulation of capital, has created and preserved up to now the high standard of living of the average American employee.

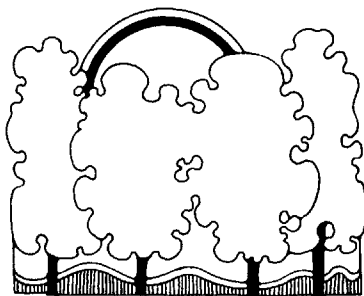
All the methods by which the federal government and the governments of the states, the political parties, and the unions are trying to improve the conditions of people anxious to earn wages and salaries are not only vain but directly pernicious. There is only one kind of policy that can effectively benefit the employees, namely, a policy that refrains from putting any obstacles in the way of further saving and accumulation of capital.

IDEAS ON



LIBERTY

The Importance of the Obvious



JUNIOR HIGH and high school students are having an increasingly difficult time understanding our economy. They are constantly surrounded by talk of the complexities and problems of the economies of the United States and the other leading nations of the world. Confusing terms are bounced over their heads in such a manner that they wonder if even their users understand them. With all the seeming chaos, they fail to realize why our nation has become such an economic success.

Calvin Coolidge said, "If all the folks . . . would do the few simple things they know they ought to do, most of our big problems would take care of themselves."

Mr. Peterson of East Greenville, Pennsylvania, teaches economics and history in junior high school.

Although this bit of practical wisdom was applied against a backdrop of a variety of national problems, it can be applied as well to the problem of simplifying free market principles for young students of the freedom philosophy. And it never hurts for the older, more astute students to review the basics periodically.

Individual students have at times approached me privately to question some statement or statistic they have read or heard concerning the economy. While there have been several instances in which I have had to honestly answer, "I don't know," I have found that many of their inquiries can be answered by providing them with an obvious, simply-stated principle of the free market philosophy. Six principles have been

of special significance to their learning.

More Freedom, Less Government

First, the free market philosophy increases the freedom of the individual and limits the role of government.

Socialists look upon society as a herd to be directed by governmental herdsmen with no consideration of the individual. They think society produces and consumes goods. In reality, there is no economic activity of masses but only of individuals.

The freedom philosophy permits the maximum activity of the individual. It allows him to make choices and take risks. It does not promise stability, as does collectivism. Instead, it gives uncertainty, challenge, and opportunity. It permits one to dream and then to attempt making those dreams reality. And, in order to allow this activity, it permits failure as well as success. The dreams which are considered worthwhile become successful in the market; those which are deemed worthless or too costly fail.

Socialism promises what unthinking men desire: equality. But in providing a false equality, it takes away the freedom of the individual. Truly free men are not equal, and equal men are never truly free.

There can be no mixture of these two systems, individualism and collectivism. One cannot be an individ-

ualist in one area and a collectivist in another. He is either completely one or completely the other in every aspect.

The free market is social cooperation entered into freely without coercion, i.e., social contract. The freedom philosophy, therefore, necessarily must restrict government to the protection of the life, liberty, and property of the individuals comprising society. Government is to act only as an umpire in the interrelationships of individuals, punishing those who harm or threaten to harm the rights or property of others. It is to insure an atmosphere in which the individual is free to pursue his own desired self-advancement provided he does not in the process harm others.

Henry David Thoreau accented this dual action of the freedom philosophy when he wrote in *Civil Disobedience*, "There will never be a really free and enlightened State until the State comes to recognize the individual as a higher and independent power, from which all its own power and authority are derived, and treats him accordingly."

Whenever government steps beyond this, its legitimate responsibility, it damages the economic and moral well-being of the individual and of the nation. It can do this in a variety of ways, including excessive taxation, restriction of personal freedoms, or regulation of the economy. The best government is the one

that does not go beyond its protective duties or unduly limit the individual. It teaches the individual to govern himself so that government intervention becomes not only undesirable but also unnecessary.

Reward for Achievement

Second, the free market philosophy rewards the work ethic.

In Bible times, the apostle Paul commanded that "if any would not work, neither should he eat" (II Thes. 3:10). This principle was transplanted to America and applied by John Smith in Jamestown. As a result, the colony overcame its difficult first years and prospered.

The free enterprise philosophy offers the prospect of economic success for those who are willing to toil and exert themselves in lawful pursuits. They are free to attempt putting their dreams and ideas into practice and to succeed or fail. Opportunity, not special privilege, is the watchword of the entire system.

Workers in a planned economy, however, are mere cogs in the intermeshing of governmental gears, striving for a bureaucratic utopia without the incentives of freedom or personal advancement of self-satisfaction.

Free enterprise rewards the worker who exhibits initiative and industry. Workers who give a good day's work are rewarded with a mutually acceptable day's wages. Those who

shirk or loaf are soon forced out of their jobs by the more enthusiastic workers. The hard workers are further rewarded with bonuses, promotions, and raises to the degree they excel or produce. As one wise person put it, the worker who never does more than he is paid for never gets paid for more than he does.

In a truly free market, unemployment is strictly a voluntary condition. Those who want employment can have it—provided they are willing to work for the wages the market is willing to pay and provided they can supply the goods and/or services the market demands. There is always a job for one who is willing to work for what the market determines he and his product or services are worth.

Thrift Encouraged

Third, the free market philosophy encourages thrift.

The door of economic success swings on the hinges of thrift, the wise use of capital. The individual who is master of his money and resources succeeds; he who is mastered by them fails.

Andrew Carnegie, one of the wealthiest capitalists of the late nineteenth and early twentieth centuries, said, "The man should always be the master. He should keep money in the position of a useful servant; he must never let it be his master and make a miser of him."

Thrift may be simply summarized by five imperatives.

1. *Spend less than you receive.* Calvin Coolidge once said, "There is no dignity quite so impressive, and no independence quite so important, as living within your means." Much of the poverty and economic difficulty of our time could be alleviated if individuals and governments had the courage to say, "No, I can't afford it."

2. *Stay out of debt.* First, one should try not to run up bills. Second, if one cannot avoid debt, he should get out of it again as quickly as possible. A man in debt is not his own master; he is at the mercy of his creditors until his debts are paid in full.

3. *Never spend anticipated income before it is actually received.* In more quaint terms, "Don't count your chickens before they're hatched!"

4. *Keep a regular and accurate account of all receipts and expenditures.* Such record-keeping readily reveals unwise or unprofitable spending. It also shows the importance of little expenditures to the whole. It insures wise and orderly expenditures and produces a visible and encouraging record of income. The record-keeping should in time develop into a wise budgeting system.

5. *Make every effort to save some of every amount received.* "I should say to young men," Carnegie advised, "no matter how little it may be possible

to save, save that little." It is from such savings that investment is possible for the development of businesses which produce the goods and services needed and desired in the marketplace. It is from such savings that charity is possible for the assistance of those less fortunate than ourselves.

Philanthropy Increased

Fourth, the free market philosophy encourages philanthropy, the caring for the less fortunate and the rewarding of worthy causes by those who are successful. Charity is the giving of one's own goods to another in need out of the generous desire of one's own heart, i.e., by voluntary contribution. It is not government-coerced funding for the support of others.

To the extent that freedom is permitted in the marketplace, philanthropy increases, for greater successes in the marketplace mean more help for those who are unable to help themselves. Contrariwise, to the extent that government restricts freedom in the market, philanthropy decreases, and those unfortunate, needy others suffer.

Charity and philanthropy are the duties of private individuals, groups, and churches, not of government. The Bible commands families to care for their own needs and for the churches to care for those who have no families. "But if any provide not for his

own, and specially for those of his own house, he hath denied the faith, and is worse than an infidel" (I Timothy 5:8).

A list of the world's great philanthropists sounds like a list from *Who's Who in Capitalism*: Philip Armour of the meat industry; Andrew Carnegie, steel magnate; E. I. DuPont de Nemours, chemical manufacturer; Henry Ford, automobile manufacturer; J. P. Morgan, financier; John Wanamaker, department store pioneer. The list could go on and on. These men were able to give vast sums to worthy causes only because the free market permitted them to earn even greater sums. Each of them forgot himself for a while in order to remember others, and practically everyone in the nation now remembers their generosity.

In the area of social welfare, as in all other areas of the free market, government only assumes this familial and religious duty in direct proportion to the degree this obligation is first abdicated by those to whom it legitimately belongs.

Moral Attitudes

Fifth, the free market philosophy thrives or founders according to the moral and spiritual condition of the individuals comprising that market. Their moral and spiritual outlook determines the nation's economic outlook. As the evangelist D. L.

Moody once said, "Nations are only collections of individuals, and what is true in regard to the character is always true of the whole."

Free enterprise encourages, in fact demands, adherence to the Golden Rule: "Whatsoever ye would that men should do to you, do ye even so to them" (Matthew 7:12). So long as men follow this simple but profound truth, freedom, peace, and prosperity abound. Only when some attempt to force, by government authority, their own desires on the rest do slavery and turmoil occur. When men are bad, society is bad. With such disruption of the market comes economic decline.

Alexis de Tocqueville tried to find the secret of America's greatness, searching diligently in the fields, in the schools, and in the halls of government. But he concluded those places, though great, did not hold the key to America's greatness. Not until he observed the moral strength of her citizens, derived from their religious principles, did he understand fully the cause of the nation's greatness. "America is great because America is good," he said. "When America ceases to be good, America will cease to be great."

Part of a nation's moral standing is determined by whether its citizens have the courage to do what is right regardless of the trends around them. The people with a sound moral condition will have an indestructi-

ble confidence in the ability of truth to triumph over error, good over evil. When men lose this faith in God, they inevitably lose their liberty, for God is the Author of liberty.

"Americans," Calvin Coolidge reminded us, "have not fully realized their ideals. There are imperfections. But the ideal is right. It is everlastingly right. What our country needs is the moral power to hold to it."

Abiding Principles of Success in the Free Market

Finally, the principles of economic success in the free market are the same regardless of the size of the operation, be it a single individual, a family, a multinational corporation, or an entire nation. Statistics and conditions may frequently change, but principles remain forever the same.

Collectivist bureaucrats would have us believe that economics is a field larger than the common man, an area into which only the experts dare enter. With their array of charts, graphs, and frightening terms and statistics, they quickly convince many that this is exactly the case. What they themselves fail to understand, however, is that economics is, at the lowest level, merely individual human actions, choices and de-

isions made in the marketplace of goods, services, and ideas.

The common man is deeply involved in the economy on a daily basis. He decides to work or not to work. He chooses to buy or sell or not to buy or sell. He makes trade-offs based on his own needs, wants, and resources. He takes risks. He succeeds or fails. Multiplied several million times all across the nation, this makes up the bulk of economic action in our country. Granted, much influence is exerted on the economy by large corporations, wealthy capitalists, special interest groups, and even governments. But the principles of the free market are always the same regardless of who is involved.

If the free market philosophy was successful, correct, and good in the developmental stages of our nation's history, it remains so even today. If it has worked for America, it will also be practical and successful when applied to other nations.

The free market philosophy, regardless of where applied, is successful because of simple, obvious principles like the ones briefly examined above. The greatest complexities occur whenever these principles are ignored or forgotten. One cannot overemphasize the importance of the obvious. Ⓢ

Political Economy and Freedom

BEFORE his untimely death Warren Nutter had made a number of timely contributions to economic thought. But many of them were in the form of comments at conferences, notes made for class lectures at the University of Virginia, speeches at gatherings of the Philadelphia Society and the like, and essays published in journals that were not readily accessible to the general public. Nutter had not been given time to do his own gathering and synthesizing. So we are indeed indebted to the Liberty Press of Indianapolis, and to his widow Jane Couch Nutter, for a first-rate winnowing job that has resulted in a fine posthumous volume, *Political Economy and Freedom: A Collection of Essays* (314 pp., cloth \$10.00, paper \$5.50), which comes with a foreword by Paul Craig Roberts, one of Ronald Reagan's early supply-side advisers.

From the beginning Warren Nutter insisted on the primacy of microeconomics. In a world in which choosing is done at the margin, Nutter thought it self-defeating to depend on Keynesian central planning. When transactions are made in the millions, there is no way of arbitrarily setting wages and prices, or determining quotas, without strangling human ingenuity and dampening incentives of all kinds.

Even so, Nutter knew that economies exist in political frames. The decisions of politicians often play hob with economic choice. So, unlike many of his fellow libertarians, Nutter kept a wary eye on nonmarket forces. Neither the Soviets in Moscow, nor our own interventionist politicians on Capitol Hill, ever took him by surprise. He spent four fruitful years working as an economic and political adviser to the Pentagon, where much of this time was de-

voted to judging the intentions and capabilities of Soviet leaders who, though they could put their fingers on the most advanced nuclear weapons, had to reckon with a back-up society that was more interested in vodka than in conquest.

In Search of a Cause

The key to Nutter's thinking is supplied in some remarks he made to the National Association of Manufacturers in 1974. "The world," he said, "is bigger than the marketplace, and many valuables are simply not marketable. The concept of the economic man works to explain markets because most people behave that way most of the time. But some behave differently all the time, and all do some of the time. Otherwise, why do we have wars, hot and cold? No theory of social behavior is complete unless it allows for the passion of the mob, the zeal of the martyr, the loyalty of the palace guard, the insatiability of the egomaniac . . . The principal problems of the day are at root not economic but social, ethical, and political. We are people in search of a cause."

Nutter's own cause, as Paul Craig Roberts says, was to ground our economic and foreign policies in "our heritage of freedom." He made a profound study of the structure and growth of Soviet industry. At the same time he conducted parallel studies of growth of government in

John Chamberlain's book reviews have been a regular feature of *The Freeman* since 1950. We are doubly grateful to John and to Henry Regnery for now making available John's autobiography, *A Life with the Printed Word*. Copies of this remarkable account of a man and his times—our times—are available at \$12.95 from The Foundation for Economic Education, Irvington-on-Hudson, New York 10533.

western societies. He was impressed by the progress of the Russians in their earlier planning periods, when they cleverly combined "knout and honey." But he noted, in a later essay, that "in the Soviet case, industrialization has been pressed forward at the neglect of virtually everything else." Swords had displaced plowshares. "Housing, transportation, agriculture, service trades, and light industry have been left to straggle along on scraps tossed to them from time to time."

A strong West, in Nutter's estimation, would be quite capable of handling the Soviet menace. But, unfortunately, the "unhindered growth of government in societies that have considered themselves free" was sapping western development at the same time the Russians were floundering at home.

Government Spending


Nutter picked out sixteen countries, all democracies, for special investigation. They were Australia, Austria, Belgium, Canada, Denmark, France, West Germany, Italy, Japan, Luxembourg, the Netherlands, Norway, Sweden, Switzerland, the United Kingdom, and the United States. In the early Nineteen Fifties the "median percentage of national income accounted for by government spending in these sixteen countries was around 30 percent. By the mid-1970s, that median had risen to over 50 percent. That is to say, for an average free country in 1950, government was spending about a third of national income. For an average country today, government is spending more than half of the national income."

Nutter was distressed because he saw few signs of a stopping point to the process. He was encouraged by the "possibility of a taxpayers' revolt." He did not live to see the success of Proposition 13 in California.

Writing before Nutter, Colin Clark had laid it down as a dictum that when governments begin to spend more than 25 percent of national income decay was bound to set in. Nutter saw this decay all around him when he reflected on what was happening to property rights. The free society must disappear, he thought, when "the tax claims of government have become so large that a govern-

ment claim against property begins to be considered a government right to property." It has not taken long, Nutter observed, "for the proponents of big government to turn the principle of private property on its head, maintaining that government is the ultimate owner of property against which the private individual may have a claim, instead of the other way around."

Working for the Pentagon sharpened Nutter's perceptions of the troubles involved in living in a disintegrating world order. He found himself writing essays on the ebb and flow of American foreign policy. Henry Kissinger's conception of détente bothered him. Stripped of rhetoric, he said, Kissinger's détente "amounts to giving the assets away without requiring any strategic benefits in return." Though Kissinger called his policy "creative," Nutter described it as "romantic."

Warren Nutter took an enthusiastic part in the annual meetings of the Mont Pelerin Society. I remember him particularly for his exuberance on some of the Mont Pelerin mid-week field trips. Looking at a palace in the middle of an island in Lake Maggiore in Italy, Nutter pretended he was making notes for the palace he said he would someday build in Virginia. He did not live to build that palace (would it have been a new Monticello?). But he had his fun. 

**PINK AND BROWN PEOPLE AND
OTHER CONTROVERSIAL ESSAYS**

by Thomas Sowell

158 pages ■ \$8.95 paperback

**AMERICA: A MINORITY
VIEWPOINT**

by Walter Williams

183 pages ■ \$8.95 paperback

(Both books published by the Hoover
Institution Press, Stanford University,
Stanford, CA 94305, 1982.)

Reviewed by Tommy W. Rogers

DOCTORS Sowell (Senior Fellow at the Hoover Institution) and Williams (professor of economics at George Mason University) are seminal and incisive thinkers and essayists. Each of the above books consists of articles which originally appeared as columns in major newspapers. These terse coherent articles, ranging in subject matter from race, economics, and politics to various social trends and issues, pack the wallop of a wet bag of cement. They provide a compact, revealing, scholarly but readily interpretable analysis of the fads, fallacies, and foibles of the self-anointed elite whose commitment to coerced utopia through the compulsive reach of government threatens the very fabric of our Constitutional system, and of the cultural and economic prosperity which has been possible under that system.

The theory of how the world works


underlying the thought of doctors Sowell and Williams is what they term a "vision of social processes." This viewpoint recognizes that perfection is precluded by the realities of the human condition, and that the most feasible adjustment to the human condition is through the family, Constitution, market, and the traditions of freedom. This perspective contrasts with the "vision of the anointed" who perceive the world as a place wherein perfection can be achieved if mankind can be persuaded, tricked, or coerced into adopting their elitist version of virtue and wisdom. The "anointed" feel that they have advanced beyond reactionary and conservative mythologies, and that their enlightenment and messianism is the route to salvation. The institutions of freedom to which defenders of the "vision of social processes" pay homage are major obstacles to the implementation of the vision of the "anointed" messiahs in academia, government, and media.

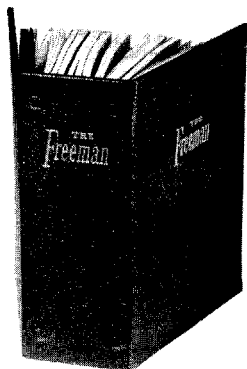
Doctors Sowell and Williams feel that the American public has allowed itself to be duped by the political medicine men of quick fixes, fine tuning, collectivization, plus such will-o-the-wisps as perfect justice, affirmative redress, and "equal opportunity." The authors combine knowledge, understanding, research, and valid insight with consummate literary skill, all derived

from a firm philosophical footing. The result is a merciless dissection of the pious hokum and cant which underlie much of the respectable but illusory and disastrous public policy notions of our time.

The moral appeal of the "vision of the anointed" is understandable and interpretable, but much of its success is due to the public's willingness to fulfill Barnum's jibe about suckers. Generally, the victim of con games has a streak of larceny himself and contributes to his own fleec-

ing. Thus the elite and "the public" feed on each other.

Ideas, beliefs, and perspectives have consequences. History, to a large degree, is the outworking, the denouement in time and space, of the ideas by which men live. Doctors Sowell and Williams are premier spokesmen for the vision of freedom, and the prosperity which freedom makes possible. These two volumes of essays from their deft pens make for reading which is both incisive and instructive. 



HANDSOME BLUE LEATHERLEX

FREEMAN BINDERS

\$4.00

Order from:

THE FOUNDATION FOR ECONOMIC EDUCATION, INC.
IRVINGTON-ON-HUDSON, NEW YORK 10533

the Freeman

VOL. 33, NO. 9 • SEPTEMBER 1983

| | | |
|--|---------------------------|------------|
| The Dilemmas of Public Education | Clarence B. Carson | 515 |
| The mounting problems await solution through free market policies. | | |
| Until Shrimp Learn to Whistle | David Smyth | 526 |
| Why private enterprise will always be superior to socialism. | | |
| Freedom and Utopias | John Hospers | 530 |
| A review of earlier attempts and of current proposals to remold society. | | |
| The Rising Protectionist Tide | Dennis Bechara | 545 |
| Trade barriers are detrimental to all producers and consumers. | | |
| Education in Colonial America | Robert A. Peterson | 551 |
| Evidence that the free market can meet America's educational needs. | | |
| Make-Work Won't Work | John Semmens | 561 |
| An assessment of the failing measures to relieve unemployment. | | |
| Book Reviews: | | 570 |
| "The World After Oil: The Shifting Axis of Power and Wealth" by Bruce Nussbaum | | |
| "Free Enterprise: A Judeo-Christian Defense" by Harold Lindsell | | |
| "Social Justice and the Christian Church" by Ronald H. Nash | | |
| "Benjamin Franklin" by Ronald W. Clark | | |

Anyone wishing to communicate with authors may send first-class mail in care of THE FREEMAN for forwarding.



the Freeman

A MONTHLY JOURNAL OF IDEAS ON LIBERTY

FOUNDATION FOR ECONOMIC EDUCATION

Irvington-on-Hudson, N.Y. 10533

Tel: (914) 591-7230

Leonard E. Read, 1898-1983

Managing Editor: Paul L. Poirot
Production Editor: Beth A. Hoffman
Contributing Editors: Robert G. Anderson
Bettina Bien Greaves
Edmund A. Opitz (Book Reviews)
Brian Summers

THE FREEMAN is published monthly by the Foundation for Economic Education, Inc., a nonpolitical, nonprofit, educational champion of private property, the free market, the profit and loss system, and limited government.

The costs of Foundation projects and services are met through donations. Total expenses average \$18.00 a year per person on the mailing list. Donations are invited in any amount. THE FREEMAN is available to any interested person in the United States for the asking. For foreign delivery, a donation is required sufficient to cover direct mailing cost of \$10.00 a year.

Copyright, 1983. The Foundation for Economic Education, Inc. Printed in U.S.A. Additional copies, postpaid: single copy \$1.00; 10 or more, 50 cents each.

THE FREEMAN is available on microfilm from University Microfilms International, 300 North Zeeb Road, Ann Arbor, Mich. 48106.

Some articles available as reprints at cost; state quantity desired. Permission granted to reprint any article from this issue, with appropriate credit.



The Dilemmas of Public Education

A great many issues have reached the level of public debate today concerning public education. They range from questions that plumb the philosophic depths to everyday problems of student discipline. They range, that is, from questions as to the origin of life and of plant and animal species on this planet to the question of whether teachers should be permitted to use corporal punishment in the classroom. There are those who believe that only the doctrine or theory of evolution should be taught in public schools. On the other hand, there are many equally convinced that an account of Divine Creation should be given at least equal time. Then, there is the question of whether or not prayer should be permitted (or perhaps encouraged or required) in the public schools.

Dr. Carson has written and taught extensively, specializing in American intellectual history. He is the author of several books, his most recent being *Organized Against Whom? The Labor Union in America*. He is working at present on *A Basic History of the United States* to be published by Western Goals, Inc.

Indeed, there is a great variety of controverted and complex issues about such matters as sex education, the content of the curriculum, athletics, public policy about private schools, the right of parents to teach their children, homosexual teachers, the teaching of contemporary literature in which obscenities and profanities abound, the use of the schools as instruments of social reform, frills versus basics in education, the unionization of teachers, the compulsory bussing of children to achieve racial integration, the quality and character of textbooks, and so on and on.

It is not my intention here to take sides on these issues. Rather, it is my purpose, in the first place, to call attention to the fact that the issues exist, that they involve vexing questions, and that when they are pushed on one side or the other they tend to become dilemmas. In the second place—and this is my main point—they are dilemmas because they are being approached in the framework of public policy. They are dilemmas

of *public* education, i.e., of government supported and controlled education. The contentions arise from efforts to use government for differing ends, indeed, diametrically opposed ends, quite often. This may not be unusual in itself, but the differing positions on education are being pressed at a level at which no generally satisfactory resolution is possible. They are dilemmas.

A dilemma is a "situation requiring a choice between equally undesirable alternatives." Granted, at the level at which the debates have been conducted the issues do not appear to pose a question of choice between equally undesirable, or even unequally undesirable, alternatives. It appears that those who have taken sides would be quite pleased if their position could be made to prevail. Take the issue of prayer in the public schools. Presumably, those who favor them would be quite satisfied if the schools would have prayers, and those who oppose would be equally satisfied to have prayer prohibited.

That, however, is largely an illusion. Undoubtedly, there are many who would like to see prayer instated in the schools or classrooms. Beyond that, a considerable portion of these would like to see an attitude of piety toward God, toward human relations, and toward their studies prevail more generally among teachers and students in the schools.

Nor is there any good reason to doubt that there are others who would like to see prayer excluded from schools. Beyond that, there may be those who would like to see all pious, religious, or believing attitudes excluded from education, that the whole undertaking be carried on in a secular and skeptical framework.

No American Consensus

But I doubt very much that there is an American consensus for a political solution to this question. More important, those whose careers depend upon knowing such things, i.e., politicians, clearly do not believe that there is a consensus for political action on the prayer issue. The best evidence for this is that constitutional amendments on this issue have been hanging fire for 20 years now. None has ever mustered the two-thirds majorities necessary to get an amendment out of Congress and before state legislatures or conventions. So far as we may judge there is no consensus behind a constitutional amendment that would permit or authorize prayer in the public schools. But even if an amendment were adopted, it is not at all clear that the issue would be resolved.

The truth seems to be that there is no acceptable political solution available. There is the dilemma. A political solution involves the use of force. Probably, most of those on either side of the prayer issue would

be exceedingly reluctant to employ force to achieve the full measure of what they wish to see established. That is, most of those who want prayer in the schools would not wish to see teachers forced to lead prayers or preside over them.

Indeed, it is not at all clear how anyone could be forced to pray or what desirable end could be achieved by it. Such use of force would be contrary both to the nature of prayer and of education. On the other hand, surely those who oppose prayer in the schools do not envision sending SWAT teams or the National Guard to prevent small children from giving thanks by repeating: "God is great. God is good. Let us thank Him for our food." In short, it may well be equally undesirable to many Americans either that there should or should not be prayer in the public schools or that force should be directly applied to achieve either end. That is a true dilemma.

(Since some may suppose that the courts have settled the prayer issue by their rulings, some observations on that may be helpful. The Supreme Court has nullified state laws specifying prayer and Bible reading in public schools. Such laws were held to be in conflict with the First and Fourteenth Amendments to the Constitution. Other courts have made rulings on a variety of religion-related practices in the schools. Thus far, however, United States

Marshals have not been sent forth to interdict prayer in any particular school, and public prayers are still made in a goodly number of schools.)

Force Is the Issue

The dilemma, I am saying, is not in the issues; it arises from the prospect of the use of force. Ultimately, the dilemmas of public education arise from compulsory attendance and the financing of schools with tax money. It is these things that make the questions public issues. It is these things, too, that make any solution difficult, if not impossible, short of tyrannical measures. This is true not only for the prayer issue but for most of those that have come to the fore in recent years.

Even so, it may be of some help to see how the issues have come to the forefront. More specifically, I want to explore a little the setting in which the issues have arisen. It is not surprising, of course, that people should differ among themselves about what should be done or how to go about doing it. Each of us differs in some or in many respects from others. We differ in background, experience, temperamental make-up, tastes, preferences, abilities, goals, and intelligence, to name a few ways. From these individual differences arise differences of opinion. Nor is it difficult to surmise why we might differ with one another quite often about so sensitive and crucial a mat-

ter as the education of our children.

Fortunately, most of us do not usually set such store by each of our opinions that we are inclined to make a federal case, as the saying goes, about every difference. But on some matters within their hierarchy of values, many people feel strongly about their beliefs and principles. Some of these fall for many people in the arena of education; in some senses, all of them do.

Diverse Origins

Some of these differences might well assume some importance in any country, but the diversity of the population in the United States has increased both their number and importance. From the earliest English, French, and Spanish settlements, America was a land of immigrants. The diversity of the population has increased rather than diminished over the years. From the 18th through better than three quarters of the 20th century, peoples from virtually every land have come or been brought here, sometimes in small numbers and at others by the thousands and tens of thousands. At various times, they have come from Scotland, Ireland, Wales, France, Germany, Italy, Sweden, Norway, Poland, Bohemia, Russia, China, Japan, Transylvania, Serbia, Turkey, Iran, the Gold Coast of Africa, Mexico, Cuba, and so on and on. Virtually every culture, race, national-

ity, language, and ethnic grouping in the world is represented among those who have settled in America.

Of religious sects, denominations, and churches virtually every spectrum of belief is or has been present in America. There are Protestants, Catholics, and Jews, Buddhists, Moslems, and Shintoists. There is a wondrous variety of Protestant sects and denominations: Episcopalians, Methodists, Baptists, Presbyterians, Disciples, Congregationalists, Nazarenes, Evangelicals, Quakers, Unitarians, Christian Scientists, Jehovah's Witnesses, and many, many more. But no brief listing can begin to capture the diversity of religious belief or unbelief in America, for in addition to those who profess some religious belief, or belong to organizations which do, there are atheists, agnostics, skeptics, free-thinkers, Communists, communists, and a variety of groupings holding religious-like beliefs. All of these beliefs have greater or lesser import on beliefs and preferences about education.

While it would not be possible to exaggerate the differences among groups and individuals which have some bearing on what may be wanted by way of education, it may be possible to overstate the case for most communities. When we look at the United States as a whole, what we may see is a great hodgepodge of peoples, groups, and organizations

representing almost every spectrum of diversity.

By contrast, communities are often much more nearly homogenous than any description of the nation would suggest. For example, in many parts of the rural and small town South, there may be churches of several denominations, but the religious motif is apt to be Southern Baptist. In parts of New England, it may be Congregationalist; in Western Pennsylvania, Presbyterian; in Utah, Mormon; and so on. Even in cities where there may be the most diverse religious, ethnic, and racial differences, there are often fairly homogenous groupings of people in particular sections.

But whether a community was diverse or homogenous in its makeup, people tended to associate in their own particular churches, clubs, organizations, and what have you, to preserve their own ways within enclaves, as they chose, or to slough off many of their differences and fit into a more general American pattern. A great degree of harmony amidst wide diversities was generally possible in America by those who were different keeping their distance from one another, minimizing the extent of their involvements, or going along with the prevailing customs. *E pluribus unum* expresses a truth only if that in which Americans were one be limited and restricted to a small number of common interests.

Schools Provided by Communities and by Churches

For most of American history, schooling tended to mirror and reflect the diversity of America. Schools tended to be provided, when they were provided, by communities and churches. Historically, schooling in Western Civilization was allied with if not tied to religion. In the Middle Ages, Catholic churches generally provided such formal schooling as existed. Cathedrals had their own schools as a rule. Generally speaking, too, after the Protestant Reformation where there was an established church it had the oversight of all formal education, whether or not it provided the schooling. During the colonial period in America, the only experiments of any extent in compulsorily provided education were in New England. Otherwise, people were left free to provide such education in whatever form they would for their children.

Nor was there any great change in most regions after the American Revolution for the better part of a hundred years. Lands were sometimes set aside for schooling when the public domain was broken up for selling. But the initiative for providing schools was generally left to communities, towns, and churches, or whoever had an interest in it. Churches did sometimes support schools. Towns and communities often did so as well. The cost of schools

was often defrayed by tuition paid by parents, and it was sometimes supplemented by charitable contribution. Sunday schools were widely organized by churches in the 19th century, initially as a means to teach children the fundamentals of reading and writing. In any case, the providing of a school for a frontier and rural community was not usually especially expensive. The men of the community could get together and raise a building. A schoolmaster could be paid in much the same way as a minister for the church, if he were not one and the same person.

Local Control

But however the school was provided, it was generally done by some local community. The community controlled the school, so far as it was controlled, and those who were sufficiently pleased by what was offered could send their children to it as circumstances permitted. The diversity of the population of America was undoubtedly reflected in the schools from community to community and region to region, so far as there was any will to make it so, and people pretty much had such schools as they could or would.

Even after governments began to become involved and some tax support began generally to be provided, there was no great change for a good many years. The movement toward tax supported schooling and com-

pulsory attendance was largely made between the Civil War and World War I. Schools were generally still locally owned and controlled, however, and many high schools were still private or semi-private. (Some churches, notably the Roman Catholic and Lutheran, maintained schools for their communicants, where they were sufficiently concentrated for that.) Local boards made the basic decisions about education, levied charges, hired teachers, and, presumably, reflected community values. Even so, schooling became public education as compulsory attendance laws were passed, and tax support became widespread. The stage was being set for the dilemmas which we now face. Local boards made the transition much easier, but they may have only served to delay the surfacing of the dilemmas.

At any rate, the schools have been transformed in the 20th century. They have been very nearly nationalized and secularized as well as made more or less uniform. They have been transformed into instruments of or for social reform on a national scale. Control over the schools has been wrested from local communities and is now in the hands of state and national bureaucracies, legislatures, and the federal judiciary. Local boards may still make intermediate decisions, but they do so within a framework of guidelines and prescriptions that make them

mostly errand boys. It is this transformation that has brought the dilemmas of public education to the surface, given rise to strident demands, and provides the setting for the urgency of some accommodation or resolution.

The transformation has been effected mostly since World War II, but it was prepared and advanced for several decades before that.

Overcoming the Differences

It is tempting to speculate as to how anyone could conceive a national and uniform system of education that could encompass and accommodate the diversities of Americans, but it would be irrelevant to do so. No one ever has, and I dare say no one could. What was conceived, rather, was a system which its proponents hoped would act as a solvent upon the differences, obliterate them, if you will.

As I was preparing this article, I received a little leaflet entitled "The Internationalization of Accounting Curriculum." It contained this revealing sentence: "Education, in its essence, and by definition should result in the diminution of provincialism." On the contrary, I would say that education might either heighten or diminish provincialism, depending on its content and emphasis and the receptiveness or resistance of the ones being educated. But no matter. Most likely, the person who wrote

the sentence couldn't distinguish clearly between an essence and an apple, and he certainly did not bother to define education. What matters is that he was writing out of a vision of education that has become deeply ingrained over the past seventy-five years.

It is a vision of using the schools to transform man and society. The idea was advanced most vigorously and directly by the proponents of what was called Progressive Education, but it came to permeate the whole field of pedagogy, which has marched under the flag of "Education" for most of this century. John Dewey was the leader of Progressive Education, and its center was Teacher's College of Columbia University. Progressive educationists usually described the transformation they aimed at as making America democratic, or more democratic. By that description, however, they meant mainly equality. That is not to deny that they may have favored democratic methods, sometimes anyway, but rather to assert that their animating ideal was equality.

The thrust of this idea of equality was to remove all differences, to bring the high low and the low high, or, as George S. Counts, a Progressive, said, "the school should be regarded . . . as an agency for the abolition of all artificial social distinctions, . . ." (Quoted in John H. Snow and Paul W. Shafer, *The Turning of the Tides*

[New York: Long House, 1956], p. 30.) To Progressives, all distinctions were arbitrary, of course. As John Dewey pointed out, "Democratic abolition of fixed differences between 'higher' and 'lower' still has to make its way in philosophy." (John Dewey, *Problems of Men* [New York: Philosophical Library, 1946], p. 15.)

Professional Educators

In short, the Progressives did not conceive a philosophy of education which would embrace the diversity of America. Instead, they advanced a plan to use the schools as an instrument for removing, obliterating, or crushing the differences. Progressive Education eventually blended with or became the dominant influence in professional education, i.e., the teaching of teachers in pedagogy. There have been three main stages thus far in the movement to nationalize and make uniform the public school (indeed, so far as they could, all schools) in America.

The first was to give a dominant role in schooling to the faculties of education departments, schools, and colleges. This was done by requiring state certification of teachers, requiring education courses for certification, and by founding numerous normal schools, teacher's colleges, and education departments.

The second stage was to bring all public schools under the control of state departments of education. Cer-

tification was a major means to do this, but it would have been of little account without state leverage. This was achieved in most states by financing and the laying down of guidelines in order for schools to receive state money.

The third stage is the effort to nationalize education more directly. Federal aid to education was the opening wedge. There is, of course, now a cabinet level United States Department of Education, and the federal courts now wield great power over the schools.

In large—and to summarize thus far—there is a vast educationist establishment in America. It includes not only the federal, state, city, and county bureaucracies with their hierarchy of officials, but also thousands of educationists in colleges and universities, and hundreds of thousands of teachers in the public schools. This establishment exercises decisive influence over the public schools, and much influence and some controls over private schools. The establishment may not be a monolith, but it is certainly monolithic in tendency. If anything, it has become much more cohesive in recent decades by the widespread organization of teachers in national labor unions. The common thread which holds it together at the ideological level is educationism.

The thrust of this establishment has been to secularize, nationalize,

and make uniform the schools and schooling. This establishment has wrested the control over the schools from local communities and vested it in bureaucracies at ever greater remove from them. The ultimate power over the schools now rests in the Supreme Court of the United States, which is about as remote from popular control as it is possible to get.

Differences Aggravated

This, then, is the setting of the dilemmas of public education. The educationist establishment has not succeeded, not yet anyway, in wiping out the diversity in America. They are succeeding, rather, in exposing the dilemmas of public education. The differences and diversities have been exacerbated rather than obliterated, and lowest common denominator schooling has given rise to a rising tide of resentment to it. Some of these resentments are represented in contemporary debates on public issues. The educationist establishment would be in deep trouble if it had to answer only for the declining achievements of the pupils it serves, the disorders in the schools, and the low caliber of so much of the teaching. But the nationalization and secularization of education (or schooling) has brought dilemmas to the fore for which there are no solutions in public education.

There is a way out of this morass.

There is a way to restore schooling to local patrons, the control over education to parents, and freedom to learning. There is probably more than one way to go about attempting to do these things. President Reagan has stated his opinion that the control over education ought to be returned to local communities. He has also proposed that deductions for tuition to private schools be permitted on income tax schedules. Proposals for a voucher system to enable people to choose their schools and pay with tax money have gained some followers over the years. Whatever the merits of these and like proposals, they do not go to the heart of the problem, by my analysis.

The heart of the problem is compulsory attendance and tax-supported schooling. It is these things on which an educationist establishment has been built; they provide the levers for the control over schooling. So long as attendance is compulsory and schooling is tax-supported, the dilemmas will remain; the diversity of America and the differences among people will take care of that.

There is a way, however, to free education from the trammels of government control. It is the free market. It is to leave schooling to the market and education to those who are willing to seek it. It is the way to provide both for the inevitable differences between individuals and

the diversity of the population in America. I am aware, of course, that many people favor what they call public education, although it is becoming equally clear that a considerable portion of Americans are less than enthusiastic about the current product.

It is hardly surprising that public schools should be widely, even generally, accepted as desirable. Anything established as long as a hundred years is likely to be widely accepted. If public baths had been established in towns and communities as long as schools, they would no doubt have gained widespread acceptance. How would people bathe themselves, after all, if there were not public baths? Surely, the poor would have to go dirty!

Church and State

But perhaps I should choose an example closer to home, since most Americans have little familiarity with public baths. This example comes at least from our common historical background. As recently as the early 17th century, most Europeans apparently believed that an established church was essential to the unity and well-being of a country. (Indeed, the relics of established churches still survive in such countries as England and Sweden.) Moreover, many believed that the government should assist in compelling attendance at churches and that

the church should be tax-supported. Many people found it difficult to imagine how religion could survive without fullfledged support of the state.

There were still a goodly number of people who believed at the time of the writing of the United States Constitution that some sort of state support for churches was desirable, and several states still had an established, or government favored, church. There were others who believed even more confidently that religion should be freed from the toils of government, that people should be free to speak and act in accord with their own consciences, that it was folly to use force in such delicate and profound matters. They carried the field eventually.

Actually, there was no possibility of having an established church in the United States without arousing animosities that would wreck the union. Anglicans in South Carolina would hardly accept the Congregational church of New England. Quakers and Baptists would accept neither, and the great variety of denominations and churches in America made the establishment of any church a potentially divisive and explosive issue of the first order.

The happy decision reached by the Founders was to forbid Congress to establish any church or interfere with any that might exist in the states. The result was so generally satisfac-

tory that even those few states which had some sort of government support or preference for a particular denomination removed it. Nor did religion perceptibly decline and wither away in the United States without government support. On the contrary, religion flourished, churches abounded, and denominations proliferated. Religion, left to the market, so to speak, and to private giving and support satisfied both the desire for variety, which flows from individual differences, and the longing to share faith and beliefs with others. It would be difficult, if not impossible, to find a single American today who would favor a governmentally supported national church.

The case for freedom of education is hardly less substantial than that for freedom of religion. Indeed, for many today, they cannot have full freedom of religion without also having freedom of education. For many thoughtful persons, God substantiates all knowledge, and if He is not acknowledged, the foundation stone is missing from learning. Given the diversity of America, a national school establishment is no more appropriate than would be a nationally established church.

In one respect, at least, an established school is much more grotesquely unjust and intolerant than an established church. When compulsory attendance at church was required, adults as well as children

were required to attend. By contrast, we visit the compulsion only upon children, those among us who are the weakest, least able to resist, least able to fend for themselves, and who have no voice in political decisions. This system of compulsion permeates education, stifles curiosity, and turns what could be a wondrous adventure of the mind for those who have the aptitude and desire into almost insufferable boredom.

Compulsion has turned schooling into a "bad" rather than a good. The dilemmas of public education and the insuperable problems in so many contemporary schools are a direct consequence of the compulsion. I do not know what forms schooling might take if it were left to the market and voluntary giving, nor what great variety of ways people might find to become educated. I am certain that if people valued these things and were free to provide for themselves, they would do so. And, for me at least, it would be exciting to see what kind of changes would be made when those who would provide schooling and help to educate should turn their attention to serving customers rather than compelling attention. Only those who want to learn ever learn much worth knowing in any case. Rather than having dilemmas and national problems of education, we might have in their stead opportunities for teachers and learners unbounded by state compulsion. ☉

Until Shrimp Learn to Whistle



SOME THINGS are so self-evident that they really require no proof. They are simply a matter of looking around you in your daily life to see how things work and how people act.

For example, consider these questions, and answer them from your own experience and observation of life:

—A high wind has blown over all the garbage cans down a suburban street. Food wrappers, old newspapers, and assorted scraps are strewn all over the street, sidewalks and homeowners' front yards. The residents are more likely to: A) clean up the street and sidewalks only, or B) to clean up their own front yards only.

—A sewer pipe has clogged in a 10-story apartment house. The toi-

let and bath-water from the top nine stories is spilling out all over the floors of the apartments and public corridors of the first floor. The first-floor dwellers are more likely to get to work at once: A) cleaning up the public corridors, B) cleaning up their own apartments.

—A widget company tries an experiment. It puts half of its salesmen on a regular salary, so that they make the same amount of money weekly regardless of how many or how few widgets they sell, or indeed whether they sell any at all. The other half are told they will be paid 25 per cent of the sales price of every widget they sell. Who will sell the most widgets: A) the first group? or B) the second group?

These examples could be multiplied endlessly, covering every human activity in the nation, so that

Mr. Smyth is a journalist and free-lance author in Metuchen, New Jersey.

overall they reflect what is known as the national economy. In each case the choice is between A) acting in the interest of society as a whole, or B) acting in one's own interest.

You may note that A) and B) do not necessarily exclude each other. Once you have wiped up the dirty bath water off the floor of your own apartment you may well decide to help your neighbors clean up the corridors of their apartments. Or you may leave it to the janitor. After all, that is what he is paid for. You may decide to help only the neighbors you are friendly with, or who are crippled or aged. Or to help clean up the corridors because the janitor is away on vacation. Whatever you decide, they are *voluntary* decisions that you alone make and that nobody imposes on you.

Now, from what I have seen around me in the United States I think it is a safe bet that almost everybody will clean up his front yard before he thinks of getting to the public sidewalk, that he will mop up the mess in his own apartment before he gets around to the public corridors, and that he will sell a lot more widgets if he knows that every extra one he sells means extra money to support himself and his family.

Selfishness? Well, yes, in part. But in large part it is rather a matter of responsibility, of priorities. If you have a family to support that is your first duty. If you have a property it

is your responsibility to maintain it. It is not your obligation to be a garbage collector for the neighborhood unless you have contracted for the job.

I have lived in other countries, in South America and in Europe, and from what I saw there I think those people too would act the same way as they do in the United States.

My observations, therefore, lead me to the conclusion that it is a universal human trait to act in one's own self-interest. It is not, in my experience, a universal human trait to act spontaneously and consistently in the public interest.

Do you agree with me so far?

If you do, then it must also be self-evident to you at this point that private enterprise gives a much truer reflection of human nature than socialism or communism or any kind of collectivism does.

Acting in One's Own Interest

Private enterprise, private ownership, private action—they all require only one basic condition: that individual human beings will consistently and spontaneously act in their own self-interest.

Socialism, communism, public ownership, collectivist action, all require a quite different condition: that individuals will consistently and spontaneously act in the public interest.

Since we know from our own per-

sonal experience that people all around the world are not always likely to fulfill this basic requirement of their own accord, the consequence is inevitable and obvious: they must be *forced* to act in the public interest.

If they are not so forced, then socialism, communism or any other kind of collectivism *simply will not work*. By the very nature of their most basic assumption, these isms unavoidably lead to the use of force to make people do what they would not do spontaneously of their own accord. The use of force is imbedded in their very essence. The immediate result of such a system is the imposition of rules, regulations, requirements, quotas, work-norms, rations, inspectors, regulators, policemen and enforcers of all kinds. The end result is the Nazi concentration camp, the Soviet forced labor camp, the Vietnamese re-education camp, the Chinese collective farm and the Maoist "cultural revolution," and the Pol Pot genocide in Cambodia.

But the use of force achieves absolutely no advance toward the ideal of a happy, free and productive society that the collectivist "idealists" perhaps sincerely wish to achieve. Since it ignores the basic fact of human nature, the collectivist system merely sinks deeper and deeper into a police society where the carrot of incentive counts for less and less

while the stick of authority counts for more and more. The growing use of force merely makes the forced laborers even more recalcitrant, mutinous and uncooperative than they were to begin with (as the Communist authorities happen to be discovering right now in Poland).

Given these circumstances and this attitude, it is no accident that a privately owned American farm will outproduce a Soviet or Chinese state farm fifty- or a hundred-fold. The American farmer has the powerful incentive of self-interest inducing him to produce. The American farmer also has better equipment? Yes, but that, too, is a result of the private enterprise system. And even with the very best agricultural machinery, the Soviet state farm employee has no incentive even to keep up his machines. Combines and threshers rust out in the open fields, harvested grain rots rain-sodden out in the open. As there is no profit or benefit in it for the individual state farm employee, what does he care? Only the fear of punishment by the authorities will stimulate him to the extra effort that farming invariably requires at critical times of the year.

In Summation

If you have followed me so far, we are now agreed on this:

Firstly, the private enterprise system is based on a realistic appraisal of human nature, whereas

communism or socialism is based on an "idealistic" conception of what human nature *ought to be*. And when individuals like you and me do not live up to this "ideal" then the collectivist authorities have to use force on them to oblige them to conform to the "ideal" pattern.

Secondly, the private enterprise system is in its very essence a system of individual freedom, because by the very nature of things nobody has to be forced to act in his own self-interest. He does it naturally.

Thirdly, the private enterprise system is a more productive system, because everybody is motivated to produce more by the knowledge that his own efforts will have a direct, measurable effect on improving his own individual situation. In the collectivist system the individual is motivated mainly by fear of punishment, since he has no great hope of any measurable reward for his own individual efforts.

Since all our reasoning above is based on observed facts, it is pure realism. It takes the world as it is and builds on that as a secure foun-

ation. The collectivists start out with an "idea" of the world as they think it ought to be, and they try to force people to build castles in the air that soon turn out to be prisons and hells on earth.

But the collectivist "idealists" are obstinate in their error, and not even decades of experience have persuaded them that their argument is vitiated in its first premise, that it is quite literally baseless. As Soviet dictator Nikita Khrushchev put it so picturesquely: "Those who wait for the Soviet Union to abandon Communism will wait until shrimp learn to whistle."

Communists pride themselves on an "objective" interpretation of history. Those of us who have an objective view of human nature, as contrasted with their "idealistic" view of it, might well set Khrushchev's words back in his teeth: if you think your collectivist system is ever going to equal the private enterprise system in truth, freedom, or prosperity, comrade, you can wait until shrimp learn to whistle. ☉

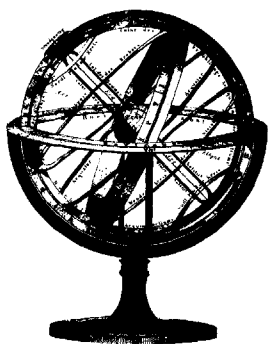
F.A. Harper

IDEAS ON



LIBERTY

THE terrific urge to prevent another person from making a "mistake" must be resisted if liberty is to be preserved. The "protective spirit" that leads a fond parent to prohibit his child from acquiring mature judgments, as he substitutes his own opinions for those of the child, leads the dictator to act as he does in "protecting" his political children.



FREEDOM AND UTOPIAS

“Each person should have dominion over his or her own life.” Nothing seems more simple or more obvious. A may rule A’s life but not B’s; B may rule B’s life but not A’s.

Perhaps the single most tragic fact of human history, however, is that there are many people who want to rule not only their own lives but the lives of others. Some of these people write books in which they tell us how they would propose to rule the lives of others and force these others into conformity with their purposes. Such men are the authors of *utopias*.

Voluntary vs. Coercive Utopias

Some wish only to *persuade* us to live our lives in accordance with their ideals for us. They would have us voluntarily become members of their utopian societies. Some of them are leaders of religious sects, who urge us to adopt their way of life voluntarily, through conversion to their

beliefs; such were the pacifist Tolstoy colonies at the turn of the century. Others are secular, such as B.F. Skinner’s *Walden Two*, and would have us join their commune so that we can all taste of the “better life” which they believe their utopia has to offer.

Voluntary utopias are relatively harmless; an individual can belong to one or not as he chooses, and can get out of it if it turns out not to be to his liking. It does not interfere with a person’s freedom, as long as he is free to decide for himself. But the vast majority of utopias, such as Aldous Huxley’s *Brave New World*,

John Hospers is a professor of philosophy at the University of Southern California, and editor of the philosophical magazine, *The Monist*. He is the author of two recent books, *Understanding the Arts* (Prentice-Hall) and *Human Conduct* (Harcourt Brace). He was the Libertarian Party’s first candidate for U.S. president in 1972, receiving one electoral vote. He is the author of numerous articles in philosophical and political journals.

are *coercive*: a plan of life is laid out for everyone, and even if a person does not want any part of it, he must be forced to, "for his own good." The authors of such utopias would use the enormous coercive machinery of the law to make sure that others behave as the authors wish them to, against their will if necessary.

Why this "moral busybodyism"? Why do some people desire to plan the lives of others? Sometimes it originates in their own inadequacy and insecurity: they cannot manage their own lives, so they divert attention from their own inadequacies by managing the lives of others. Sometimes as children they were constantly required to do things against their will: having been constantly pushed around, they now want more than anything else to push other people around—never mind that the people they push around are not the same people who pushed *them* around. Often they simply believe that the great mass of people are stupid clods, incapable of governing their own lives, and that by telling others what to do they are doing them a favor; people are clay in need of a potter, so the utopian enters the scene as a savior, to save others from their own stupidity and ineptitude.

More often still, the authors of utopias are not as much convinced that others are stupid as that they themselves are persons of supreme intelligence, who have such a great

vision for the human race, and see so clearly what is good for others, that the others can't possibly have as great a vision for themselves. Moreover, they believe that this superior intelligence gives them the right to dictate what course the lives of others should take. When such people obtain high positions in government, or become the power behind the throne, they become the most destructive persons in history, masking their power-impulse with humanitarian slogans about the common good.

Contrasting Effects of Economic vs. Political Power

Power over other people's lives need not itself be evil; that depends on what kind of power it is and to what end it is wielded. A great teacher may have enormous influence over a student's life, but that power is wielded not by force but by the strength or credibility of the teacher's ideas, or the example set by his life. A parent has power over a child's life, for good or for ill, teaching the child morality and consideration and courtesy. A counselor or psychiatrist may exert power over a patient, so as to remove the obstacles to the patient's development and enable him better to make his own decisions and plan his own life.

Neither is purely economic power an evil. A man starts a business and hires employees; they are free to take

the position or remain as they were before. The employer has no power to force someone to take the job or arrest him if he refuses. Even in the early days of the Industrial Revolution, no one was forced to take jobs in the new factories; bad as conditions then were by present standards, many eagerly did so, because the income they were offered far exceeded what they received on the farms from which they came.¹ "Economic power is the capacity to influence other people's behavior by offering them something the acquisition of which they consider more desirable than the avoidance of the sacrifice they have to make for it. It means the invitation to enter into a bargain, an act of exchange. I will give you *a* if you give me *b*. There is no question of any compulsion nor of any threats. The buyer does not 'rule' the seller and the seller does not 'rule' the buyer."²

Political power, by contrast, is power backed by the institutional force of government—of police, armies, courts, and prisons. A government possesses the legal monopoly of physical force over a defined geographical area, and government operates always by force or threat of force against those who would disobey. If you are "kindly requested" to pay your income tax, and write back that you have thought it over and decided not to, you are instantly subject to apprehension, arrest, trial,

and punishment. Not all political power is evil—for example, laws protecting life and property and punishing murder and theft—but still there is no doubt that this is power in its most naked form, the power of the gun to suppress and punish those who would disobey.

The authors of most utopias, however, go much further than to suggest the use of force to protect life and property; they use the force of law to shape other people's lives in the direction that they dictate, usually involving the most minute details of life.

Some Historical Utopias

The first utopia described in Western philosophical literature is the *Republic* of Plato. Though benevolent compared with many utopias to follow, it already possessed the main feature of so many of them, of other people being merely pawns on the author's chessboard, for him to move about as he pleased. The aim of Plato's utopia was, as in so many others, a worthy one: to ensure justice in the nation by ensuring that the rulers themselves were just. The requirements for becoming such worthy rulers, however, were severe: all children were to be taken from their parents at an early age, lest the parents fail to recognize unusual talent in their children or do something to squelch that talent when it became evident; those who

through manifest talent became candidates for rulership were to be denied contact with large areas of experience, such as acquaintance with persons of questionable character, poems which attributed evil to the gods, and even music of all but the most ascetic kind. The rulers themselves were to possess wives and children in common, and no man was to know which child was his own. Once the gifted few were in a position of power, their rule over the people was absolute: no elections, no representation, no referendum, no appeal.

Plato's utopia was never put into practice as he propounded it. Many others, however, were put into practice without having been described in writing in advance. For many centuries the Incas of Peru had a rigorously stratified social structure with a highly repressive government. All land belonged to the State. Peasants were not allowed to leave their farms or villages without government permission. Family life was totally controlled by the State, including whether and whom one could marry. Criticism of the State was punishable by death or torture: the victim was hanged by his feet or thrown into a pit of poisonous snakes. People suspected of subversive activities were confined in underground caves containing jaguars, snakes, and scorpions. The individual's life was planned not by him but

for him by the ruling council of the Incas. But when everything is planned, one cannot develop the initiative required to cope with the unexpected. One unexpected event was the Spanish invasion. Fewer than two hundred of them conquered the entire vast Inca empire.

Under the ancient Chinese emperors (13th to 3rd century B.C.) everyone was forced to work full-time at ten years of age; at twenty he received a field to plow, and at sixty he returned it to the State and lived in dependency on the State. No private ownership of land was permitted. Large families were split up and grown sons were forbidden to live with their parents. Capital punishment was imposed for countless offenses such as minor thefts. The State had a monopoly on water, controlling the supply (sluices, dikes, irrigation canals), and the vital water could be cut off at any time. There was a wide network of State informers to spy on people and report their activities, with one family member often spying on another. Those suspected of crimes were often made into slaves, and conviction was followed by punishments such as decapitation, quartering, strangulation, being buried alive, or being boiled in a cauldron. The ancient Chinese emperor Ch'in Shih Huang was so admired by the modern Chinese dictator Mao Tse Tung that Mao tried to outdo him: "He buried only 460 Con-

fucians alive," Mao proclaimed. "But he has a long way to go to catch up with us. We have already buried 46,000 alive."³

A Common Pattern

Though widely separated in time and space, each of these coercive utopias exhibits a monotonously repetitive pattern, designed to stamp out individual differences and bring everyone under the total control of the State.

(1) There is almost always the total abolition of private property, because when a man owns his own property he has a certain degree of independence from the State, and this could not be tolerated.

(2) There is usually a condemnation of religion, because the State wants no competition for the allegiance of its citizens, and people are often inclined to serve God above Caesar.

(3) The family is viewed with suspicion, because parents can bring up children in a way that the State does not approve. Thus in many utopias children are taken away from their parents at an early age and brought up by officials of the State.

(4) Individuals of gifted intellect are also viewed with suspicion, since they think for themselves and may well challenge the sovereignty or even the legitimacy of the State. Burning of books is a recurring feature, because books can contain he-

retical ideas which may mislead the young. The first persons to be arrested and killed are often those who show any intellectual independence; if permitted to exist, they might infect others, so the State either kills them or condemns them to slave labor in remote regions. "The gifted are of no use," said Ch'in Shih Huang, "and the ungifted can do no harm. Therefore, the art of ruling well consists precisely in the ability of removing the clever and the gifted."

The Soviet Utopia

All of these features are abundantly present in the modern Soviet state. The stranglehold of the central government over the lives of every citizen; the omnipresence of secret police and anonymous informers; the prohibition of private property; the attempt to stamp out religion; the inordinate punishments for minor economic crimes (such as keeping a few sheaves of wheat for oneself on a state farm, a crime punishable by death)—all these are inherent features of the Soviet utopia. They have been dramatically set forth in horrifying detail in such books as Solzhenitsyn's *The Gulag Archipelago*, Robert Conquest's *The Great Terror*, and Anton Antonov-Ovseyenko's *The Time of Stalin*.

Solzhenitsyn's powerful novel *The First Circle* concerns the fate of a corps of engineers in a Soviet labor

camp. We get to know each of them, their lost ambitions, their wasted lives, their hopelessness in the face of a system that imposes 25-year sentences for having been reported as saying something anti-Soviet, or for nothing at all. In one passage one prisoner says to another, "They sent me to Vorkuta. All Vorkuta depends on prisoners, the whole Northland. It's the fulfillment of Thomas More's dream." "Whose dream?" asks another prisoner. "Thomas More," the first one replies, "the old fellow who wrote *Utopia*. He had the conscience to admit that society would always require various kinds of menial and hard labor. No one would be willing to perform them. Who should? More thought about it and found the solution: obviously there would be people in a socialist society who disobeyed the rules. They would get the menial and especially tough jobs. Yes, the labor camps were thought up by Thomas More; it's an old idea."⁴

But the socialist state also excels at concealment of its own tactics in order to preserve its moral image before the world. When at last the prisoners in *The First Circle* are en route to a death camp in the Arctic, Solzhenitsyn writes, "The time had long passed when lead-gray or black prison vans poked through the city streets, creating terror among the citizens. After the war, the idea of building black Marias exactly like grocery vans had been born in some

genius' mind, and they were painted the same orange and light blue with a sign letter on the side in four languages, reading either 'Meat' or 'Bread.'" A correspondent for a French newspaper, on the way to attend a hockey match in a Moscow stadium, sees the car which is carrying the doomed prisoners; on the side of the car is the label "Meat." Having seen several such cars that day, he writes for his newspaper: "On the streets of Moscow one often sees vans filled with foodstuffs, very neat and hygienically impeccable. One can only conclude that the provisioning of the capital is excellent."⁵

"Once you admit," wrote Hayek, "that the individual is merely a means to serve the ends of the higher entity called society or the nation, most of those features of totalitarian regimes which horrify us follow of necessity. From the collectivist standpoint, intolerance and brutal suppression of dissent, the complete disregard of the life and happiness of the individual, are essential and unavoidable consequences of this basic premise; and the collectivist can admit this and at the same time claim that his system is superior to one in which the 'selfish' interests of the individual are allowed to obstruct the full realization of the ends the community pursues."⁶

All socialism, as Herbert Spencer eloquently showed, is slavery. "What," he asked, "is essential to the

idea of a slave? We primarily think of him as one who is owned by another . . . [Now] suppose an owner dies, and his estate with its slaves comes into the hands of trustees; or suppose the estate and everything on it be bought by a company; is the condition of the slave any the better if the amount of his compulsory labor remains the same? Suppose that for a company we substitute the community; does it make any difference to the slave if the time he has to work for others is as great, and the time left for himself is as small, as before? The essential question is: how much is he compelled to labor for other benefit than his own, and how much can he labor for his own benefit? The degree of his slavery varies according to the ratio between that which he is forced to yield up and that which he is allowed to retain; and it matters not whether his master is a single person or a society.”⁷

The Utopian's Alibi: Equality

What rationale, then, do the champions of socialism use as their main source of appeal? Usually they employ as their goal human equality, specifically equality of wealth, which of course requires an enormous state apparatus of enforcement to sustain. They attempt to evoke hatred, resentment, and envy on the part of those who have less, to be used against those who have

more; they consider the acquisition of wealth to be the worst of all evils, and their paramount duty to be the distribution of such wealth amongst the populace. They preach that wealth, no matter how acquired, is ill got, and that the principal duty of the State is to remove it from them. But of course once the wealth is taken from those who have created it, they will soon cease to create it, and the only equality that will finally remain is equality of nothingness—splendidly equalized destitution. Most socialist utopians know this, but they do not mind the mass of humanity being in poverty; such persons are so busy scratching for bread that they are easier to control.

In fact socialism only *pretends* to champion the poor; rather, it is a way of *controlling* the poor through the enormous bureaucratic equalizing process. Socialism is a scam: while officially favoring the poor, its real motive is *power*. Love of power, not love of humanity, is the real motivation behind socialist utopias. The humanitarianism is only window-dressing. Socialist utopians have always been quite indifferent to the sufferings of those whose cause they profess to embrace. “It would be a good thing,” Engels wrote to Marx, “to have a bad harvest next year, and then the real fun will begin . . . Only two or three very bad years would help.” And Marx in turn wrote, “Our fatherland presents an ex-

tremely pitiful sight. Without being battered from the outside, nothing can be done with these dogs."⁸

In the struggle of socialists to gain political power, the alleviation of suffering is always set aside until the victory of the socialist ideal. "All attempts to improve life at the present time are condemned as possibly postponing the coming victory. *Today's* victims of oppression will have no share in the future just society."⁹ Moreover, "That waiting has no end. The unborn profiteers of that wholesale sacrificial slaughter will never be born. The sacrificial animals will merely breed new hordes of sacrificial animals, while the unfocused eyes of a collectivized brain will stare on, undeterred, and speak of his vision of service to mankind, mixing interchangeably the corpses of the present with the ghosts of the future, but seeing no *men*."¹⁰

The Humanitarian and the Terrorist

And thus there comes about a secret, if unacknowledged, alliance between the professional philanthropist and the political terrorist. "If the primary objective of the philanthropist," wrote Isabel Paterson in the most remarkable book on political philosophy written in the twentieth century, *The God of the Machine*, "is to help others, his ultimate good requires that others shall be in want. His happiness is the obverse of their misery. If he wishes to help

'humanity,' the whole of humanity must be in need. . . .

"What kind of world does the humanitarian contemplate as affording him full scope? It could only be a world filled with breadlines and hospitals, in which nobody retained the natural power of a human being to help himself or to resist having things done to him. And that is precisely the world that the humanitarian arranges when he gets his way. When a humanitarian wishes to see to it that everyone has a quart of milk, it is evident that he hasn't got the milk, and can not produce it himself, or why should he be merely wishing? Further, if he did not have a sufficient quantity of milk to bestow a quart on everyone, as long as his proposed beneficiaries can and do produce milk for themselves, they would say no, thank you. Then how is the humanitarian to contrive that he shall have all the milk to distribute, and that everyone else shall be in want of milk?

"There is only one way, and that is by the use of the *political power in its fullest extension*. Hence the humanitarian feels the utmost gratification when he visits or hears of a country in which everyone is restricted to ration cards. Where subsistence is doled out, the desideratum has been achieved, of general want and a superior power to 'relieve' it. The humanitarian in theory is the terrorist in action."¹¹

When Walter Lini, currently premier of Vanuatu (formerly New Hebrides), assumed power after the colonial rule of the French and British, one of his alleged aims was to relieve from poverty all the inhabitants of the islands now under his rule. But what was his self-proclaimed model government for the realization of these aims? It was not the United States, nor even Great Britain; it was Tanzania.

Government Planning in the United States

During the first century and a half of its existence the government of the United States did not attempt to plan the daily lives of Americans; on the whole it left each individual to carry out his or her own plans. Law-breakers of course were punished, but the scope of these laws was far less all-encompassing than it is today.

The principal break in this "laissez faire" policy took place under Roosevelt's New Deal. For the first time, and inexorably increasing with the years, government set out to plan countless details of the lives of virtually everyone engaged in a trade or profession. Few people today remember how it all began, and how strongly it was at first resisted. Today, for example, farmers take government subsidies for granted, and federal controls over their crop-acreage; but in 1933 this attitude had not yet become prevalent. Rose Wil-

der Lane gives a dramatic description of the coercive measures (and inducements) undertaken in the early days of the New Deal:

The farmers did not want A.A.A. or any other federal interference. In Kansas I met a rabble-rousing New Dealer from Washington who took me to a farmers' meeting where he spoke with real conviction and eloquence. The audience listened absolutely noncommittal, until he worked up to an incandescent peroration: "We went down there to Washington and got you all a Ford. Now we're going to get you a Cadillac!" The temperature suddenly fell below freezing; the silent antagonism was colder than zero. That ended the speech; the whole audience rose and went out. The orator later said to me, "Those damned numbskulls! the only thing to use on them is a club!"

Some time later, in a hotel lobby in Branson, Missouri, I met a young man almost in tears, totally woebegone and despairing. He had spent seventy days in Stone County, working day and night, he said, house to house, up hill and down, over those horrible roads; he'd gone to every house, he'd used every persuasion he could think of, talked himself hoarse, and he had not got even *one* man to take a \$2,500 loan from the government; and those wretched people needed everything—why, their children were barefoot, some of them lived in *log cabins*—could I believe it? They *needed* to be rehabilitated, I had no idea what rural slums they lived in; and here he offered them a loan from the government; amortized, twenty-five years to pay it, more time if they wanted it; he offered them horses, and tools, and even a car, any-

thing almost and they just wouldn't take it. They didn't talk or act like such fools either. He couldn't understand it. He *had* to get some of them to take government help or he'd lose his government job. What was wrong with them? could I tell him? could I help him?

In southern Illinois there was a Terror. The government men went into that county and took no nonsense; they condemned the land—every farm; offered the owners \$7 an acre, or nothing; this was a model project, tearing down houses, building new roads, surveying a Community Center all blueprinted. The people were frantic and furious; they hired lawyers who told them they could do nothing; they tried to get the facts printed. No newspaper dared do it. The county was listed as rural slums, the land as eroded. When I asked to be shown erosion, the answer was, it was sheet-erosion. That is, the constant effect of rainfall on all earth. There was not an eroded ditch in the county. Every farm was well cared for, every house in repair, painted, cared for—simple frame houses, a few without electricity or plumbing, but many with both . . . None of them wanted to be rehabilitated. None of them would speak to me until I proved that I did not come from the government; luckily I had that proof, by chance . . . And these are the people who were reported in government publications as demanding subsidies.¹²

Worthy Aims, Harmful Consequences

And so the planning-the-lives-of-others cancer spread. It was not only the farms; every business enterprise, every industry and corpora-

tion, was soon affected. Thousands of hours of company time were required to compile facts and figures and perform utterly useless paperwork for the government—thus adding to the price of every product, though the public did not appreciate this fact. Government came to make decisions for people which formerly they had been free to make for themselves.

Always it was done behind the mask of some noble purpose. Occupational Safety and Health (OSHA) was enacted, ostensibly to promote safety in factories. The act has done nothing for factory safety (the record of American factories in this regard was already excellent), but it has done much to extend the tentacles of government over the lives of everyone engaged in productive endeavor. Safety was the bill of goods which was sold to Congress and the public, but the power of government over business was the consequence.¹³

Health care and hospitals became so regulated by government that they had little autonomy left; ostensibly it was for the purpose of improving treatment, but the aim was ultimate nationalization of all health care. Almost everyone is interested in preserving the environment, though the Environmental Protection Agency, to which this cause was entrusted, was primarily interested in preserving and expanding its own

power; it almost succeeded in destroying the Alaska Pipeline, even though the pipeline's existence in no way threatened the natural environment or the animal species.¹⁴ Almost everyone is interested in developing domestic sources of energy, although the Department of Energy almost destroyed all access to these sources,¹⁵ and the E.P.A. has kept almost all the vast oil and gas supplies in Alaska from being developed.¹⁶ As always, the health, welfare, and safety of American citizens has been the facade, and sometimes the actual intention of Congressmen, but the result has been the increase of the stranglehold of government over the freedom of individuals to act in accordance with their own judgment.

Regulatory Law

In each case, Congress created the regulatory organization, passing "enabling legislation" that permitted the agency to formulate its own rules, which then had the force of law. Over 90 percent of law in the United States is now regulatory law, laws never passed by Congress. And thus, with accretions of new regulatory laws (thousands of pages per month), a new "regulatory utopia" was created in the United States, inhibiting their initiative and placing a ball and chain on their productive endeavors. The bureaucrats in the regulatory agencies have the power

of life and death over every industry in America, and they are only too happy, as the vise tightens on their victims, to see another capitalist bite the dust—even though it is only from the profits made by these capitalists that the bureaucrats' wages are paid.

The tendency of all these agencies is to grow and expand, creating new rules which require larger enforcement apparatus, and always more and more power over the wealth-creators of America.¹⁷ Robert Hertzler, owner of the Sandia Die and Cartridge Company of Albuquerque for eighteen years, has never had an accident in his plant because, he says, "I have taken apart every machine in the place. I started this business with no help. I starved. I was shot at in Korea. The government has no right to come in here." He has developed a special patentable process which he claims the right to keep secret, but OSHA wants pictures of it all. "What about my constitutional rights?" he asked the OSHA inspector. "I don't give a damn about the Constitution," said [the inspector]; "you don't have any." "How do you figure that?" "You have no constitutional rights because you're in business, because you have employees, and because you have done business with the government."¹⁸ But when Hertzler refused him further access to his plant, the inspector said, "We'll get you with what we've already got."

Inhibiting the productivity of businesses, together with making people work from January to May of each year to pay for the government's "social service" programs, has already gone a considerable distance toward Sovietizing the American republic. Today the receipt of welfare checks and food stamps are taken for granted as a right, though the government can only supply these by taking the money out of the pockets of others: for everyone who gets something for nothing, someone else must get nothing for something. Apparently almost no one is any longer aware of this. But at one time it was quite apparent to many Americans.

**"Not Yours to Give":
The Real Davy Crockett Story**

When Colonel Davy Crockett (1786-1836) was a member of the House of Representatives, he voted for a bill to relieve the victims of a fire in Georgetown. While Crockett was campaigning for the next election, a backwoods farmer came to him and chastised him for his vote, with these words: "It is not the amount, Colonel, that I complain of; it is the principle. In the first place, the government ought to have in the Treasury no more than enough for its legitimate purposes. But that has nothing to do with the question. The power of collecting and disbursing money at pleasure is the most dan-

gerous power that can be entrusted to man, particularly under our system of collecting revenue by tariff, which reaches every man in the country, no matter how poor he may be, and the poorer he is the more he pays in proportion to his means. What is worse, it presses upon him without his knowledge where the weight centers, for there is not a man in the United States who can ever guess how much he pays to the government. So you see, that while you are contributing to relieve one, you are drawing it from thousands who are even worse off than he.

"If you had the right to give anything, the amount was simply a matter of discretion with you, and you had as much right to give \$20,000,000 as \$20,000. If you have the right to give to one, you have the right to give to all; and as the Constitution neither defines charity nor stipulates the amount, you are at liberty to give to any and everything which you may believe, or profess to believe, is a charity, and to any amount you may think proper. You will very easily perceive what a wide door this would open for fraud and corruption and favoritism, on the one hand, and for robbing the people on the other. No, Colonel, Congress has no right to give charity. Individual members may give as much of their own money as they please, but they have no right to touch a dollar of the public money for that purpose. . . .

"There are about 240 members of Congress. If they had shown their sympathy for the sufferers by contributing each one week's pay, it would have made over \$13,000. There are plenty of wealthy men in and around Washington who could have given \$20,000 without depriving themselves of even a luxury of life. The congressmen chose to keep their own money. . . . The people about Washington no doubt applauded you for relieving them of the necessity of giving by giving what was *not yours to give*. The people have delegated to Congress, by the Constitution, the power to do certain things. To do these, it is authorized to collect and pay moneys, and for nothing else. Everything beyond this is a usurpation."¹⁹

The Utopia of Individual Liberty

If a utopia is defined as a plan for all of a society or nation, imposed by a few planners at the top, then there is no excuse for a utopia of any kind: it is simply a forcible interference by some person with the lives of all the rest. But if a utopia is defined simply as the mode of organization of a society, then the only utopia worthy of the name is a utopia of *individual freedom*, in which there is *no* general overall plan, but each person is free to plan his or her own life as long as he does not forcibly interfere with the plans of others for their own lives.

A person's own plan for his life may not always be the best, even for himself: he may not know what actions will lead to his own well-being, and his friends and family may even know this better than he does; he may misjudge the consequences of his actions, with disastrous results; he may be weak-willed and unable to carry out the plan for himself that he sees to be best; and in consequence he may end up much less happy than he would have been had he followed the advice of persons wiser than himself.²⁰ But at least the plan of life is *his*, freely chosen at every step of the way by himself. He is free to change it, free to profit by his own mistakes. The authors of coercive utopias do not grant him even that much. Such utopias make him only a sheep, with the government as his shepherd. Utopian thinkers wish to plan the lives and destinies of others, and the moral precept that should be impressed on them every hour of every day is: *The lives of others are not yours to dispose of*.²¹

When Frederic Bastiat (1801–1850) wrote his famous defenses of individual liberty, he had been surrounded on all hands by utopian slogans. Among the "heroes" of the French Revolution, Saint-Just had said, "It is for the lawgiver to will the good of mankind; it is for him to make men what he wants them to be." Robespierre had said, "The

function of government is to direct the physical and moral forces of the nation toward the ends for which it was founded." Billaud-Varenne had said, "A people to whom liberty is to be restored *must* be recreated. Since old prejudices *must* be destroyed, old customs changed, depraved inclinations corrected, superfluous wants restrained, inveterate vices eradicated, what is needed is strong action, a violent impulse." Lepeletier had said, "Considering the extent to which the human race has been degraded, I am convinced of the necessity of undertaking a complete regeneration—of creating a new people."²²

To all of these, Bastiat replied: "If the natural inclinations of mankind are so evil that its liberty must be taken away, how is it that the inclinations of the socialists are good? Are not the legislators and their agents part of the human race? Do they believe themselves molded from another clay than the rest of mankind? They say that society, left to itself, heads inevitably for destruction because its instincts are perverse. They demand the power to stop mankind from sliding down this fatal declivity and to impose a better direction on it. If, then, they have received from heaven intelligence and virtues that place them beyond and above mankind, let them show their credentials. They want to be *shepherds*, and they want us to be their

sheep. This arrangement presupposes in them a natural superiority, a claim that we have every right to require them to establish. . .

"I am not contesting their right to invent social orders, to disseminate their proposals, to advise their adoption, and to experiment with them on themselves, at their own expense and risk; but I do indeed contest their right to impose them on us by law, that is, by the use of the police force and public funds. . . What I demand of them is to grant us the right to judge their plans and not to join in them, directly or indirectly, if we find that they hurt our interests or are repugnant to our consciences. . .

"By what right, then, may the law intervene to make me submit to the social order planned by [others], rather than make these gentlemen submit to my plans? *Is it to be supposed that I have not received from Nature enough imagination to invent a utopia too?* Is it the role of the law to make a choice between so many idle fancies and to put the public police force at the service of one of them?"²³

Bastiat concluded with a parable: "A celebrated traveler arrived in the midst of a savage tribe. A child had just been born, and a crowd of diviners, sorcerers, and quacks armed with rings, hooks, and straps surrounded it. One said: 'This child will never smell the perfume of a pipe if I do not stretch his nostrils.' Another said:

'He will be deprived of the sense of hearing if I do not make his ears come down to his shoulders.' A third: 'He will not see the light of the sun if I do not give his eyes an oblique slant.' A fourth: 'He will never stand erect if I do not bend his legs.' A fifth: 'He will not be able to think if I do not flatten his skull.'

"'Stop!' cried the traveler. . . 'God has given organs to this frail creature; let the organs develop and be strengthened by exercises, trial and error, experience, and freedom.'"²⁴



—FOOTNOTES—

¹On the early history of capitalism, see Friedrich von Hayek (ed.), *Capitalism and the Historians* (University of Chicago Press, 1954), esp. pp. 15–17.

²Murray Rothbard, *Power and Market* (Institute for Humane Studies, 1970), p. 172.

³On the Inca empire, see Igor Shafarevich, *The Socialist Phenomenon* (Harper & Row, 1980), pp. 132–143; on the ancient Chinese, see pp. 168–189.

⁴Alexander Solzhenitsyn, *The First Circle* (Harper & Row, 1968), p. 267.

⁵*Ibid.*, pp. 672–3.

⁶Friedrich von Hayek, *The Road to Serfdom* (University of Chicago Press, 1944), p. 149.

⁷Herbert Spencer, *The Man versus the State* (Caldwell, Idaho: Caxton Printers, 1940), p. 122. (First published 1884).

⁸Quoted in Shafarevich, *op. cit.*, pp. 224–5.

⁹*Ibid.*, p. 221.

¹⁰Ayn Rand, "Collectivized Ethics," in *The Virtue of Selfishness* (New York: New American Library, 1964), p. 84.

¹¹Isabel Paterson, *The God of the Machine* (Caxton Printers, 1964; originally published by Putnams, 1943), pp. 253–4.

¹²Rose Wilder Lane, *The Lady and the Tycoon*, ed. Roger Lea MacBride (Caxton Printers), pp. 168–170.

¹³See Dan Smoot, *The Business End of Government* (Belmont, Mass.: Western Islands, 1973), esp. pp. 83–4. See also John Hospers, *Libertarianism*, Chapter 4.

¹⁴See Lindsey Williams, *The Energy Non-Crisis* (Wheatridge, Colorado: Worth Publishing Co., 1980).

¹⁵See C. V. Myers, *Money and Energy* (Darien, Conn.: Soundview Books, 1980); also the series of articles in *Mining Engineering* by Eugene Guccione, Sept. 1974 *et seq.*

¹⁶See Lindsey Williams, *op. cit.* also William Tucker, "Conservation in Deed," *Reason*, May 1983, pp. 34–39.

¹⁷See, for example, Robert G. Anderson, "The Assault on Capital," *The Freeman*, November 1979; Dan Smoot, *op. cit.*; and Carl Snyder, *Capitalism the Creator* (Macmillan, 1940).

¹⁸Alan Stang, "Oshtapo," *American Opinion*, October 1974, pp. 83, 87.

¹⁹*The Life of Colonel David Crockett*, ed. Edward S. Ellis (Philadelphia: Potter & Coates, 1884). Reprinted in Lawrence W. Reed and Dale M. Haywood, eds., *When We Are Free* (Midland, Michigan: Northwood Institute Press, 1981), p. 185.

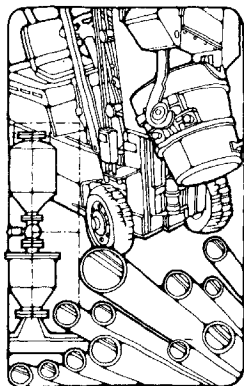
²⁰See John Stuart Mill, *On Liberty*, Chapter 3. On the circumstances in which one person may be justified in deciding on behalf of another, see John Hospers, "Libertarianism and Legal Paternalism," *Journal of Libertarian Studies*, summer 1981 issue; reprinted in Tibor Machan, ed., *The Libertarian Reader* (Rowman and Littlefield, 1982).

²¹Ayn Rand, "Collectivized Ethics," *op. cit.*, p. 85.

²²Quoted in Frederic Bastiat, *The Law*, one of the essays in Bastiat, *Selected Essays On Political Economy* (Van Nostrand, 1964), pp. 81–2. (*The Law* is available alone in an edition published by the Foundation for Economic Education, Irvington-on-Hudson, New York.)

²³Bastiat, *op. cit.*, pp. 88–9, 93.

²⁴*Ibid.*, p. 95.



THE RISING PROTECTIONIST TIDE

INTERNATIONAL trade imparts benefits to all countries that participate. The United States, for example, exports twenty per cent of its industrial production as well as forty per cent of its agricultural products. In fact, approximately fifteen per cent of total U.S. output is exported.

Foreign trade has been responsible for a substantial amount of domestic investment, and practically all Western schools of economics agree that free trade is the best course of action for all nations.

Yet, during the past few years, various countries, including the United States, have attempted to somehow shield themselves from foreign trade. Recently, an agreement was reached between the U.S. and the Japanese governments

whereby Japan will comply with so-called voluntary export restrictions in the sale of cars to America. Imported steel has been curtailed, and more restrictions on the importation of foreign textiles and apparel have been implemented. As *Time* recently pointed out:

Many Europeans now fear that the U.S. will impose trade barriers, such as those that already exist for automobiles and steel, on other products to protect American businesses. Pressure for protectionist measures has been mushrooming. A Florida manufacturer of machine tools has asked the White House to block investment tax credits on Japanese-made machinery. Chemical companies will be actively seeking additional shelter from foreign imports in the next session of Congress. Even uranium producers are invoking national security as an excuse to ban the purchase of uranium overseas.¹

Mr. Bechara is an attorney in Mayaguez, Puerto Rico.

The range of world-wide restrictions varies, but they inexorably lead to a further reduction in foreign trade. Countries in Central America, for example, have adopted a policy of substituting imports, with the intention of industrializing their economies. Industrialized countries, on the other hand, have other policies which curtail the free flow of goods and services between countries. As an example of the restrictive policies in effect, a commentator recently pointed out:

Airlines in France, Italy and West Germany, for instance, keep U.S. carriers out of their reservation computers, preventing passengers from booking on American carriers, in, say, an Air France office in Paris. Australia forbids the screening of television ads produced abroad, and Canada has issued guidelines that encourage Canadian TV stations to use domestically produced commercials. West Germany requires German models in all advertising produced in the country.²

The international situation may perhaps degenerate into the present trade relationship between France and Hong Kong. Alarmed by the massive importation of electronic quartz watches manufactured in Hong Kong, France imposed a quota on their importation. Although the incident cannot vitally affect Hong Kong's economy, the watch manufacturers, in turn, have promoted a boycott of French cognac.³

Fostering Free Trade

The general world-wide trend since World War II has been to foster free foreign trade. The General Agreement on Tariffs and Trade (GATT) is a reflection of this trend, which has been successful in reducing barriers to trade between nations. At the present time, the average world tariffs amount to approximately 5 per cent of imports.⁴ Yet, partly as a result of this new trend favoring protectionist measures, world trade has been adversely affected. In fact, GATT figures indicate that "international trade levelled off in the middle of 1979 and has been flat ever since. Adjusted for inflation, trade volume actually went down in 1980 and 1981 and further falloff is predicted."⁵ In addition, a GATT conference held in the fall of 1982 failed to reach any significant lowering of trade barriers.

Although the trend seems to be in the direction of additional protectionist measures, an opposite movement is simultaneously taking place. A Federal relief program, entitled Trade Adjustment Assistance, which has granted aid to those unemployed as a result of foreign competition, is scheduled to be phased out this fall. This program is illustrative of the failure of interventionist policies that attempt to offset foreign trade.

Although the Trade Adjustment Assistance program has been in ef-

fect since 1962, its effects were negligible because of the application of strict guidelines in the granting of benefits. Essentially, a group of workers had to establish that they lost their jobs primarily because of an increase in imports. The increase in imports, on the other hand, had to be related to a so-called trade concession granted by the U.S. government. However, the Trade Act of 1974, which took effect in 1975, amended and substantially liberalized the provisions and interpretations of the program. Perhaps one of the most substantial amendments was that now imports need not be the most important reason causing unemployment. If imports contributed to the loss of jobs, it was not necessary that they be the principal cause. Consequently, the assistance program mushroomed. The number of workers certified as eligible increased from 62,000 in 1976 to 531,000 in 1980.⁶

Aiding the Victims of Foreign Trade

An avowed purpose of the Trade Adjustment Assistance program was to promote foreign trade while cushioning the immediate adverse effects of foreign trade upon domestic producers. The rationale has been that since everyone benefits from free foreign trade, those that do suffer from it ought to receive assistance. The realities of the program, on the

other hand, establish that the asserted goals were far from reached.

One of the immediate effects of this program was the creation of an artificial amount of temporary layoffs in different industries. As one commentator put it:

Troubled companies, for example those in the steel industry, would lay people off, allowing them to collect unemployment insurance plus TAA benefits for a while. Then the company would rehire them, at the same time laying off a new bunch.⁷

A General Accounting Office study confirms this view, inasmuch as 85 per cent of the beneficiaries of the TAA program were temporarily laid off.⁸

Yet, perhaps the leading beneficiaries of this assistance program have been labor unions, as the majority of the recipients were unionized employees. This should not be surprising since it is more likely that unionized firms have working conditions that tend to be less competitive than non-unionized firms. Consequently, other things being equal, unionized industries would tend to suffer from foreign competition.⁹ In effect, the assistance program has perpetuated inefficient producers. The evidence suggests that although funds were available to promote relocation and job searches, a small fraction of the recipients engaged in active search for alternative jobs. Of the 1,320,733 benefi-

aries who were receiving assistance within the April 3, 1975 and September 30, 1981 period, "only 5,133 or .39 per cent engaged in job search, as measured by the number of workers receiving job search allowances."¹⁰

Spending in this program has substantially decreased since September 30, 1981. The reason for this is that the Omnibus Budget Reconciliation Act of 1981 amended TAA and the standards required to establish eligibility in the program have been restricted. Spending, which in fiscal year 1981 was \$1.4 billion, decreased the following year to \$101.6 million. Unless Congress acts otherwise, the program will cease to be in effect as of September 30, 1983.

Essentially, the Trade Adjustment Assistance program was the politicians' effort to promote free international trade. As foreign competition undoubtedly affected some sectors of the economy, especially the heavily unionized ones, companies were forced to lay off employees. This is normally taken care of in the market order as resources are placed in more efficient areas of production. By withdrawing resources from the more efficient sectors of the economy into the less efficient areas, TAA only acted to increase inefficiency, to promote the production of more costly goods and to shield the labor unions from being publicly held responsible for raising the costs of production.

The clamor for protectionist measures, however, remains unabated.

Import Substitution

As alluded to before, Central American countries have taken another path which they feel will lead to industrialization. This is the policy known as import substitution, which is another form of protectionism. Essentially, the policy was aimed at promoting the local manufacture of imported goods so as to satisfy domestic demand. However, governments in those countries needed to erect high tariff walls in order to encourage the investment of capital in those industries. The effects of this policy soon began to emerge. Since locally manufactured goods were either more expensive or qualitatively less competitive in the world market, "... very little of the new industrial output could be exported. Instead of gaining independence from having to import consumer and intermediate goods, countries merely shifted imports to different kinds of products (inputs, raw materials and capital goods). They became far more dependent on imports due to the fact that in small economies, even simple production requires imported input. The inevitable result was the development of a far more severe balance of payment constraint, and business cycles far deeper than in open, competitive economies."¹¹

As those countries invested substantial amounts of capital in the emerging manufacturing sector, foreign currency had to be obtained in order to pay for the imported capital goods. Yet, the problem became insoluble as the goods that were manufactured internally could not find a ready market outside the domestic market. Foreign exchange was available through the exportation of the traditional basic commodities, but as capital was drained into the less efficient manufacturing entities, the growth of the exporting sector was limited. With less foreign exchange available, there was a smaller amount of capital available to meet the needs of the domestic markets. Thus, the drive to industrialize and seek development through the policy of import substitution has left those countries worse off than before.

The common denominator in all of these protectionist measures is a general misunderstanding of foreign trade. If foreign trade causes unemployment in one sector of the economy, the conventional response is to restrict the introduction of the foreign goods which created the unemployment. Yet, this reaction does not take into account the fact that although some workers may lose their jobs as a result of foreign competition, the domestic consumers will have more resources left at their disposal as a result of purchasing the

cheaper foreign goods. Thus, domestic consumers will adjust their behavior, and will spend or save the additional purchasing power brought about by the introduction of less costly foreign goods. Inevitably, jobs will be created in the economy as a result of this.

The Principle of Comparative Advantage Through Trade

The argument against foreign trade may be likened to the opposition to the introduction of machinery brought forth during the Industrial Revolution in England. The opponents set out to ban machinery, and in many instances destroyed the machines outright. This opposition was grounded on the belief that machines created unemployment, for it seemed that fewer employees were needed to produce goods because of automation. The historic evidence, however, has refuted these fears. Machines have increased employment beyond all expectations, because by lowering the cost of goods to the consumer, they helped increase demand for those goods.

Similarly, the principle of comparative advantage should be stressed again and again in order to illustrate the advantages of foreign trade. In order to understand this principle, it is important to grasp the fact that foreign trade is essentially like domestic trade. Specialization occurs within any trading area.

It is common to observe that some areas of a country are identified with a particular industry. In the United States, for example, Detroit is associated with the automobile industry, Pittsburgh with the steel industry, Hollywood with the film industry, Seattle with the aerospace industry, and Dallas with oil. This specialization may be traced to different reasons, but it should be understood that the natural forces of the market have created this situation. On the other hand, there is no immutable law that perpetuates specific economic specialization in a given geographical area. New England, for example, used to be the textile center in America. The market is always in a state of flux, and capital and labor tend to be attracted to the more efficient and hospitable areas.

Foreign trade permits, on an international scale, the specialization that often occurs within the confines of a local economy. Countries more efficient in the production of cars, textiles, wines, food or any other product will tend to export such goods because of their quality and lower cost to the consumer. Those same countries will have the incentive to import goods that may be acquired at a lower cost from outside sources.

Clearly an optimum utilization of resources is achieved and employment is maximized.

However, when a country raises tariffs or quotas or implements any protectionist policy, it only succeeds in misallocating resources, lowering world-wide production and raising the prices of goods to the consumers. Protectionist policies may succeed in preserving some jobs in specific industries, but only at the expense of the general welfare of the country. In order to stem the tide of protectionism, it is imperative that the facts about foreign trade be learned. Otherwise, more quotas and tariffs will be erected, to the detriment of all. ☉

—FOOTNOTES—

¹*Time* (November 9, 1982) p. 55.

²*Fortune International* (November 29, 1982), p. 54.

³*Fortune International* (February 7, 1982), p. 62.

⁴*Fortune International* (March 21, 1983), p. 79.

⁵*Fortune International* (November 29, 1982), p. 52.

⁶*Fortune International* (March 21, 1983), p. 79.

⁷*Ibid.*

⁸Vol. 2, *The Cato Journal* (1982), p. 884.

⁹*Ibid.*, p. 878.

¹⁰*Ibid.*, p. 888.

¹¹Vol. 12, *California Western International Law Journal* (1982), p. 470.



EDUCATION IN COLONIAL AMERICA

ONE of the main objections people have to getting government out of the education business and turning it over to the free market is that “it simply would not get the job done.” This type of thinking is due, in large measure, to what one historian called “a parochialism in time,”¹ i.e., a limited view of an issue for lack of historical perspective. Having served the twelve-year sentence in government-controlled schools, most Americans view our present public school system as the measure of all things in education. Yet for two hundred years in American history, from the mid-1600s to the mid-1800s, public schools as we know them today were virtually non-existent, and the educational needs of America were met by the free market. In these two centuries, America produced several generations of highly skilled and literate men and women who laid

the foundation for a nation dedicated to the principles of freedom and self-government.

The private system of education in which our forefathers were educated included home, school, church, voluntary associations such as library companies and philosophical societies, circulating libraries, apprenticeships, and private study. It was a system supported primarily by those who bought the services of education, and by private benefactors. All was done without compulsion. Although there was a veneer of government involvement in some colonies, such as in Puritan Massachusetts, early American education was essentially based on the principle of voluntarism.²

Dr. Lawrence A. Cremin, distinguished scholar in the field of education, has said that during the colonial period the Bible was “the single most important cultural influence in the lives of Anglo-Americans.”³

Thus, the cornerstone of early

Mr. Peterson is Headmaster of The Pilgrim Academy, Egg Harbor City, New Jersey. He teaches economics and is constantly in search of ways to support and defend the principle of voluntarism in education.

American education was the belief that "children are an heritage from the Lord."⁴ Parents believed that it was their responsibility to not only teach them how to make a living, but also how to live. As our forefathers searched their Bibles, they found that the function of government was to protect life and property.⁵ Education was not a responsibility of the civil government.

Education Began in the Home and the Fields

Education in early America began in the home at the mother's knee, and often ended in the cornfield or barn by the father's side. The task of teaching reading usually fell to the mother, and since paper was in short supply, she would trace the letters of the alphabet in the ashes and dust by the fireplace.⁶ The child learned the alphabet and then how to sound out words. Then a book was placed in the child's hands, usually the Bible. As many passages were familiar to him, having heard them at church or at family devotions, he would soon master the skill of reading. The Bible was supplemented by other good books such as *Pilgrim's Progress* by John Bunyan, *The New England Primer*, and Isaac Watt's *Divine Songs*. From volumes like these, our founding fathers and their generation learned the values that laid the foundation for free enterprise. In "Against Idleness and Mis-

chief," for example, they learned individual responsibility before God in the realm of work and learning.⁷

How doth the busy little bee
Improve each shining hour,
And gather honey all the day
From every opening flower.

How skillfully she builds her cell,
How neat she spreads the wax
And labours hard to store it well
With the sweet food she makes.

In works of labour, or of skill,
I would be busy too;
For Satan finds some mischief still
For idle hands to do.

In books, or work, or healthful play
Let my first years be passed;
That I may give for every day
Some good account at last.

Armed with love, common sense, and a nearby woodshed, colonial mothers often achieved more than our modern-day elementary schools with their federally-funded programs and education specialists. These colonial mothers used simple, time-tested methods of instruction mixed with plain, old-fashioned hard work. Children were not ruined by educational experiments developed in the ivory towers of academe. The introduction to a reading primer from the early 19th century testifies to the importance of home instruction.⁸ It says: "The author cannot but hope that this book will enable many a mother or aunt, or elder brother or

sister, or perhaps a beloved grandmother, by the family fireside, to go through in a pleasant and sure way with the art of preparing the child for his first school days."

Home education was so common in America that most children knew how to read before they entered school. As Ralph Walker has pointed out, "Children were often taught to read at home before they were subjected to the rigours of school. In middle-class families, where the mother would be expected to be literate, this was considered part of her duties."⁹

Without ever spending a dime of tax money, or without ever consulting a host of bureaucrats, psychologists, and specialists, children in early America learned the basic academic skills of reading, writing, and ciphering necessary for getting along in society. Even in Boston, the capital city of the colony in which the government had the greatest hand, children were taught to read at home. Samuel Eliot Morison, in his excellent study on education in colonial New England, says:¹⁰

Boston offers a curious problem. The grammar (Boston Latin) school was the only public school down to 1684, when a writing school was established; and it is probable that only children who already read were admitted to that. . . . they must have learned to read somehow, since there is no evidence of unusual illiteracy in the town. And a Boston bookseller's stock in

1700 includes no less than eleven dozen spellers and sixty-one dozen primers.

The answer to this supposed problem is simple. The books were bought by parents, and illiteracy was absent because parents taught their children how to read outside of a formal school setting. Coupled with the vocational skills children learned from their parents, home education met the demands of the free market. For many, formal schooling was simply unnecessary. The fine education they received at home and on the farm held them in good stead for the rest of their lives, and was supplemented with Bible reading and almanacs like Franklin's *Poor Richard's*.

Some of our forefathers desired more education than they could receive at home. Thus, grammar and secondary schools grew up all along the Atlantic seaboard, particularly near the centers of population, such as Boston and Philadelphia. In New England, many of these schools were started by colonial governments, but were supported and controlled by the local townspeople.

In the Middle Colonies there was even less government intervention. In Pennsylvania, a compulsory education law was passed in 1683, but it was never strictly enforced.¹¹ Nevertheless, many schools were set up simply as a response to consumer demand. Philadelphia, which by 1776 had become second only to London

as the chief city in the British Empire, had a school for every need and interest. Quakers, Philadelphia's first inhabitants, laid the foundation for an educational system that still thrives in America. Because of their emphasis on learning, an illiterate Quaker child was a contradiction in terms. Other religious groups set up schools in the Middle Colonies. The Scottish Presbyterians, the Moravians, the Lutherans, and Anglicans all had their own schools. In addition to these church-related schools, private schoolmasters, entrepreneurs in their own right, established hundreds of schools.

Historical records, which are by no means complete, reveal that over one hundred and twenty-five private schoolmasters advertised their services in Philadelphia newspapers between 1740 and 1776. Instruction was offered in Latin, Greek, mathematics, surveying, navigation, accounting, bookkeeping, science, English, and contemporary foreign languages.¹² Incompetent and inefficient teachers were soon eliminated, since they were not subsidized by the State or protected by a guild or union. Teachers who satisfied their customers by providing good services prospered. One schoolmaster, Andrew Porter, a mathematics teacher, had over one hundred students enrolled in 1776. The fees the students paid enabled him to provide for a family of seven.¹³

In the Philadelphia Area

Philadelphia also had many fine evening schools. In 1767, there were at least sixteen evening schools, catering mostly to the needs of Philadelphia's hard-working German population. For the most part, the curriculum of these schools was confined to the teaching of English and vocations.¹⁴ There were also schools for women, blacks, and the poor. Anthony Benezet, a leader in colonial educational thought, pioneered in the education for women and Negroes. The provision of education for the poor was a favorite Quaker philanthropy. As one historian has pointed out, "the poor, both Quaker and non-Quaker, were allowed to attend without paying fees."¹⁵

In the countryside around Philadelphia, German immigrants maintained many of their own schools. By 1776, at least sixteen schools were being conducted by the Mennonites in Eastern Pennsylvania. Christopher Dock, who made several notable contributions to the science of pedagogy, taught in one of these schools for many years. Eastern Pennsylvanians, as well as New Jerseyans and Marylanders, sometimes sent their children to Philadelphia to further their education, where there were several boarding schools, both for girls and boys.

In the Southern colonies, government had, for all practical purposes, no hand at all in education. In Vir-

ginia, education was considered to be no business of the State. The educational needs of the young in the South were taken care of in "old-field" schools. "Old-field" schools were buildings erected in abandoned fields that were too full of rocks or too overcultivated for farm use. It was in such a school that George Washington received his early education. The Southern Colonies' educational needs were also taken care of by using private tutors, or by sending their sons north or across the Atlantic to the mother country.

Colonial Colleges

A college education is something that very few of our forefathers wanted or needed. As a matter of fact, most of them were unimpressed by degrees or a university accent. They judged men by their character and by their experience. Moreover, many of our founding fathers, such as George Washington, Patrick Henry, and Ben Franklin, did quite well without a college education. Yet for those who so desired it, usually young men aspiring to enter the ministry, university training was available. Unlike England, where the government had given Cambridge and Oxford a monopoly on the granting of degrees,¹⁶ there were nine colleges from which to choose.

Although some of the colonial colleges were started by colonial governments, it would be misleading to

think of them as statist institutions in the modern sense.¹⁷ Once chartered, the colleges were neither funded nor supported by the State. Harvard was established with a grant from the Massachusetts General Court, yet voluntary contributions took over to keep the institution alive. John Harvard left the college a legacy of 800 pounds and his library of 400 books. "College corn," donated by the people of the Bay Colony, maintained the young scholars for many years.¹⁸ Provision was also made for poor students, as Harvard developed one of the first work-study programs.¹⁹ And when Harvard sought to build a new building in 1674, donations were solicited from the people of Massachusetts. Despite the delays caused by King Philip's War, the hall was completed in 1677 at almost no cost to the taxpayer.²⁰

New Jersey was the only colony that had two colleges, the College of New Jersey (Princeton) and Queens (Rutgers). The Log College, the predecessor of Princeton, was founded when Nathaniel Irwin left one thousand dollars to William Tennant to found a seminary.²¹ Queens grew out of a small class held by the Dutch revivalist, John Frelinghuysen.²² Despite occasional hard times, neither college bowed to civil government for financial assistance. As Frederick Rudolph has observed, "neither the college at Princeton nor

its later rival at New Brunswick ever received any financial support from the state. . . ."²³ Indeed, John Witherspoon, Princeton's sixth president, was apparently proud of the fact that his institution was independent of government control. In an advertisement addressed to the British settlers in the West Indies, Witherspoon wrote:²⁴ "The College of New Jersey is altogether independent. It hath received no favor from Government but the charter, by the particular friendship of a person now deceased."

Based on the principle of freedom, Princeton under Witherspoon produced some of America's most "animated Sons of Liberty." Many of Princeton's graduates, standing firmly in the Whig tradition of limited government, helped lay the legal and constitutional foundations for our Republic. James Madison, the Father of the Constitution, was a Princeton graduate.

Libraries

In addition to formal schooling in elementary and secondary schools, colleges, and universities, early America had many other institutions that made it possible for people to either get an education or supplement their previous training. Conceivably, an individual who never attended school could receive an excellent education by using libraries, building and consulting his own li-

brary, and by joining a society for mutual improvement. In colonial America, all of these were possible.

Consumer demand brought into existence a large number of libraries. Unlike anything in the Old Country, where libraries were open only to scholars, churchmen, or government officials, these libraries were rarely supported by government funds. In Europe, church libraries were supported by tax money as well, for they were a part of an established church. In America, church libraries, like the churches themselves, were supported primarily by voluntarism.

The first non-private, non-church libraries in America were maintained by membership fees, called subscriptions or shares, and by gifts of books and money from private benefactors interested in education. The most famous of these libraries was Franklin and Logan's Library Company in Philadelphia, which set the pattern and provided much of the inspiration for libraries throughout the colonies.²⁵ The membership fee for these subscription libraries varied from twenty or thirty pounds to as little as fifteen shillings a year. The Association Library, a library formed by a group of Quaker artisans, cost twenty shillings to join.²⁶

Soon libraries became the objects of private philanthropy, and it became possible for even the poorest citizens to borrow books. Sometimes

the membership fee was completely waived for an individual if he showed intellectual promise and character.²⁷

Entrepreneurs, seeing an opportunity to make a profit from colonial Americans' desire for self-improvement, provided new services and innovative ways to sell or rent printed matter. One new business that developed was that of the circulating library. In 1767, Lewis Nicola established one of the first such businesses in the City of Brotherly Love. The library was open daily, and customers, by depositing five pounds and paying three dollars a year, could withdraw one book at a time. Nicola apparently prospered, for two years later he moved his business to Society Hill, enlarged his library, and reduced his prices to compete with other circulating libraries.²⁸ Judging from the titles in these libraries,²⁹ colonial Americans could receive an excellent education completely outside of the schoolroom. For colonial Americans who believed in individual responsibility, self-government, and self-improvement, this was not an uncommon course of study. Most lawyers, for example, were self-educated.

Sermons as Educational Tools

The sermon was also an excellent educational experience for our colonial forefathers. Sunday morning was a time to hear the latest news

and see old friends and neighbors. But it was also an opportunity for many to sit under a man of God who had spent many hours preparing for a two, three, or even four hour sermon. Many a colonial pastor, such as Jonathan Edwards, spent eight to twelve hours daily studying, praying over, and researching his sermon. Unlike sermons on the frontier in the mid-19th century, colonial sermons were filled with the fruits of years of study. They were geared not only to the emotions and will, but also to the intellect.

As Daniel Boorstin has pointed out, the sermon was one of the chief literary forms in colonial America.³⁰ Realizing this, listeners followed sermons closely, took mental notes, and usually discussed the sermon with the family on Sunday afternoon. Anne Hutchinson's discussions, which later resulted in the Antinomian Controversy, were merely typical of thousands of discussions which took place in the homes of colonial America. Most discussions, however, were not as controversial as those which took place in the Hutchinson home.

Thus, without ever attending a college or seminary, a church-goer in colonial America could gain an intimate knowledge of Bible doctrine, church history, and classical literature. Questions raised by the sermon could be answered by the pastor or by the books in the church

libraries that were springing up all over America. Often a sermon was later published and listeners could review what they had heard on Sunday morning.

The first Sunday Schools also developed in this period. Unlike their modern-day counterparts, colonial Sunday Schools not only taught Bible but also the rudiments of reading and writing. These Sunday Schools often catered to the poorest members of society.

Modern historians have discounted the importance of the colonial church as an educational institution, citing the low percentage of colonial Americans on surviving church membership rolls. What these historians fail to realize, however, is that unlike most churches today, colonial churches took membership seriously. Requirements for becoming a church member were much higher in those days, and many people attended church without officially joining. Other sources indicate that church attendance was high in the colonial period. Thus, many of our forefathers partook not only of the spiritual blessing of their local churches, but the educational blessings as well.

Philosophical Societies

Another educational institution that developed in colonial America was the philosophical society. One of the most famous of these was

Franklin's Junto, where men would gather to read and discuss papers they had written on all sorts of topics and issues.³¹ Another society was called The Literary Republic. This society opened in the bookbindery of George Rineholt in 1764 in Philadelphia. Here, artisans, tradesmen, and common laborers met to discuss logic, jurisprudence, religion, science, and moral philosophy (economics).³²

Itinerant lecturers, not unlike the Greek philosophers of the Hellenistic period, rented halls and advertised their lectures in local papers. One such lecturer, Joseph Cunningham, offered a series of lectures on the "History and Laws of England" for a little over a pound.³³

By 1776, when America finally declared its independence, a tradition had been established and voluntarism in education was the rule. Our founding fathers, who had been educated in this tradition, did not think in terms of government-controlled education. Accordingly, when the delegates gathered in Philadelphia to write a Constitution for the new nation, education was considered to be outside the jurisdiction of the civil government, particularly the national government. Madison, in his notes on the Convention, recorded that there was some talk of giving the Federal legislature the power to establish a national university at the future capital. But the proposal was

easily defeated, for as Boorstin has pointed out, "the Founding Fathers supported the local institutions which had sprung up all over the country."³⁴ A principle had been established in America that was not to be deviated from until the mid-nineteenth century. Even as late as 1860, there were only 300 public schools, as compared to 6,000 private academies.³⁵

A Highly Literate Populace

The results of colonial America's free market system of education were impressive indeed. Almost no tax money was spent on education, yet education was available to almost anyone who wanted it, including the poor. No government subsidies were given, and inefficient institutions either improved or went out of business. Competition guaranteed that scarce educational resources would be allocated properly. The educational institutions that prospered produced a generation of articulate Americans who could grapple with the complex problems of self-government. *The Federalist Papers*, which are seldom read or understood today, even in our universities, were written for and read by the common man. Literacy rates were as high or higher than they are today.³⁶ A study conducted in 1800 by DuPont de Nemours revealed that only four in a thousand Americans were unable to read and write legi-

bly.³⁷ Various accounts from colonial America support these statistics. In 1772, Jacob Duche, the Chaplain of Congress, later turned Tory, wrote:³⁸

The poorest labourer upon the shore of Delaware thinks himself entitled to deliver his sentiments in matters of religion or politics with as much freedom as the gentleman or scholar. . . . Such is the prevailing taste for books of every kind, that almost every man is a reader; and by pronouncing sentence, right or wrong, upon the various publications that come in his way, puts himself upon a level, in point of knowledge, with their several authors.

Franklin, too, testified to the efficiency of the colonial educational system. According to Franklin, the North American libraries alone "have improved the general conversation of Americans, made the common tradesmen and farmers as intelligent as most gentlemen from other countries, and perhaps have contributed in some degree to the stand so generally made throughout the colonies in defense of their privileges."³⁹

The experience of colonial America clearly supports the idea that the market, if allowed to operate freely, could meet the educational needs of modern-day America. In the nineteenth century, the Duke of Wellington remarked that "the Battle of Waterloo was won on the playing fields of Eton and Cambridge." To-

day, the battle between freedom and statism is being fought in America's schools. Those of us who believe in Constitutional government would do well to promote the principle of competition, pluralism, and government non-intervention in education. Years ago, Abraham Lincoln said, "The philosophy of the classroom will be the philosophy of the government in the next generation." ☉

—FOOTNOTES—

¹Bertrand Russell, quoted in: Tim Dowley, ed., *The History of Christianity* (Grand Rapids: Wm. B. Eerdmans Pub. Co., 1977), p. 2.

²Clarence B. Carson has emphasized this point in his *The American Tradition* (Irvington-on-Hudson: The Foundation for Economic Education, Inc., 1964).

³Lawrence A. Cremin, *American Education: The Colonial Experience, 1607-1789*. (New York: Evanston and London: Harper and Row, 1970), p. 40.

⁴Psalms 127:3.

⁵Romans 13.

⁶Elizabeth McEachern Wells, *Divine Songs by Isaac Watts* (Fairfax, Va.: Thoburn Press, 1975), p. ii.

⁷*Ibid.*, p. 42.

⁸Eric Sloane, *The Little Red Schoolhouse* (Garden City, New York: Doubleday and Company, Inc., 1972), p. 3.

⁹Ralph Walker, "Old Readers," in *Early American Life*, October, 1980, p. 54.

¹⁰Samuel Eliot Morison, *The Intellectual Life of New England* (Ithaca: Cornell University Press, 1965), pp. 71, 72.

¹¹Carson, p. 152.

¹²Louis B. Wright, *The Cultural Life of the American Colonies* (New York: Harper and Row Pub., Inc., 1957), p. 108.

¹³*Ibid.*

¹⁴Wright, p. 109.

¹⁵Carl and Jessica Bridenbaugh, *Rebels and Gentlemen* (New York: Oxford University Press, 1982), p. 36.

¹⁶*Ibid.*, p. 39.

¹⁷Frederick Rudolph, *The American College and University* (New York: Random House, A Vintage Book, 1962), pp. 15-16.

¹⁸Morison, p. 39.

¹⁹Morison, p. 37.

²⁰Morison, p. 39.

²¹Archibald Alexander, *The Log College* (London: Banner of Truth Trust, 1968, First Published, 1851), pp. 14-22.

²²William H.S. Demarest, *A History of Rutgers College, 1766-1924* (Princeton: Princeton University Press, 1924), p. 45.

²³Rudolph, p. 15.

²⁴John Witherspoon, "Address to the Inhabitants of Jamaica and Other West-India Islands, in Behalf of the College of New Jersey," *Essays upon Important Subjects*, Vol. III (Edinburgh, 1805), pp. 312-318, 328-330.

²⁵Max Farrand, ed., *The Autobiography of Benjamin Franklin* (Berkeley, California, 1949), p. 86.

²⁶Bridenbaugh, p. 87.

²⁷Bridenbaugh, p. 99.

²⁸Bridenbaugh, p. 91.

²⁹Wright, pp. 126-133.

³⁰Daniel Boorstin, *The Americans: The Colonial Experience* (New York: Random House, Vintage Books, 1958), pp. 10-14.

³¹This later became, of course, the American Philosophical Society.

³²Bridenbaugh, pp. 64-65.

³³Bridenbaugh, p. 65.

³⁴Boorstin, p. 183.

³⁵Richard C. Wade, et. al., *A History of the United States with Selected Readings*, Vol. I (Boston: Houghton Mifflin Co., 1966, 1971), p. 398.

³⁶Rousas John Rushdoony, *The Messianic Character of American Education* (Nutley, N.J.: The Craig Press, 1963, 1979), p. 330.

³⁷*Ibid.*

³⁸Bridenbaugh, p. 99.

³⁹Farrand, p. 86.

Make-Work Won't Work

MORE AND MORE the fate of public policy has been determined by the stampeding sacred cows. The mere mention of sacrosanct beneficiaries like the "poor," or "elderly," or "unemployed," is deemed sufficient to justify any policy, no matter how ill conceived. Objective analysis goes out the window whenever the announced *intent* of a government program is to feed a sacred cow.

The big spenders of Congress are rushing to bloat the federal deficit with "job creation" programs. Persons questioning this precipitous profligacy are characterized as heartless haters of the unemployed. With unemployment in double digits, how dare anyone delay the expenditure of funds to make work?

Tragic as an individual case of unemployment may be, sound policy cannot be made by this kind of dem-

agogic manipulation of our emotions. We need facts about the nature of the phenomenon, its magnitude, and its causes. Without these facts no real solutions to social problems can be devised. Instead, the creation of a "crisis" atmosphere will serve as another opportunity for those holding the power to exploit productive, taxpaying businesses and individuals.

To begin with, the concept of the "unemployed" is not well defined.

Implicit in the decision of an individual whether to accept a given job is the issue of compensation. If a person turns down a job because the pay is too low he is expressing a preference for leisure at that price. Is the economy failing because it does not provide a job at the desired wage? Or is the individual to be castigated for withholding his labor?

Defining unemployment is not merely an esoteric exercise. For example, high rates of unemployment among auto workers may have a lot

Mr. Semmens is an economist for the Arizona Department of Transportation. The views expressed here are those of the author and do not necessarily reflect Departmental policy.

to do with the comparative wage costs in auto production between Japan and America. If unemployed U.S. auto workers did not insist on wages 50 per cent higher than their Japanese counterparts, there would be more jobs available in American auto factories.

Rising Expectations

Whose fault is it that some workers cannot gain the amount of compensation they desire? It is quite a common circumstance for people to be paid less than they think they are worth. If taxpayers are to be required to make up the difference between desired wage and offered wage, the destruction of productive output will be the end result.

A partial explanation for the increasing incidence of withheld labor (or unemployment) is the rising level of expectations. Legislation attempting to dictate unreasonably high wage levels has had both a direct and an indirect effect on unemployment. Decreed minimum wage laws directly prevent individuals from accepting employment at wages that would be satisfactory. The indirect effect of these decreed wages is to create unreasonable prejudices and expectations among some individuals, causing them to disdain certain kinds of employment.

The availability of alternative sources of income also supports the willingness and ability to withhold

labor. The payment of unemployment compensation abets the preference for leisure among those eligible for benefits. Despite all the rhetoric about the impoverishment of the unemployed, Department of Labor statistics reveal that the average income of a family that includes at least one person drawing unemployment benefits is over \$19,000. This is not pre-unemployment income. It is post-unemployment income. That is, even with one family member unemployed, the family is still bringing in income in "livable" amounts. While averages do not tell the complete story, it is clear that the so-called unemployed are not universally suffering the extraordinary deprivation that some would have us believe.

Even with the family income figure of \$19,000, unemployment benefits are routinely denigrated as insufficient. First, the benefits are portrayed as inadequate to sustain life. Second, the idea that the provision of such inadequate benefits could actually deter someone from accepting a job is ridiculed. Despite claims of the inadequacy of unemployment benefits, research on the subject indicates that the availability of benefits does seem to affect the willingness and ability of individuals to withhold their labor from the market. In a paper presented to a "Conference on the Incentive Effects of Government Spending," Princeton

Professor Gary Solon disclosed that the taxation of benefits had the apparent effect of reducing the duration of unemployment by over 20 per cent.

The reference point one uses to observe the national unemployment situation can influence the interpretation of the phenomenon. On the one hand, reported unemployment hovers in the double digit range. This is the worst it has been since World War II. On the other hand, 57 per cent of the adults in America have jobs. This is virtually unchanged from 15 years ago when the reported rate of unemployment was less than 4 per cent (the reputed "full" employment rate). The long term problem has not been a decline in the number of job opportunities. Rather, the problem has been that the growth of job opportunities has not kept pace with the increase in the number of persons desiring employment.

To some extent the divergence of the supply and demand for labor has been created by government intervention in the economy to fix the prices of labor above the market-clearing prices. The establishment of minimum wage laws was discussed earlier. In addition to this meddling on the lower end of the wage scale, government has raised the price of labor at the upper ends of the wage scale as well.

For blue collar occupations, governmental intervention has sanc-

tioned the use of coercion and threats of violence as a means of extorting higher wages for union members. Intimidation of would-be labor competition is a "normal" part of the government-sanctioned collective bargaining process.

In the Professional Field, Entry Denied

For those in the professional field, the government at local, state and national levels has authorized various anticompetitive practices aimed at denying certain persons the opportunity to enter licensed or regulated professions. This has both a direct and an indirect impact on unemployment. Some individuals are directly excluded from pursuing a profession. Others, using the artificially high pay in the protected professions as a standard or reference are encouraged to withhold their labor because of unreasonably high wage expectations in general.

It should be obvious that the touted cures for unemployment being considered by Congress are totally inappropriate. Congress does not propose to deal with the issue of withheld labor. Congress does not propose to eliminate government programs that contribute to unemployment. Congress does not offer any encouragement for the economic growth that could supply many more job opportunities.

Instead, Congress pledges itself to

actions based on coercion that are sure to aggravate the problem. To keep foreign firms from "stealing" U.S. jobs, Congress is considering legislation to prevent consumers from exercising free choice in their purchases. Import restrictions and domestic content laws would deny consumers the right to freely select the products most suitable to their needs. Not only will consumer satisfaction be reduced, but both the purchasing power of the dollar and eventual output per unit of input will be lowered.

To assist U.S. firms in gaining markets abroad, Congress is warm to the idea of bribing foreigners to buy American made goods. The bribes come in the form of subsidies either to lower the price of the goods or to lower the cost of borrowing to purchase the goods. Though Secretary of State George Schultz concedes that such a policy is insane, we are, nevertheless, headed toward its widespread adoption. The fundamental outcome of this procedure is to sell our output for less than the cost of the input. This is the road to bankruptcy, not full employment.

To prevent foreigners from entering the U.S. and "taking away" American jobs, Congress is considering enacting repressive alien employment penalties. Under this policy, employers would be punished for hiring illegal aliens. Aside from making things tougher for all His-

panics seeking employment, the program would require an elaborate and ultimately expensive enforcement effort. All legal residents would be issued official working papers. Government agents would patrol places of employment checking documents. Courts would receive the added load of prosecutions for the victimless crime of hiring a person. Counterfeiting of official papers would provide another avenue of profit for organized crime. This prospective trampling of liberties will place a further drag on the economy, as taxes to support bureaucrats, judges, and prisons draw more resources from the productive sectors of the economy.

To stimulate the U.S. economy Congress proposes to expend prodigious sums on public works. Men are to be put to work building roads, dams, waterways, sewers, public buildings of every sort. Of course, there is no information on how valuable these presumed public assets might be. The public sector has no means of evaluating the return-on-investment from the construction of these types of facilities.

Malinvestment of Resources

In an abstract sense there may well be a need for roads, dams, and the like. Unfortunately, we do not know how much of these products is needed. It is possible, even likely, that many, if not most, of these pub-

lic works will return only pennies on each dollar expended. The probable consequence of a massive public works program is the malinvestment of scarce capital resources. Since it requires capital to sustain employment opportunities, the malinvestment of billions of capital will inexorably reduce future employment.

To alleviate the plight of displaced workers and the "hard core" unemployed, Congress is wont to enact job-training programs. On a theoretical basis, we'd be led to predict that this would be an inefficient means of preparing people for jobs. Bureaucracies lack the economic incentive structure to effectively provide appropriate training. The past experience of the government in this area bears out the theoretical prediction.

The Comprehensive Employment and Training Act (CETA) was notoriously ineffective in training the unemployed for work. A majority of the participants in CETA never obtained productive employment as a result of their job training. Government job-training programs are a waste of time and money. Human talent that might otherwise be constructively employed will be wasted in misguided and futile efforts. Money to fund this activity will be diverted from the productive sector. This will decrease employment and output in this sector.

Since the government is already operating in the red, any programs to combat unemployment will likely be financed with borrowed money. Government borrowing crowds out the private sector. Because the federal government has the sovereign power to seize wealth with which to pay its debts, it goes to the head of the line of borrowers.

In the financial world, creditors would prefer to make loans to the government, since it can seize resources, than to private firms which might go bankrupt if consumers don't buy their products. As a result, private firms must offer to pay higher interest rates to obtain funds. This raises the cost of capital for successful borrowers. Such firms will have less money available to expend on labor. Firms unable to pay the higher interest expense must cut back their plans for future output. Lower future output will mean fewer job opportunities. In either case, government borrowing will reduce private sector employment.

Higher Taxes Afford No Effective Solution

In order to avoid this crowding out of private borrowers, some members of Congress urge an increase in taxes. With more tax revenue the government wouldn't have to borrow as much, thereby lowering interest rates. While this may appeal to simplistic analysts, it is a ludicrous al-

ternative. A hike in taxes will still remove resources from the private sector. Faced with a higher tax burden, firms may resort to borrowing in order to finance their operations. Again, this will put upward pressure on interest rates. Firms not choosing to borrow resources to replace taxed capital will be forced to cut back their plans for future output. The results would be fundamentally the same as if the government borrowed the money.

At this point it is often suggested that a consumption tax, rather than an income tax, would solve the problem of draining private sector capital. How this magic is to be performed remains unexplained. Taxes on consumption will reduce consumption. Consumers will be able to purchase fewer units of output at a higher cost per unit. Firms will sell fewer units and experience lower revenues. The net result of this consumption tax will be lower private sector income. Thus, while not taxed directly, firms will still be forced to either borrow more money or cut back output.

Of course, the federal government has granted itself the authority to create money. Perhaps there will be neither increased borrowing nor taxing by the government. However, the creation of money does nothing to augment the quantity of real goods and services. The government will use this newly created

money to claim real resources without having to produce an equivalent real output. As long as the money creation process is unanticipated by the market, the effect of this policy is a transfer of resources from producers to the government. This will tend to have a negative effect on the overall output of the economy, as resources are shifted from more to less productive uses.

If the money creation process is anticipated, holders of existing stocks of money will insist on higher interest rates to compensate for the loss of purchasing power that results. This leads to higher costs for borrowers, with all the attendant reductions in output and employment. Another consequence of money creation is the destruction of the value of the dollar. This discourages the holding of liquid assets. Not only is there a precipitate rush to accumulate tangible assets like gold or silver, but commerce becomes more cumbersome as the monetary unit fluctuates in value. Time, effort and resources must be diverted to methods of forecasting currency depreciation and developing strategies to deal with it.

A by-product of the depreciation of the value of money is the erroneous overstatement of income that results in lifting firms and individuals into higher tax brackets. This increased tax burden diverts resources from the productive sector,

leading to lower output and employment.

It would appear that none of the schemes being contemplated by Congress affords any hope of improving the employment situation. All of the schemes rely upon the forcible transfer of resources from the productive environment of voluntary exchange to an environment of politically determined uses. This type of policy sends the wrong signals to human actors in the economy. Instead of devoting energies to production, individuals are encouraged to act defensively or predaciously. Can there be anyone who does not recognize the enormous drag that the necessity for defensive action places on an economy?

It is bad enough that international lawlessness leads to enormous weapons expenditures. However, we should not overlook the enormous devotion of resources to pay for lobbying to get or prevent legislation aimed at enlisting the government to seize resources that cannot be obtained by voluntary exchange. Armies of tax experts, lawyers, and influence peddlers represent a sad waste of talent and resources on nonproductive activities.

The magnitude of the loss suffered by the American people as a result of the government's pillage approach to economic policy is huge. The standard of living we enjoy to-

day is dependent upon the accumulation of capital over time. Policies that provide the incentive to create and accumulate capital improve the standard of living. Policies that provide the incentive to consume and destroy capital lower the standard of living.

Excessive Spending

Government programs to create jobs by seizing and spending more resources are precisely the wrong cure for unemployment. Government spending has been increasing at a faster rate than inflation. Since the 1975 recession, federal spending has risen 50 per cent faster than inflation. If government spending really stimulates the economy, shouldn't unemployment be getting lower? The fact that government spending has not had this effect points out the precarious predicament of the predatory society.

In contrast, even the slightest moderation of government rapacity would pay big dividends. For example, let us suppose that the rate of growth of government spending had been held to match the rate of inflation over some recent time period. What would have been the employment impact of such a policy? What if the government had responded to the 1975 recession by moderating its consumption of private sector resources in this fashion?

The cumulative effect of such a

policy could have been quite dramatic. The compound creation of capital invested at an average rate of return could have enabled our economy to accumulate over \$600 billion more resources than presently exists. This additional capital could support an additional 5½ million job opportunities. (See table below).

This estimate of the impact of the government's spending would seem

a modest portrayal of the total cost of government meddling in the economy. What if expenditures had actually been cut, rather than merely held constant? What if the morass of government red tape and regulation had been reduced? What if positive trends in these policy areas were to kindle a greater optimism among creative and productive people?

The Reagan Administration originally had some promising propos-

Long Term Opportunity Cost of Excessive Federal Expenditures
(\$ in Billions)

| Year | Federal Outlays ¹ | Inflation Proof Budget ² | Excess ³ | Cumulative Opportunity Cost ⁴ | Cumulative Permanent Jobs Lost ⁵ |
|------|------------------------------|-------------------------------------|---------------------|--|---|
| 1976 | \$366 | \$346 | \$ 20 | \$ 21 | 300,000 |
| 1977 | 403 | 368 | 35 | 60 | 900,000 |
| 1978 | 451 | 398 | 53 | 121 | 1,700,000 |
| 1979 | 494 | 440 | 54 | 188 | 2,400,000 |
| 1980 | 580 | 502 | 78 | 284 | 3,100,000 |
| 1981 | 663 | 551 | 112 | 424 | 4,200,000 |
| 1982 | 730 | 590 | 140 | 603 | 5,500,000 |

Notes:

- (1) Does not include off-budget expenditures.
- (2) Expenditures necessary to keep pace with inflation as measured by the Consumer Price Index.
- (3) Excess of federal outlays over and above what was necessary to keep pace with inflation.
- (4) Capital accumulation sacrificed to pay for excessive government spending. Assumes a 7% average annual return on investment—the after-tax, after-dividend reinvestment rate for the Dow Jones Industrials.
- (5) Estimated number jobs that could have been created if capital had been allowed to accumulate in the private sector instead of being taxed away to finance federal spending.

als. Red tape and regulation were to be reduced. Taxes were to be cut. Government spending was to come down. Some positive actions were taken. Oil prices were decontrolled. Phased income tax reductions were enacted.

Not much headway has been made, though. Early on, the Administration decided merely to slow the rate of growth in government spending. Despite much anguish and travail, the rate of growth in government spending still exceeds the rate of inflation. Real expenditures under the Reagan Administration are increasing at virtually the same pace as under the Carter Administration. Now, proposals for revenue enhancement abound. Make-work jobs bills are the order of the day.

What America needs is a simple program to promote economic

growth. The role of government in this program is to stop interfering with voluntary productive activity. Regulations like minimum wages should be removed. Sanction of coercive collective bargaining should be repealed. Restraints on trade should be abolished. Subsidies to the inefficient should cease. Grants of monopoly must be rescinded. Laws against victimless crimes in voluntary exchange between consenting adults must be dispensed with. Finally, the bloated budgets of government at all levels have to be trimmed.

Returning resources to the private, productive sector will do more to alleviate unemployment and poverty than any other policy available to government. The wealth and well-being of ourselves and future generations hang in the balance. ☉

Jobs for All

A free job market would provide "full employment" and greater production of the things men want most. Competition might drive down some dollar wage rates, but living standards would have to be higher. With more goods and services competing for every dollar, prices would be lower and everyone with a dollar would be entitled to a share of the increased production. Those now overpaid might temporarily suffer, but in the long run we would all be able to satisfy more of our wants.

With a free market in jobs, every man would be free to take the best offer available. Every employer would also be free to hire the applicants that pleased him most. No one would remain long unemployed. There would be jobs for all, more wealth produced, and a greater satisfaction of everyone's wants. What is more, the economic loss and dread of unemployment would evaporate.

IDEAS ON



LIBERTY

The World After Oil

THURMAN ARNOLD, the old Rooseveltian trust-buster, used to remark that the easiest way to make money was to enter a field that has been monopolized and give it some real competition. Something like this happened when the West, shocked by what the Organization of Petroleum Exporting Countries (OPEC) had done to give a fifteen-fold lift to energy prices, began to strike back. Bruce Nussbaum, an associate editor of *Business Week*, makes plain the dimensions of the West's revenge in a remarkable book called *The World After Oil: The Shifting Axis of Power and Wealth* (New York: Simon and Schuster, 319 pp., \$14.95). It is a story full of ironies, reminiscent in a way of what happened to Spain when gold from the Indies of-

fered the deceptive promise of an easy street forever and ever.

To be sure, the West did not rely wholly on direct energy competition with the Arabs of the Middle East. It did turn its attention to the discovery and exploitation of new oil fields (in Alaska, the North Sea and Mexico), and it did put a new emphasis on coal. Atomic energy was a disappointment in America, but the French began to make something of it, using it for the generation of 35 per cent of their electricity.

The biggest blow to the OPEC monopoly, however, came by way of an indirection that might have escaped Thurman Arnold's attention. What happened is that the entrepreneurial genius of the West, looking for profits that no longer could be had

from the old high-cost "smokestack industries" (steel, automobiles, heavy machinery), sought out "energy-sipping" businesses in the new area of high-tech. The age of the computer, able to base phenomenal accomplishments on smaller and cheaper silicon chips with a voluminous memory capacity, would have come eventually if the Arabs had never tried to create an energy monopoly. But what high-cost fuel and high-cost labor did was to force inventive enterprisers to do in five years what they might otherwise have strung out through twenty.

The new industries expected in the twenty-first century are already here. Computers, biotechnology, electronics, says Mr. Nussbaum, use only a fraction of the energy that the old industries consumed. Automated factories with robot-run assembly lines need only a small percentage of the energy to operate compared to yesterday's people-run Detroit plants. It is, says Nussbaum, a massive long-term trend that "will reverse itself only if oil returns to something approaching \$10 a barrel."

Looking Ahead

Mr. Nussbaum suspects that the future belongs to the United States and Japan, though there could be some surprises if it turns out that the Japanese can't create with the same facility that they imitate. The West Germans seem to be outdis-

tanced at the start simply because their whole tradition has pointed to predominance in the heavy "dinosaur" industries. Mechanical engineering and bulk chemicals do not make for "energy-sipping." The West Germans are avid for Siberian gas for the compelling reason that a nation of mechanical engineers cannot find the teachers to transform a whole educational system overnight.

Soviet Russia, according to Nussbaum, is in the worst fix of all the major powers, even though its nuclear missile facade is imposing. It desperately needs the income that will be supplied by the new Siberian gas line, for its oil revenues are declining along with OPEC's. With the military taking just about everything from the civilian sector, the Russian worker turns more and more to vodka for his solace. Life expectancy in Russia decreases, and agriculture fails to feed even those with shorter life spans. Tens of billions have to be spent on imported foods, and the masters of the Soviet military empire have to scrounge up \$30 billion in subsidies to keep Cubans and Poles and Angolans in line.

With an economy much larger than Japan's, the Soviet Union uses only a tiny percentage of microelectronics in its products, and most of this goes into military technology. What it has is either copied or stolen from the West. The copycat miniaturiza-

tion is enough to turn "dumb" missiles into "smart" ones, but there is little left over to diffuse electronic benefits throughout the civilian economy. And even with the most accomplished copying and KGB-engineered thievery the stuff the Soviets gave to the Syrians could not cope with what the Israelis did with American computerized equipment.


Third World Prospects

As for the Third World, Mr. Nussbaum thinks that only a half dozen countries will "be able to make it to the twenty-first century." The lucky ones will probably be "Brazil, South Korea, Taiwan, Hong Kong, Israel and Singapore." Raw materials aren't going to help a Third World country much. Copper, for example, is already being replaced by optic fibers, and when western technology begins mining the sea beds the profits will go to multinational corporations.

Mr. Nussbaum worries about "regional dislocation" in America. Silicon Valley is, as he says, a "Pacific basin" phenomenon. There could be a "dark side" to the future, particularly if Washington goes in for a protectionism designed to save the heavy industries of the Middle West. But if Congress takes wise measures, high-tech industries, "seeded" by rebuilt universities in the Northeast and Middle West, will begin to spread outside the Pacific basin. With

John Chamberlain's book reviews have been a regular feature of *The Freeman* since 1950. We are doubly grateful to John and to Henry Regnery for now making available John's autobiography, *A Life with the Printed Word*. Copies of this remarkable account of a man and his times—our times—are available at \$12.95 from The Foundation for Economic Education, Irvington-on-Hudson, New York 10533.

new robot factories putting sales people to work and reviving dependent jobs, Ohio and Michigan will again become prosperous.

What Nussbaum does not allow for is the possibility that desperate nations on the one hand, and desperate individuals on the other, may behave irrationally even to the point of giving in to the Samson complex and pulling down the temple. With Taiwan, South Korea and Singapore "making it" to the twenty-first century on their own, would Red China be willing to sit idly by? As for western individuals without jobs, the dangers of Luddite antipathy toward robots must be reckoned with politically. But no author can foresee every possible eventuality. Mr. Nussbaum has at least written a pioneering work. In doing this he has vindicated an old truth: monopolies are bound to fail. 

FREE ENTERPRISE: A JUDEO-CHRISTIAN DEFENSE

by Harold Lindsell

(Tyndale House Publishers, Inc., 336 Gundersen Drive, Wheaton, Ill. 60187)

1982

180 pages ■ \$5.95 paper

SOCIAL JUSTICE AND THE CHRISTIAN CHURCH

by Ronald H. Nash

(Mott Media, Inc., 1000 E. Huron, Milford, MI 48042) 1983

175 pages ■ \$12.95 cloth

Reviewed by Buddy Matthews

THE movements known as Christian Socialism and the Social Gospel are more than a century old. The churchmen involved are critical of what they understand capitalism to be; some advocate socialism; all believe that government should intervene in the economy in order to assure "an equitable distribution of wealth." Contemporary "liberation theologians" embrace Marxism, and ecclesiastical agencies syphon funds into the coffers of revolutionaries. The man in the pew is turned off by such interpretations of the Gospel, and more and more theologians are coming to realize the affinity between their religious faith and the vision of a free people enjoying political liberty and the free economy. Two recent books lend support to this development.

Theologian Lindsell, editor for many years of *Christianity Today*, finds biblical support for the economic order popularly called free enterprise. His book is something of an economics primer, basic and informative. The book also examines Marxism and rejects the flimsy claim that this secular doctrine is compatible with Christianity or Judaism: "... Marxism and the Judeo-Christian faith are and ever must be antithetical."

Lindsell points out that the first principle of free enterprise is private property and this is established in God's moral law as expressed in the commandment "Thou shall not steal." Hence, any system which attempts to do away with private property, as does Marxism, violates a basic law in the code given to Moses. Lindsell examines the examples of free enterprise used by Jesus in some of his parables, and concludes that only in the free market can man practice the rights and liberty given him by his Creator.


This does not mean, however, that Lindsell gives a blanket sanction to everything people do in the name of free enterprise. "In general," he writes, "the law of supply and demand constitutes the working basis for selling and buying. There are some instances, however, when this law should be superseded by the law of love," which means Christian stewardship and the Good Samari-

tan ethic. Dr. Lindsell here adds an important point which is often missing in the writings of free market economists: the ethical position. He feels that free enterprise must unite with Jesus' teaching that you should "love your neighbor as yourself." It is not only socialist economics we are fighting but also socialist ethics and morality. "Free enterprise, in order to be free, rests on the pillars of trust and truth-telling. In this it stands in opposition to socialist ethics and morality."

Ronald Nash, a professor of philosophy and religion at Western Kentucky University, approaches the question somewhat differently; he seeks to answer some of the basic philosophical problems of a free social order. What is a liberal? What is a conservative? What is the State? What exactly is justice and how is it related to equality? His findings are often very enlightening. "The mainstream of contemporary American conservatism," he writes, "is understood best as a fusion of classical liberalism's concern for individual liberty and nineteenth century conservatism's concern with moral absolutes and social order." This implies a desire "to conserve the political convictions that gave birth to the U.S. Constitution . . ."

Dr. Nash's approach is reasoned and persuasive. He deals with the nature of capitalism and socialism, examining the rationale behind each

system. He cites all the major objections critics have raised against capitalism and then shows why these objections can not be rationally or morally sustained. Believing in the unity of all truth, he avoids using the Bible as a proof text—if free market principles can be shown to be true, then they will be consistent with the Bible.

Religion and capitalism, properly understood, are, in fact, allies. These two volumes join the increasing number of studies which demonstrate the connection. 

BENJAMIN FRANKLIN

by Ronald W. Clark
 (Random House, 201 East 50th Street,
 New York, NY 10022) 1983
 530 pages ■ \$22.95

Reviewed by Robert M. Thornton

WHEN war broke out between the American colonies and Great Britain in 1775, Benjamin Franklin was sixty-nine years old and famous, not only in the colonies but in England and on the continent as well. The other outstanding Founding Fathers were relatively young and unknown: Washington was 43, John Adams 40 and Jefferson a mere 32.

Had not the colonies successfully gained their independence, the latter three may never have become famous.

But Franklin's fame does not depend on the American War for Independence, and Mr. Clark does a very good job explaining why. He devotes attention not only to Franklin's splendid efforts to bring about American independence, but to all the man accomplished in the sixty years from the time of his arrival in Philadelphia as a young man to his death in the same city at age 83.

Franklin was a remarkable combination of characteristics that might seem incompatible with each other. He was a sharp man in business, but a generous public benefactor. He was fascinated by scientific theories and sought practical uses for his discoveries. He was an avid reader and revelled in good company, especially that of attractive and intelligent women. He loved England and France but refused to compromise with either on the subject of American independence. He was ready to be the peacemaker, but when war came he never hedged at fighting it out to the bitter end. He practiced honest diplomacy for the most part, but if deception and intrigue were called for, he acted accordingly.

Franklin was an excellent printer, publisher and writer. His *Poor Richard's Almanac* was, for twenty-five years, an outlet for his homely

aphorisms and pungent articles. He helped found the first subscription library in this country, the first fire department, and the academy which became the University of Pennsylvania. Among other things he invented the Franklin stove, bi-focal glasses, and the lightning rod. His electrical experiments and discoveries put him in the top rank of those pursuing the subject in the mid-eighteenth century. He was the first scientist to identify the Gulf Stream. The list seems endless!

When relations between Great Britain and the American colonies deteriorated in the 1770s Franklin was not a firebrand revolutionary but hopeful that a break would not occur. He had lived in London for the better part of two decades and was deeply attached to the country. But when British policy forced a choice, Franklin took the side of his homeland.

Just what did Franklin contribute to the cause of American independence? Well, he was the superb diplomat—his reputation as a scientist, natural philosopher, writer and wit gave him a great advantage over other American representatives. We must remember that Europeans usually thought of American colonists as country bumpkins and primitives. They were astounded at Franklin who was as well-read and brilliant of mind as any in England or on the continent. He cleverly

played on this prejudice by affecting the homespun manner and appearance when it suited the occasion.

Just as in some societies courtship is a complicated affair, so it was in diplomacy in eighteenth century France. One had to know who to talk to—and when and how—to get anything done. The intricacies of a royal court were learned only by the patient man, not by those accustomed to being direct and straightforward.

John Adams, for all his brilliance and devotion to the cause of liberty, got nowhere in France. He lacked the patience to wine and dine and cultivate the right people. Franklin, on the other hand, knew how to woo and charm influential Frenchmen in order to accomplish his purpose—which was to get help from France for the American colonies in their fight for independence. Had he not

been successful the revolution might have been lost, or would have dragged out even longer than it did—from 1775 to the signing of the peace treaty in 1783.

Let's face it, the colonists may have had all the brave determination in the world. That is essential to achieving a great goal, but it also is necessary to have the means to do so. The colonists did not have the means to defeat the British or the money to obtain them. France supplied both men and equipment, and Franklin deserves the most credit for getting this aid. It required a shrewd man to play off France against England and vice versa, leaving the new nation free to pursue its own destiny without being at the mercy of either nation. George Washington may have been the indispensable man, but Ben Franklin ran a close second. ©

HANDSOME BLUE LEATHERLEX

FREEMAN BINDERS

\$4.00

Order from:

THE FOUNDATION FOR ECONOMIC EDUCATION, INC.
IRVINGTON-ON-HUDSON, NEW YORK 10533

the Freeman

VOL. 33, NO. 10 • OCTOBER 1983

- | | | |
|---|------------------------------|------------|
| Letter from the Paper Planet | Ernest G. Ross | 579 |
| The trouble with fiat money—as it might seem to a visitor from outer space. | | |
| From Caves to Computers | Bettina Bien Greaves | 587 |
| The blessings of freedom to specialize and trade. | | |
| Computers and Capitalism | John Jefferson Davis | 594 |
| Assessing the impact of the computer upon the way we live. | | |
| Why Not Deregulate Labor? | John A. Davenport | 601 |
| An article-review of the case for deregulating labor relations. | | |
| Judicial Monopoly Over the Constitution: Jefferson's View | Clarence B. Carson | 605 |
| A strict construction of the idea of limited powers. | | |
| The Ethics of Crime | Gary McGath | 616 |
| How the welfare-state idea is used by the criminal to justify his actions. | | |
| The Myth of Self-Regulation | Ridgway K. Foley, Jr. | 621 |
| Behind many of the efforts at industry self-control lurks the coercive power of the state. | | |
| How "Obscene" Are Profits? | Henry Hazlitt | 630 |
| Taxing profits punishes those who best serve consumers. | | |
| Book Reviews: | | 635 |
| "Healing America: What Can Be Done About the Continuing Economic Crisis" by Richard Cornuelle | | |
| "Mr. Jefferson" by Albert Jay Nock | | |
| "Our Enemy, the State" by Albert Jay Nock | | |

Anyone wishing to communicate with authors may send first-class mail in care of THE FREEMAN for forwarding.



the Freeman

A MONTHLY JOURNAL OF IDEAS ON LIBERTY

FOUNDATION FOR ECONOMIC EDUCATION

Irvington-on-Hudson, N.Y. 10533

Tel: (914) 591-7230

Leonard E. Read, 1898-1983

Managing Editor: Paul L. Poirot

Production Editor: Beth A. Hoffman

Contributing Editors: Robert G. Anderson

Bettina Bien Greaves

Edmund A. Opitz (Book Reviews)

Brian Summers

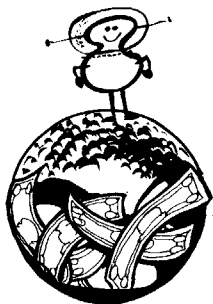
THE FREEMAN is published monthly by the Foundation for Economic Education, Inc., a nonpolitical, nonprofit, educational champion of private property, the free market, the profit and loss system, and limited government.

The costs of Foundation projects and services are met through donations. Total expenses average \$18.00 a year per person on the mailing list. Donations are invited in any amount. THE FREEMAN is available to any interested person in the United States for the asking. For foreign delivery, a donation is required sufficient to cover direct mailing cost of \$10.00 a year.

Copyright, 1983. The Foundation for Economic Education, Inc. Printed in U.S.A. Additional copies, postpaid: single copy \$1.00; 10 or more, 50 cents each.

THE FREEMAN is available on microfilm from University Microfilms International, 300 North Zeeb Road, Ann Arbor, Mich. 48106.

Some articles available as reprints at cost; state quantity desired. Permission granted to reprint any article from this issue, with appropriate credit.



Letter from the Paper Planet

Dear Sir:

This is my first letter to you since arriving “incognito” several weeks ago here on The Paper Planet. When you suggested that traveling to this planet for the summer would be good experience for a student working toward his economics degree, I had no idea why you felt that way. I should have guessed. Given all the “experiments” with fiat monetary systems in which the nations of Earth have chosen to engage, “The Paper Planet” is indeed a good nickname for the place.

It would be an understatement for me to say I’m astonished. The extent of the mental contortions in which most of Earth’s economists are willing to engage in order to justify paper money schemes strikes me as incredible. The extent of the deceptions and coercion in which the politicians are willing to indulge strikes me as downright barbaric! But, as one of

our own great economists once stated, “The economists provide the seeds of monetary policies; the politicians merely sow.” In that case, I suppose many of Earth’s economists are equally guilty of barbarism.

But enough of my moralizing. Here is a summary of what I have observed. (Please understand, Professor—these observations are taken largely from my notes as I made them. I have not had time to formally organize my writing yet. Nevertheless, the pattern should be clear.)

As you know, all of the truly civilized planets have long ago adopted “hard money” standards—standards based generally on precious metals, usually gold, due to its store of value qualities of rarity, divisibility, relatively steady demand, and durability. Gold exists in normal amounts on Earth and would therefore be the logical choice for a monetary standard here.

However, despite actual experiences with the virtues of gold, al-

Mr. Ross is an Oregon commentator and writer especially concerned with new developments in human freedom.

most all nations have abandoned this metal in favor of fiat paper currencies. The first purpose I set myself was to find out why.

The most common argument against a gold standard seems to be that it is "too limiting" to a nation's economy. Inasmuch as all planets' histories show that hard money standards are growth-promoting, I could not understand this claim at first.

Limiting Aspects of Gold

The key to comprehension of this amazing contention is to define what the Earthlings mean by "too limiting." Apparently it has two major meanings—economic and political. Often, on The Paper Planet, they are inextricably intertwined.

First, the economics.

A fiat standard of money can *give the impression* that it is possible to "force feed" an economy in order to achieve continuously high levels of stable growth. This force feeding is done by printing money in vast quantities and often involves subsidized interest rates. The idea is to give people more incentive to spend money and less incentive to save. And, indeed, this process *does* result in abnormal growth—for short periods of time.

But a couple of severe problems soon occur. More money in circulation (because the printing of money *inevitably* continues to exceed the

rate of production of goods and services) results in a depreciation of purchasing power. This, in tandem with disincentives to save, erodes the capital base of a nation. Less capital—less *quality* capital, I should say—means less business investment, which means less growth and employment. This eventually leads to an economic contraction called a "recession."

Strangely, one of the early aims of fiat systems was to *prevent* recessions! How this was to be accomplished is very vague—never adequately explained in all of Earth's economic literature. Personally, I believe that because such force feeding policies are in total violation of several economic laws, it is not at all surprising no one has been able to clearly explain the policies. At first, I thought that perhaps Earthmen were inordinately prone to wishful thinking. But that is not the case. What they *are* prone to is politics.

That brings us to the second interpretation of the phrase, "too limiting."

One of the hallmarks of our galaxy's civilized worlds is their universal restriction on money-tampering. I confess that until I visited The Paper Planet, I had a very incomplete understanding of the reason for this restriction. I want you to know, Professor, that I have thoroughly corrected that gap in my knowledge.

A hard money system keeps a

check on politicians; it is *their* excesses that a gold standard limits. I have found that when a politician on Earth complains that hard money is "too limiting," it is simply his way of saying that he has reasons to embezzle the populace's wealth. Perhaps, Sir, that sounds a bit harsh; but in fact, that's what it all boils down to.

My supporting evidence:

Paper money systems always lead to inflation—and politicians always manage to construct tax systems to take advantage of this fact. As people demand higher wages to offset the erosion of their purchasing power, they are "pushed into higher tax brackets," meaning, they are taxed at increasingly steeper rates. The more taxes the politicians have at their disposal, the easier it becomes for them to "buy" the favors of special interest groups. Politicians are quite careful to buy these favors quietly (at least in the early stages of a fiat system—later on they can become embarrassingly brazen about it)—that is, they do not admit what they are doing. Instead, they use euphemisms as, "the public interest," "the common good," "the welfare of the people," "aiding the local economy," and "watching out for the folks back home."

Each special interest group (and almost everyone belongs to *some* such group inasmuch as it is natural for people to *have* special interests in

certain things) finds it almost impossible to resist taking these favors from the politicians because the favors represent wealth far and above what any individual group believes it could otherwise acquire as quickly on its own. To justify acceptance, the recipients of this inflation-generated tax largess also have euphemisms, the more common of which are, "If we [or I] don't accept it, someone else will," and, "We're just getting back a little of what we already paid in [in taxes]." As you can see, Sir, it is a very vicious cycle—and, I might point out, has historically led to the downfall of nation after nation on this planet.

Paper Money Policies

A few lines back, I mentioned the fact that paper money has (especially in the late Twentieth Century, the current hundred-year calendar period on Earth) been adopted partly on the idea that its judicious (!) use could prevent recessions. In light of The Paper Planet's brief recent historical experiences with hard money, this idea needs special attention. Flying in the face of evidence, modern politicians on Earth seem convinced that under a gold standard the "ups and downs" of an economy are much more severe than under a fiat standard. All I can say to this, Sir, is that whatever standard of *judgment* is at play is, to twist the meaning of an Earth colloquial-

ism, "out of this world"—because it certainly hasn't come out of *our* hard money worlds!*

The facts: Under periods of hard money standards on The Paper Planet (a good example is the late Nineteenth Century in the geographical area called "The United States of America"), inflation-deflation had been up and down about *two* per cent (averaging out to zero, of course), while in the late Twentieth Century—paper money times—inflation has steadily increased from lows of two per cent in the immediate post-World War II period to highs of nearly 15 per cent in the late 1970s!

While some argument might be made that growth rates have been a little higher under the paper money system than under the gold standard (four or five per cent during

"boom" times for the former, three or four per cent for the latter), the picture is quite distorted. Fiat currencies so disrupt the accounting procedures of the economy that the argument is specious at best—and does not take into account the higher, productivity-advancing technologies which leapt into existence in the 1970s; the subtle, but vast erosion of incentives to save—which, as mentioned earlier, plays havoc with a nation's *future* productivity; the enormous burdens of taxes which the inflation created, resulting in virtually *no* rise in the standard of living for nearly a dozen years.

As a student of economics, Professor, I admit I'm compelled to ask, "If fiat currencies *really* produce higher economic growth—as their advocates maintain—then why have living standards stagnated during the period of *most* explosive money growth?" Keep in mind, Sir, that these facts pertain to the nation which is thought to be the *best* off economically of all the major nations of The Paper Planet.

Already I miss my homeworld. I cannot help but wistfully reminisce on the differences in everyday life at home and here on Earth.

At first, I was going to leave these reminiscences out of my letter. However, upon serious reflection, I believe they have instructive value—at least, they did for me; I'm sure you're already aware of these differ-

*Although hard money has limited recent experience, it was quite extensively used in more ancient Earth—for example, as *Why Gold?* (Exposition Press, 1974) author, Leslie Snyder, wrote of the Byzantine Empire, "The bezant [unit of currency] was minted at a standard of 65 grains of fine gold for 800 years . . . So determined were the empire's rulers to maintain the integrity of their money that they required all bankers and others through whose hands money passed to take an oath never to file, clip or debase coins in any manner. The penalty for any violation of this oath: the offender's hand was cut off." This, unfortunately, was the longest recorded use of an uncorrupted gold standard. Even in the ancient world, gold standards did not long remain inviolate from the tamperings of politicians.

ences, Sir, or you never would have suggested this visit to Earth. So, bear with your Humble Student.

On the homeworld, under our gold standard, businessmen have an enormous advantage over those here on The Paper Planet. The gold standard creates a climate of great stability and confidence in the future. Here, the erosion of money's value (as well as the periodic bouts of high interest rates when they are politically allowed to reflect inflation) creates an atmosphere of fear—fear of economic crashes and recessions, of renewed periods of stagnation, and of reduced purchasing power. These factors lead to other fears, especially fear of protectionism (and thus contracted trade and international ill will), which has often—I shudder to think of how often—led to war as the more tyrannical nations began to prey on the perceived corruption and weakening of the fabric of their wealthier neighbors. Often the attacks against their neighbors were used to distract attention from the tyrannies' own terrible economic problems.

On the homeworld, entrepreneurship is a constant, normal, exciting part of our lives. With the stability of a hard money system (which, of course, helps keep taxes down) it is possible for most people, with a very few years of work, to raise enough capital to start their own businesses. This has resulted in vir-

tually no forced (i.e., government-caused) unemployment.

It is hard to imagine a system under which individuals do not have the option of easily switching careers through entrepreneurship choice; it is almost impossible to imagine a system under which the people have come to expect government to take care of them when they are out of work, or forcefully “protect” their jobs by preventing businesses from failing (by *law*, no less!); it is downright distasteful, Sir, to see people who have become so dependent on government expropriation of their neighbors' wealth! Yet, that is exactly the kind of systems that dominate The Paper Planet. It is the kind of horrid dehumanization which happens from institutionalization of fiat currencies.

Related to the previous paragraph, on the homeworld, we have no concept of “social security”—a system almost universally accepted on Earth as a way of guaranteeing that no one will be without means of support in his or her old age.

Reasons for Social Security

There are several reasons why this so-called “security system” has evolved as a direct result of paper currencies:

- (1) With the loss of the entrepreneurship choice, it is impossible for most of the Planet's people to effectively generate large enough quan-

tities of capital wealth to provide for their later years.

(2) The high tax rates generated by a fiat standard discourage savings even by a *life-long* wage earner; thus the non-entrepreneur, the person who doesn't *like* being an entrepreneur, is stripped of his means of self-provision. (This varies from nation to nation on The Paper Planet. In the United States, more than any other major nation, it would still be possible—though barely—for average wage earners to provide for their personal retirements, *if* they were allowed to keep the money which is now taxed for Social Security and instead put it into private retirement plans of their choice. There is a move in that direction now, but I fear that unless the paper money system is abandoned, the trend will grind to a halt.)

(3) The fiat system has so undercut the self-confidence of the people that it has largely instilled in them an actual (I believe *inhuman*) desire *to be taken care of* by government. That is a sad, sad state of affairs to witness, Sir. The horrible thing is, the more the government caters to this dependency, the worse it gets. In a perversion that perhaps best illustrates how serious the situation has become, most people now think of Social Security as a *right!*

On the homeworld, even simple, everyday things are easier to accomplish than on The Paper Planet. A

good example would be the way my wife is able to deal with our family's financial needs. Because prices are so stable (of course, they actually *fall* a bit each year), she is able to logically, confidently plan our home's future. As most families do on the homeworld, we can reasonably project when we'll be able to buy new furniture, purchase a new family vehicle or new entertainment/communications equipment, acquire a finer home, and so forth.

More importantly to us, we know that we'll be able to finance our two children's education (presuming they *want* our help—little Suzy and Johnny are showing signs of *dedicated* independence!). Sir, did you know that on Earth, most graduate students cannot even *consider* starting families for years? They are simply too poor to do so. I cannot imagine suffering the poverty they endure; I don't know what I would have done without the option of free-lancing work for homeworld financial institutions while going to college; it's wonderful to be able to earn enough money to raise a family and pay for my education out of such part-time work—truly an indication of how a hard money system raises living standards!

Faith in the Future

While the spirit of the future, underscored by the constant introduction of thousands and thousands of

innovations, permeates the world view of the average citizen of the homeworld and our sister planets, here on The Paper Planet, that spirit is a frustrated, deformed thing, where it exists at all. At home, under the venture-capital-encouraging hard money system, innovations are not abnormal—they are virtually taken for granted! As you know, we all expect that each year we will personally have newer, better products from which to choose. It is a condition which my father and grandfather enjoyed—and their fathers and grandfathers before them for many generations. It is a condition which we regard as one of the great joys of our hard money system. To witness the bountiful fruit of human ingenuity flooding our markets each year—what could be more inspiring to an individual?

I suppose, Sir, that my letter from The Paper Planet would be somewhat incomplete if I did not mention how Earth could, in my view, rid itself of this “paper pestilence.”

Having spent several weeks with Earthlings, and despite their stubbornly uncivilized monetary ways, I have grown rather fond of them. While—as on all worlds—there are evil people scattered about, most Earth people are basically decent, and if given half a chance in the ordinary courses of their lives, show a promising respect for the rights of others. I believe this “gut level” re-

spect could be solidified in a major way if even one nation—especially an influential, large nation—were to return to the discipline of gold. Gold cements the right of property, which in many ways underlies all other rights—hence, the idea that a gold standard would assist in institutionalizing a respect for rights. It would make for a much better planet Earth.

The United States Could Lead

As far as I can tell, the most likely candidate for a return to a hard money system is the United States of America. This nation is still the freest of all the large nations, and has recently undertaken greater discipline of its fiat currency—a currency which, it is important to note, is virtually the “base” or “reserve” currency of all other major, non-totalitarian trading nations.

However, because of the insidious nature of the politics constantly engendered under a fiat money standard, I fear this new discipline cannot last. At least, it will not unless it is underpinned by something more than the resolve of politicians—as attracted as they are to a fiat standard’s “constituency-buying,” special-interest-catering qualities. So, clearly, that underpinning ought to be a hard currency—probably both gold and silver.

Because the United States is also the most advanced nation technologically, and is considered *the* lead-

ing nation of the planet, a return to a gold standard would be the fastest avenue for helping Earth to gain many of the same benefits which we on the homeworld now take for granted. The U.S. lead in technology would allow industry to most rapidly expand under the stability a gold standard would provide; U.S. "leader" status would, by example, and by the greatly increased value of its already respected (though fatally flawed) fiat currency, spread the benefits of a new, hard currency system to the rest of the world. In a sense, the American dollar is the circulatory system of world trade. Putting gold into the system would be like increasing the oxygen-carrying capacity of blood—infusing world trade with new energy and vitality.

Steps Back to Gold

While there are undeniably many ways in which U.S. leaders could accomplish this conversion from a "soft" to a "hard" standard of money, the best way would have to involve these three factors:

(1) Allowing free private ownership of gold (already in effect in America).

(2) Tying the dollar to a specific weight of gold or silver—and allowing people to convert back and forth.

Convertibility is absolutely necessary if the citizens are to have a "veto" over political money-tamper-

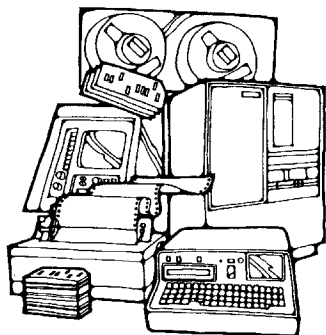
ing. When citizens can exchange dollars for specific weights of gold or silver, the burden is on the government to refrain from inflating—for if it does reflate, citizens will drain the government's valuable gold reserves. Of course, when point number three is implemented, private coinage will provide the final check on politicians: taking the governance and responsibility for maintaining the *integrity* of money out of their hands entirely. This, of course, is our system on the homeworld.

(3) Ultimately permitting private coinage of gold and making no laws barring the use of privately minted coins in trade or banking.

Well, Sir, that about wraps it up. I'll present a more detailed report to you in further letters and in person when I return to the homeworld. Thank you for suggesting my visit to The Paper Planet. It is a visit which will undoubtedly remain as one of the most important experiences of my life. My only hope is that the residents of this lovely planet Earth learn as much about the nature of their fiat systems as I have. Until they do, I fear they will remain mired in an immature culture and may very well lose an immense amount of the progress they've already gained.

Sincerely,
Your Humble Student

From Caves to Computers



TO MANY, computers appear human, perhaps even super-human, “miracle” workers. Certainly, they can help with many difficult and time-consuming tasks—keeping records, making mathematical calculations, drafting manuscripts, designing charts and diagrams, compiling statistical tables, and so on and on. They *are* remarkable “productivity-raising devices.” Yet they are neither human nor super-human. They are only inanimate, man-made contrivances. If “miracles” are involved in making computers, they stem from the thoughts and the accomplishments of countless individuals throughout the ages, individuals who conceived of new ideas, were free to try them out and dared to experiment.

Mrs. Greaves is a member of the Foundation's senior staff. This article is based on a recent talk she gave in Dallas, Texas.

Computers, however, are only one of the many impressive devices we enjoy today, for which we are indebted to our innovative ancestors. To appreciate the extent of our debt and the many contributions their originality, experiments and exertions have made to everyday phenomena, we should think back to the time before modern tools existed.

In the Beginning

Imagine, if you can, Planet Earth as it appeared before there were people—nothing but rocks, mountains, deserts, plains, jungles, rivers, lakes, oceans. The large land masses and bodies of water have shifted over the ages, to be sure. Earthquakes, volcanic eruptions, erosion, alluvial deposits, and the like, have caused many changes. However, Planet Earth's natural resources are still essentially the same,

physically and chemically, as they always were. And if it hadn't been for the appearance on earth of people, there would still be only rocks, mountains, deserts, plains, jungles, rivers, lakes and oceans.

As we look around today, we are impressed by what people have wrought. We see many remarkable things—magnificent highways, vast acres under cultivation, huge factories, gigantic skyscrapers, mighty ocean freighters, airplanes overhead, trucks and automobiles, heavy earth movers, countless homes and apartments, shopping centers, electronic computers, radios, TVs, movies, man-made textiles, “miracle drugs,” and so on. All these have been brought into existence by the efforts of people. Yet they were not *created* in the physical sense. People cannot *create* something out of nothing. They cannot even imagine how something may be created out of nothing. Thus, we must ask, how did all these remarkable things come about?

Freedom to Experiment, Freedom to Improve

In the beginning, men, like animals, had to struggle to survive. They had only their own hands and wits to help them in trying to satisfy their most pressing wants, aims and goals. They could do little but forage for food, shelter and for things to wear, then carry or drag what they found to wherever they wanted to use it.

Long hours had to be spent almost every day in acquiring the barest essentials. Yet step by step, men brought about improvements. The changes that made all these improvements possible depended on four factors—the freedom of men to pursue personal values and goals, their ability to conceive of new ideas, the opportunity to acquire property and to use that property as they chose, and their willingness to experiment in the attempt to implement their new ideas. Whenever men have enjoyed such freedom and opportunity, they have been able to improve their situation.

Over the centuries, as men were free to try, free to experiment, they transformed Planet Earth into our world of modern machines, structures and appliances. Each step along the way was taken by an individual, choosing and acting according to his or her own best judgment. The action of a single individual may seem insignificant, but the accumulated actions of countless individuals over the ages have led from the cave to the modern computer. The process was long and slow. It was uneven. Men encountered many obstacles and setbacks due to natural catastrophes and the violent interventions (war, pillage, theft, and the like) of other people. However, they did make progress in time, thanks to the contributions of unknown ideamen and experimenters.

People recognized rather early that it was to their advantage to cooperate with other people on some projects. Two or more persons could push or drag heavier loads than could one man alone. Two or more men could forage or hunt over a wider territory than could one man alone. Two or more men could protect more women and children in a larger shelter or refuge area than could one man alone. Cooperative pushing, dragging, foraging, hunting, and protecting meant that there would be more food to share, more and better shelter per person, and more safety and security for everyone in the community. Cooperation helped everyone concerned.

Specialization and Trade

As time went by, more and more persons came to appreciate the benefits of cooperation. Cooperation enabled them to specialize and to exchange their output with others. It was no longer necessary that each person be a "jack of all trades." Each could spend more time on what he preferred to do and what he could do well. Out of cooperation there developed specialization and trade. Communities, towns and eventually cities evolved as centers for communication and trade.

To cooperate, specialize and trade successfully, however, men had to communicate. This called for some

kind of language. We know little about the origin of language, except that it must have been a product of prolonged and continuing cooperation. Words may have originated as simple sounds, expressions of pain or joy combined with gestures and signals, or perhaps in imitation of the calls and cries of animals. In any event, as a result of countless contacts among individuals who wanted to express ideas, words were developed in time for many familiar objects—man, woman, child, baby, danger, fire, home, hearth, and the like.

Eventually, words were adopted also for abstract concepts until we now have terms to express fine shades of emotion, complex scientific theories and even profound philosophical concepts. Yet no one set out to develop a full-fledged language. It developed simply out of countless attempts on the part of many individuals, on many occasions, to convey ideas and transmit messages to other persons. Moreover, men have developed not just one single language over the ages, but hundreds, each with its own unique vocabulary and its own distinct grammatical structure.

A Medium of Exchange

Money was also developed as a result of countless actions on the part of many private individuals who took advantage of freedom and opportu-

nity to pursue their various personal goals. Specialization and exchange, which came with cooperation and communication, made it possible to produce more goods and services. However, they also made most trades more complicated. Buyers and sellers of specific items were not always easy to locate so it was seldom easy to match them with one another. What one would-be seller was offering might not be what any available would-be buyer wanted at the time. And would-be buyers might not then be ready to offer in exchange, for the items *they* wanted, the precise combination or quantities of goods and services anyone else in their community was seeking. Faced with this dilemma, someone must have asked himself one day: "Why not accept in trade something *other* people might want? Even though I might have no use for it now, I could use it later to trade for things I will be wanting then."

This reasoning led buyers and sellers step by step to *intermediate* exchange. Rather than waiting for trading partners with precisely what they wanted, they traded their goods and services for more generally accepted commodities. They expected a supplier of what they really wanted would be more willing to take this generally accepted commodity than the good or service originally offered in trade. Thus, different commodities—cows, wampum, shells, to-

bacco, and so on—gained general acceptance as "media of exchange" or "moneys." In time, as a result of countless separate trades among individuals, the choice gradually narrowed until by the end of the 19th century gold had become recognized almost worldwide as the most generally accepted "medium of exchange" or "money."

People, not governments, were responsible for money; governments only took advantage of the money which evolved over centuries from the ideas and voluntary transactions of private persons. The paper and credit money we use today is not market money, but rather a perversion of market money, dependent on the force and coercion of governments which hampered individual actions and choices. But that is another long story.

Few nowadays give thought to how such common everyday phenomena as cooperation, communication and money developed from the ideas and the voluntary choices and actions of private persons. Yet they did. All arose out of persistent and repeated efforts on the part of unknown numbers of our ancestors who conceived of new ideas and used what freedom and opportunity they had to experiment. It is only thanks to them that we can cooperate, communicate and trade with ease today. Without widespread cooperation, languages for far-reaching communication and

a widely accepted money, it would be absolutely impossible for our complex market economy to function today.

Productivity

Men cannot *create* anything in the physical sense. However, if there are no insurmountable obstacles in their path, they can move already existing things around. They can alter natural resources in various ways. They can transport, reshape, adapt, and combine them with one another. By moving specific quantities of natural resources around, at crucial times and under controlled conditions, men can form new shapes and new structures. As a matter of fact, when men have been free to experiment, their ingenuity and inventiveness leads to a kind of "creativity." This "creativity" is productivity, which stems simply from the ideas men have about *how* to move natural resources around, *when* to combine them with other resources and under what specific conditions.

Whenever a person with a new idea transforms a natural resource in some way to develop a new tool or production method, he sparks an "industrial revolution" of sorts. Occasionally an individual who introduces a significant innovation—a Gutenberg, a Ford or an Edison—will be recognized and remembered. However, most of the innovators who have contributed to our remarkably

productive economy, with its "miraculous" tools and products, have been unknown, unheralded and unrecorded. For instance, we know nothing about the specific individuals who introduced the wheel, the axe or the arrow, thus sparking the first "industrial revolutions." But we do know that they had some purpose in mind. They used mind and reason to try, to experiment and to improve their situations. We know also that all who came after, all who chose voluntarily to use the wheel, the axe or the arrow, did so because they expected it to help them accomplish their own goals.

Some ideas for new tools were sparked by observation, others by thought or action. "Lucky accidents" undoubtedly played a role. But it takes mind and reason to turn a "lucky accident" into a good idea. Some new tools were intended to make it easier, or quicker, to accomplish specific tasks, others to improve or increase output. Men learned in time that they could accomplish more, more easily and more quickly, with tools than they could with only hands, muscles and elbow grease. Thus, they chose voluntarily to adopt these "productivity-increasing" tools. With every "industrial revolution" that succeeded, the struggle for survival became a little easier.

The development and improvement of tools has been a continual

process from the cave to the present day computer. Whenever men were free to try, their urge to improve conditions induced them to move resources around. They couldn't create a fire or heat. However, they discovered how to build a fire that produced heat by rearranging natural resources. They learned to twirl two sticks together to make sparks from which they could light a fire. Later they discovered how to put phosphorus on a small stick, strike that stick against a rock to produce a flame that could set dry leaves, twigs or wood shavings on fire. They were not *creating* anything. They were just rearranging natural resources in line with their ideas in the hope of achieving a purpose.

Rearranging Resources

This process of rearranging resources, revising, adapting and combining them with others, is production. The many things we have today—our tools, machines, equipment, appliances, commodities and conveniences—were all produced by shifting natural resources from place to place, in certain quantities, at crucial times and under prescribed conditions. The “creativity” of human beings, their productive genius, stems simply from the ideas they have about *how* to move natural resources around, *when* to combine them with other resources and under what conditions. The com-

puter, as well as the many other sophisticated tools, commodities, appliances and conveniences we enjoy today, were all developed and produced in this way—by individuals who were free to act, conceive of ideas, and dare to experiment by moving natural resources from place to place under controlled conditions.

Let's consider a specific example—steel. Iron is dug from the ground and shipped to a foundry. There it is combined with carbon and other minerals at extremely high temperatures. The steel that results is then compressed, stamped, cut and shaped into many products—rails, trains, ships, automobiles, toasters, computers, and countless other familiar and unfamiliar products—all this without benefit of miracles, simply by rearranging natural resources.

Millions of small “industrial revolutions” have occurred since the days of the caveman, each sparked by some individual's idea and action. *The “Industrial Revolution”* from the mid-18th to the mid-19th century was the outcome of a cluster of newly-developed tools and methods of production—the steam engine, the factory system, the spinning jenny, large-scale agriculture, assembly-line production and new trade channels. John Locke, David Hume and Adam Smith, among others, had argued in their writings, published over several decades, that


the powers of the British monarch should be limited and the lives, property and freedom of British citizens should be better protected. As such ideas gained acceptance the British Parliament repealed many controls and regulations on production. Then persons with new ideas no longer encountered such serious obstacles from government. They were no longer prevented by the old Mercantilist government rules and regulations from embarking on new projects. Individual ingenuity was challenged and new ideas and inventions proliferated.

Responding to Opportunities

The effects of the relatively greater freedom enjoyed by British citizens to act and experiment were felt in almost every field of endeavor—transportation, shipping, commerce, communication, mining, iron and steel, farming, construction, textiles, clothing, medicine, and so on. Production expanded and the country's population increased. Individuals were better able to acquire property, save and invest their property to further increase production. People moved from localities where their families had been attached to the land for generations, to places where opportunities looked brighter. Many migrated to the United States, South Africa and Australia. New trade channels were opened, new sources of raw materials and

new markets for factory products were developed. The groundwork was being laid for today's industrial production and the "Computer Age."

Great things are accomplished step by step. A magnificent church is constructed stone upon stone. The tallest skyscraper is built floor upon floor. New factories are constructed brick upon brick. New highways are extended mile by mile. New trading patterns are developed bit by bit. Similarly, the vast accumulations of wealth, the stocks of goods, the many tools, machines, pieces of sophisticated equipment, appliances and modern conveniences, were all developed over the ages, without the benefit of miracles, as entrepreneurs explored and experimented to discover new resources and new ways to revise and combine them. The progress of men from the cave to the computer has been step by step, as a result of individual choices and actions.

The famed economist, Ludwig von Mises, often described the automobile of today as "the automobile of 1900, with hundreds of minor improvements." Thus the modern computer is the calculator and/or the typewriter of decades ago "with hundreds of minor improvements." Each improvement came about as some individual had an idea, had the freedom to act and dared to experiment with property he could call his own. 

John Jefferson Davis

Computers and Capitalism

It is an increasingly obvious fact of contemporary American life that the computer is having a pervasive influence on the way we work and live. What is not so obvious is that the computer is beginning to challenge some of the most widely held assumptions about the nature of our economic system. Specifically, the invention of the microprocessor has helped to make obsolete some of the most common objections which the free market system has faced during the last several generations.

“Capitalism leads to excessive market concentration.” This criticism is at least as old as Marx himself. Capitalism, it is said, inevitably leads to monopolistic concentrations in each industry which ruthlessly suppress the competition

and which leave the consumer at the mercy of a few powerful producers.

A corollary of this criticism is that capitalism leads to social inequality as well: not only is production concentrated in fewer and fewer hands, but wealth itself, the fruit of production, is concentrated in fewer and fewer hands as well. “The rich get richer, and the poor get children.” An increasingly stratified society, with the poor at the mercy of the wealthy ruling classes, with little hope of upward social mobility—such is the popular image of the results of the free market.

It should be noted, of course, that the criticism of excessive concentration of the means of production boomerangs against the socialist critic. In a socialist system the state has a monopoly of the means of production, and society in effect becomes one large company store, with all the potential for abuse and inefficiency which that entails. A thoroughgoing socialistic system is in fact the prime example of monopolistic concentration in economic life. The Communist Party of the Soviet Union exerts far more power in economic life than Exxon or Gulf Oil could ever exert in the petroleum and energy industries. Exxon can not send its competition to prison; the Communist Party can.

The facts of recent American experience do not support the “excessive market concentration” criticism.

Dr. Davis is Associate Professor of Theology at Gordon-Conwell Theological Seminary, South Hamilton, Massachusetts, and author of the forthcoming book, *Your Wealth in God's World*.

Especially in the rapidly growing fields of computers, data processing, and electronics, new firms are challenging the dominance of older firms such as IBM. New fortunes are being made almost on a daily basis, and a whole new generation of bright and energetic young entrepreneurs has appeared on the international scene to vindicate the wisdom and productivity of the classical free market.

The Computer-Based Economy

In the new "Information Age" economy created by the computer, creativity can be richly rewarded, age is no barrier to success, and entry into the marketplace has never been easier. In the new world of the computer-based economy, "breaking in" does not necessarily require vast amounts of steel and concrete and capital, but rather new ideas, a willingness to take risks, and imaginative insights into new applications of the burgeoning computer technology. A new insight, a knowledge of programming, and access to a computer terminal are all that is needed to launch a new software enterprise.

James Nitchals is now 21 years of age, runs his own computer software company, and expects to make his first million dollars before he is 25. Rob Fulop is only 25, but is already making more than \$100,000 a year, drives an expensive BMW and owns his own town house near San Francisco. Nitchals and Fulop are exam-

ples of a successful new breed of young video and computer game designers that are leading the way in a new industry that already generates more than \$1.2 billion in revenues annually.¹

Steven Jobs, a college dropout, and his friend Stephen Wozniak started Apple Computer Incorporated in a garage with an initial investment of \$1,300. Sales surged from \$2.7 million in 1977 to \$200 million in 1980. In 1981, Apple controlled 23 percent of the \$2.2 billion world market in personal computers.²

The wealthiest man in New England is not a "Boston Brahmin," but 62-year-old An Wang, who emigrated to the United States after World War II from Shanghai with personal assets on the order of \$100. Wang went on to found Wang Laboratories, producing computers and other high-tech devices, and today Wang's holdings are valued at \$200 million. His wife Lorraine's holdings are on the order of \$120 million, and his children hold \$300 million in stock.³

As journalist Alexander Taylor has noted, "Up to now, it seemed as if opportunities for making great fortunes like those of the Rockefellers and Carnegies had been cut off. It is heartening that people are taking chances and sometimes succeeding beyond their wildest dreams."⁴

The success stories of Jobs, Wozniak, Wang and many others dem-

onstrate that the doors of the free market are wide open today for those who have the energy, the initiative, and the imagination to walk through them. The new world being brought into existence by the computer chip is dispelling the myth of the closed economic society and the "monopolistic market concentrations" which shut out all competition.

The same principles of ready access to rapidly changing markets and the need for constant creativity and innovation hold true in the international arena. American computer firms can not assume that today's successes and today's profits assure an easy time in the economic battles of tomorrow. The Japanese now export more than \$1 billion worth of semiconductor devices. In the strategic market for 64K Random Access Memory chips, the heart of the modern microcomputer, the Japanese have captured the lead even in the United States.⁵ "Excessive market concentrations" are neither inevitable nor permanent in the dynamic and rapidly changing world of computer technology.

Enemy of the Environment?

A second frequently raised criticism is that "capitalism destroys the environment." Images of greedy corporate moguls turning the wilderness into vast strip mines, asphalt parking lots, shopping centers, and fast food chains come to mind. While

there are certainly legitimate concerns for the safe disposal of toxic wastes and other environmental hazards, the general environmental picture presented in the mass media has tended to be one-sided.

As Professor Julian Simon of the University of Illinois has pointed out in a detailed article in *Science*, between the years 1920 and 1974 the total acreage in the United States devoted to wildlife preserves and to state and national parks increased from 8 to 73 million acres. It is still the case that all the land in the United States used for urban areas and roads amounts to less than three percent of the total surface area of the country. Lake Erie, which was pronounced ecologically dead some years ago by Barry Commoner, has improved significantly, and the fish catch is actually increasing.⁶

More fundamentally, the thesis that "capitalism destroys the environment" overlooks the fact that the computer is leading the way from an economy based on heavy industry and manufacturing to one increasingly based on the creation, processing and distribution of information. We are now in fact already living in the "Information Age." Today more than 60 percent of the American labor force works with information as programmers, teachers, clerks, secretaries, accountants, managers, brokers, insurance people, attorneys, bankers, and technicians. Only

about 13 percent of the labor force is actually engaged in manufacturing operations. Almost 90 percent of the 20 million new jobs created during the 1970s were in the areas of information, knowledge, and service jobs.⁷

In the new Information Age created by the computer, the creation of new wealth is not exclusively or even primarily dependent on digging physical resources from the ground—with the environmental problems which may be entailed—but rather, depends on intangibles: new ideas, new processes, and new ways of organizing people and providing services. A new computer software program for businesses or a new video game can create an enormous amount of new wealth and human employment without destroying the environment. Human creativity has taken ordinary sand, a physical resource for which there is virtually an inexhaustible supply, and by turning it into a silicon chip, has created an almost boundless cornucopia of income, employment, and opportunities for human development.

Videotex and Fiber Optics

The relatively new videotex market, which provides online information to computer terminals in businesses, government, and private homes, already represents a \$250 million a year business. Industry analysts expect that the videotex in-

dustry, together with its associated hardware and software components, will be approaching a \$7 billion dollar market by 1987—a projected annual compound growth rate in excess of 93 percent.⁸

The transmission of data between computer-controlled systems is being revolutionized by new developments in fiber optics technology. New glass fibers now being developed in the laboratory are only one-tenth the diameter of a human hair, and yet are so efficient in the transmission of information in bursts of light that the full contents of 16 Bibles could be transmitted across the country in a single second. Already some 37,000 miles of the new fibers have replaced copper wires in the telephone system, and by the end of the decade, the U.S. market in fiber optics technology is expected to reach \$1.2 billion.⁹

Videotex and fiber optics technology—powerful new generators of wealth that hardly existed a decade ago—are only two examples among many in the new computer age which make the older environmentalist criticisms of the free market system largely obsolete. No longer must society face the apparent dilemma of new jobs versus clean air: with careful planning and creativity, society can enjoy both.

During the age of industrial capitalism, the forces of the market tended to concentrate resources and

manpower in the large urban areas. The need for such concentration no longer exists in the new computer-based economy.

In the small town of Peterborough, New Hampshire there are no traffic jams and many of the town's 5,000 residents are on a first-name basis. This tiny town in the southwestern part of the state, some 80 miles from Boston, is the hub of some rapidly growing publishing and mail order businesses. More than 20 periodicals and countless books, catalogs, and newsletters are being published within a ten-mile radius of this small New Hampshire town. Titles such as *Byte*, *Microcomputing*, and *Robotics Age* herald the new information-based economy which has come to town.¹⁰

When ideas rather than physical resources have become the coin of the realm, there is no need to crowd all successful enterprises into already overcrowded urban areas, and the environmental advantages can be considerable. When the "commodity" being produced is information, deliveries can be made easily and rapidly over a telephone line, and the producer can be located almost anywhere.

Third World Oppression?

Yet another charge levelled against the free market system is that capitalism inevitably oppresses the poor peoples of Third World na-

tions. According to Third World revolutionary Frantz Fanon, "The question which is looming on the horizon is the need for a redistribution of wealth. Humanity must reply to this question, or be shaken to pieces by it."¹¹

Criticisms such as Fanon's are not really new, but derive from the thesis of Lenin that capitalistic economies are inherently oppressive and imperialistic, ever seeking to expand markets, seeking cheap raw materials from the poor nations and then selling finished goods to those same poor countries at exorbitant prices. As has been the case with the great social mythologies of history, there has been just enough of an element of truth in the Lenin thesis to make it persuasive in the minds of countless millions of people in the twentieth century. Recent experience, however, indicates that Lenin was never entirely correct, and that his analysis is rapidly becoming out of touch with reality in today's international high-tech economy.

It is no longer the case that developing nations are condemned forever to be merely the suppliers of raw materials for the factories and heavy industries of the West. Hard work, initiative, and technical know-how are enabling many of these once impoverished nations to leapfrog ahead in the world economy.

Singapore, with hardly any natural resources, and a land area hardly

larger than Memphis, Tennessee, has won 25 percent of the global backlog of orders for oil rigs, second only to the United States. South Korea is now the world's largest producer of black and white television sets. These new high-tech giants of Asia are now offering stiff competition to Japan in the international market.¹²

Atari has decided to move a significant portion of its computer assembly operations offshore to Taiwan, in order to take advantage of favorable tax structures and the energetic and more economical Taiwanese labor force. Rather than being "oppressed," the Taiwanese have found themselves to be the beneficiaries of economic dynamics in the computer age where societies that are labor and knowledge intensive can compete very effectively with the older industrial societies.

Enemy of the Family?

Perhaps one of the most serious charges to be laid at the feet of the free market system is that the capitalistic system is inherently destructive of such critical human values as marriage, strong family ties, and community stability. Is it really the case that capitalism has sacrificed some of civilization's most treasured values at the altar of greed and economic gain? The relentless search for profits, the promotion of a mercenary frame of mind, the weakening of ties with the soil, the family

and the town, the constant corporate moves and the transient style of life: such is the litany of accusations made against the free market system.

These charges are to be taken seriously, and historical honesty requires that they not be dismissed out of hand. It is indeed the case that fathers under the age of 40 in America move on an average of every three years.¹³ The American family is experiencing tremendous stress, and it is undeniable that economic factors have contributed to the crisis.

Any economic system or theory which neglects the role of the family runs the risk of killing the goose which is helping to lay the golden eggs. As George Gilder has pointed out, the creation of wealth arises out of a matrix of values and character traits which are learned in healthy families. "If work effort is the first principle of overcoming poverty, marriage is the prime source of upwardly mobile work . . . work, family, and faith . . . are the pillars of a free economy and a prosperous society."¹⁴

One of the most encouraging dimensions of the computer revolution is that it has great potential for reducing this tension between home and work. In his best-selling book, *The Third Wave*, Alvin Toffler has even ventured to predict the advent of the "home centered society" in which an increasing number of Americans will be operating out of

their homes as the centers of their business, educational, and personal lives. Instead of being forced to move to a different town in order to change jobs, many will be able to simply "plug into a different computer." The "Home Centered Society" of the Information Age will mean less forced mobility, fewer transient relationships, and greater participation in community life.¹⁵

William H. Bowman of Belmont, Massachusetts is a good example of the new breed of cottage-industry entrepreneurs. Bowman and his friend David Seuss formed Spinnaker Software Corporation in May of 1982. Bowman, whose firm markets learning games written for microcomputers by freelancing programmers, expects to earn \$3 million in revenues in 1983, and as much as \$50 million within five years. The "testing laboratory" for the computer games has been Bowman's Belmont home, where his six children and their friends play the new games for hours on end.¹⁶

The computer revolution has brought earning and play and family and work together in an entirely new way virtually unparalleled in the experience of mankind. This is not to say, of course, that the Information Age is without its own hazards, but the new economic realities of the computer revolution make some of the most common criticisms of the free market obsolete and open

up exciting new vistas for human creativity and the well-being of mankind as a whole. ☉

—FOOTNOTES—

¹Tom Nicholson, *et al.*, "The Hottest Game in Town," *Newsweek*, August 16, 1982, p.55.

²Alexander Taylor, "The Seeds of Success," *Time*, February 15, 1982, pp. 40,41.

³Stephen Bailey, "Plenty of Green in New England," *Boston Globe*, August 28, 1982, p.12.

⁴Alexander Taylor, in "A Letter From the Publisher," *Time*, February 15, 1982, p. 1.

⁵Douglas Ramsey, *et al.*, "Japan's High-Tech Challenge," *Newsweek*, August 9, 1982, p.51.

⁶Julian Simon, *Science*, June 27, 1980, pp. 1431-37.

⁷The foregoing figures are from John Naisbitt, *Megatrends* (New York: Warner Books, 1982), pp. 14,21.

⁸"Videotex Market Predicted to Hit \$7 Billion by 1987," *Communications News*, March, 1983, p.25.

⁹Richard A. Shaffer, "A Faster Kind of Optical Fiber May Capture Much of Market," *Wall Street Journal*, July 23, 1982, p.19.

¹⁰Wendy L. Wall, "A Small, Remote New Hampshire Town turns Into Sophisticated Publishing Hub," *Wall Street Journal*, September 2, 1982, p.19.

¹¹Cited by Jim Wallis, "Of Rich and Poor," *Post American*, February/March 1974, p.1.

¹²Louis Kraar, "Make Way for the New Japans," *Fortune*, August 10, 1981, p. 176.

¹³Jay Kesler, "Family Portrait—1982," speech at National Association of Evangelicals Convention, March 2-4, 1982.

¹⁴George Gilder, *Wealth and Poverty* (New York: Basic Books, 1981), pp. 70, 74.

¹⁵Alvin Toffler, *The Third Wave* (New York: Morrow, 1980), p. 220.

¹⁶Ronald Rosenberg, "New Home Videos Provide an Educational Adventure," *Boston Globe*, August 17, 1982, pp. 41, 54.

Why Not Deregulate Labor?

DESPITE the tendency of economists to create more problems than they solve, there seems to be a growing consensus that the American economy will gain as we lift strangling governmental regulations from industry as in the case of oil and transportation. But just below the surface, students of the business scene are beginning to ask a more far-reaching question. If deregulation is good for business, why should it not be extended to the biggest and most important market in the country, namely the labor market which today is cluttered up by minimum wage laws, over-elaborate safety and health rules, and the laws affecting so-called collective bargaining? Says Manuel Johnson, Assistant Secre-

tary of the Treasury, "Maybe here is an idea whose time has come."

Mr. Johnson, to be sure, is not an entirely disinterested observer. Two years ago while still teaching at George Mason University he joined hands with two academic colleagues, James T. Bennett and Dan Heldman, to publish a small book entitled *Deregulating Labor Relations* (Fisher Institute, \$12.95).^{*} The book has received passing attention from some learned journals but so far only a yawn from the public press. Which is too bad because this little volume puts the labor problem and the labor cost problem into a new perspective—the perspective of over-regulation.

In making good this thesis the authors assume that despite much loose

A former editor of *Barron's* and *Fortune*, Mr. Davenport is author of *The U.S. Economy* and a frequent lecturer on political economy.

^{*}Fisher Institute, 6350 LBJ Freeway, Suite 183E, Dallas 75240.

talk to the contrary, a man's work and skill is the most precious commodity he possesses and should sell in the market like any other commodity. Their second thesis is that employers questing for profit are simply middlemen between consumers on the one hand and workers on the other, and that freedom of contract is essential to human liberty. Their third thesis is that overregulation of labor markets is becoming an extraordinarily expensive operation not only in terms of sacrifice of principle but in terms of unemployment and of loss of productivity and national output. Indeed the authors calculate that total deregulation of the labor market might produce benefits to our society amounting to a stunning one hundred and seventy billion dollars per year.

This is an amazing figure but as the authors themselves indicate, it must be handled with great care, for it includes many disparate elements. By far the largest cost of regulation, amounting to two-thirds of the total, is attributed to OSHA—the Occupational Safety and Health Administration—set up in 1973 with the best of intentions but by now transmuted into what Murray Weidenbaum has dubbed a “growth industry,” involving a huge bureaucracy and concerning itself with such minute matters as the grain and slant of ladders in our mines and

factories. Here the authors argue that much of what OSHA attempts to do might better be accomplished by giving free play to market forces. Hazardous occupations will always command higher than average wage rates. Faced by such costs employers will, in the long run, be led by self-interest to put in safety equipment.

I am frankly somewhat dubious of pushing this particular argument to an extreme since, in the long run, as Keynes cynically remarked, we shall all be dead. From the Industrial Revolution forward, governments have in fact tried to lay down general rules for enterprise. The real case against OSHA is that its rules are not general but specific and have produced a veritable mare's-nest of regulations that have not on the record diminished industrial accidents and in fact bear hardest on intermediate firms seeking to enter the competitive race. The way out may not lie in the total decapitation of OSHA but in step-by-step reduction of its manifold and often preposterous activities.

Outrageous Unemployment

While OSHA is by far the most expensive of our experiments in regulation, it is by no means the only one making for unemployment and lost output. Hours of work and minimum wage laws are a case in point. Here the heavy hand of government not only bears down on employers

but actually denies job opportunities to men and women able and willing to work outside the government standards. The evidence is now overwhelming that minimum wages in particular bear hardest on those which government in its wisdom is trying to help—the poor, the disenfranchised, and minority groups in general. As Walter Williams and others have shown, the minimum wage today set at \$3.35 an hour accounts in no small part for outrageously high unemployment of nearly 50 per cent among black youth. Such laws should be allowed to die on the vine as they become irrelevant due to creeping inflation. Better still, they should be eliminated entirely as an affront to the principles of a free and humane economy.

Unfortunately, as the authors make plain, such principles are negated not just by substantive regulations but by the fact that government has also sought to lay down “procedural” rules for employer-employee relations. Until the Depression Thirties trade unions in particular had to earn their way in organizing industry. The passage of the Norris-LaGuardia Act in 1932 and the subsequent National Labor Relations Act changed matters. Acting under the Commerce Clause of the Constitution, Congress granted to unions extraordinary and unique privileges. Under the new rules:

1.) Unions gain exclusive bargaining rights in a plant whenever they can command a bare majority of workers present and voting at a union election.

2.) The employer is bound to bargain with this unit whether or not he thinks it is to his interest or to the interest of his employees.

3.) Except in Right to Work states union shop contracts are tolerated under which employees must at least pay union dues as the price of a job.

4.) All labor disputes are initially thrown into an administrative agency, the NLRB, which in effect makes labor law as it goes along and is by its very nature politically motivated.

Freedom of Contract

In criticizing this form of legislation and in seeking its repeal, the authors make clear that they are not against unions, so long as they are voluntary associations, nor against collective bargaining in so far as it proves a useful tool in determining pay and working conditions. What they consider unwarranted and unjustifiable is the government’s mandating a particular form of such bargaining wherein the union becomes a kind of independent “*third party*” in labor negotiations, more concerned with its own aggrandizement than with the interests of the workers it purports to represent.

Thus, in so far as unions can push

wage rates above the level that would be set by the free market they may temporarily benefit a particular group of workers but at the cost, when times are bad, of widespread unemployment and displacement, as in the case of automobiles and steel. More seriously, present law prevents workers from direct access to management and leaves dissidents in a kind of no man's land. Collective bargaining as currently enforced is tantamount to the collectivization of labor.

What the authors of this book plead for is a much greater extension of freedom of contract where some workers would no doubt choose to join unions but others would prefer to deal with their bosses directly. It will be argued that this would produce chaos in labor relations. But just here it is well to remember that unions today constitute somewhat less than 20 per cent of the labor force, and a declining share at that. In the great majority of cases employers and employees manage to work out their differences without the help of government-sponsored unions.

The authors are also admirably clear on the point that workers should be allowed to withdraw their services when they find it to their interest to do so. But such voluntary

withdrawal which amounts to resignation differs from the conditions that exist today when strikers are almost always sure of retaining their jobs, meanwhile drawing unemployment insurance and welfare payments at public expense. Moreover the aim of the present strike—a military term—is not just to withdraw labor but to close down the employer's plant and, by violence or threat of violence on the picket line or elsewhere, to prevent others willing and able to work from working. Men have no right to do this and every state in the union has laws against such actions. The tragedy today is that these laws are rarely enforced. The over-regulation of labor in so many particulars has led to an all but total disregard for the common law.

Back in the seventeenth century Sir Henry Maine argued that the progress of civilization might be measured as a society passes from status to contract. With this exponential jump the West threw off the last vestiges of feudalism and serfdom and entered into an era of Liberty under Law. In the past fifty years governments have been rushing pell-mell to reverse such progress. *Deregulating Labor Relations* is a sustained plea for turning the clock forward again. ©

Judicial Monopoly Over the Constitution: Jefferson's View

Do the Federal courts have a monopoly of the interpretation of the Constitution? Further, are the judges, in the words of Thomas Jefferson, "the ultimate arbiters of all constitutional questions . . ."?¹ There is little reason to doubt that the prevailing view in the country would give a resounding affirmative answer to the first question. There are dissenters, of course, but so far as they are numerous and widely influential, their dissents are to particular decisions or opinions of the courts, not to the propriety of the courts making some decision.

The judges act as if they have a monopoly of the interpretation of the Constitution. Members of Congress usually make it clear that they believe the opinions of the Federal courts, especially the Supreme Court, are determinative. Presidents increasingly leave to the courts the questions they may have about the constitutionality of laws that come

before them. The academic world generally supports this view, and many legal scholars make pronouncements that suggest they do not think it worthwhile to consider any other view.

In recent decades, the press, or the media, have mightily assisted the courts in maintaining this position. For example, when the courts began compelling states to reapportion legislative seats on the basis of population, the *Washington Post* declared that these

rulings have unquestionably become the law of the land. It is not the function of Congress to set aside that law, or to thwart its operation. The spectacle of Congress trying to use its legislative power to deny or temporarily nullify constitutional rights which the Supreme Court had clearly upheld is such a serious encroachment upon the orderly division of powers that even extraordinary measures would be justified to defeat it.

There is much controversy, to be sure, over the soundness of the Constitution's edict that both houses of the state legislature must be apportioned on the basis of population. . . . The next Congress will be free, if it wishes, to propose a constitutional amendment . . . ; however, Congress should not seek to shortcircuit judicial decisions.²

Dr. Carson has written and taught extensively, specializing in American intellectual history. He is the author of several books, his most recent being *Organized Against Whom? The Labor Union in America*. He is working at present on *A Basic History of the United States* to be published by Western Goals, Inc.

The editorial assumes that the courts have a monopoly of the interpretation of the Constitution. It enjoins the Congress against intermeddling in such matters. It asserts that the decisions are "the law of the land." More, it appears to add the court decisions to the body of the Constitution itself, for it holds that these are edicts of the Constitution. If it was not commonplace to make this last identification at the time, it has become so since, for writers and speakers frequently refer to the decisions of the court as if they were an integral part of the Constitution itself. In any case, the view prevails that the Federal courts have a monopoly of the interpretation of the Constitution.

It is not equally clear, however, that the view has triumphed that the courts are the "ultimate arbiters of all constitutional questions." There is at least a shadow of doubt about this, as yet. The *Washington Post* noted that a constitutional amendment could be adopted to change the courts' rulings. If so, the courts are not the ultimate arbiters, or perhaps it would be more accurate to say that they are not the penultimate arbiters, since such amendments are extremely rare. By my reading of it, the 16th Amendment, adopted in 1913, was the last amendment passed to resolve a constitutional question. More important, perhaps, there is now strenuous public resistance, at

least from opinion makers, to reversing a court decision in this way. Nor is it clear, given the current mood, how the courts might respond to such a direct restraint on their powers. But for now, at least, there appears to be the remote possibility of amending the Constitution as an arbiter beyond the courts.

Questioning the Monopoly

There are several reasons for raising the question of the court's monopoly of interpreting the Constitution. The first is to make clear that in the version in which it now prevails the monopoly is of recent vintage. The second is to emphasize that the Constitution does not allot the interpretation of the Constitution to any particular branch of government, any special tribunal, or any class or order of men. The main reason, however, is to explore the view of Thomas Jefferson, both because of its contrast with the contemporary one and because it was more or less in accord with a widely held view for much of the 19th century. And last, I want to point up some of the incongruities, tendencies, infelicities, and dangers of the current view.

None of this is meant to suggest that the courts do not have a role in the interpretation of the Constitution, that they have not always claimed and acted upon a role, or that this was unexpected by the makers of the Constitution. On the contrary,

many of the Founders anticipated that the courts would have a role in applying the laws and establishing the supremacy of laws made in pursuance of the Constitution *vis à vis* the states especially. That they would do so was mentioned a number of times in the Constitutional Convention.³ Moreover, Hamilton argued in *The Federalist*, number 78, that it was the duty of "courts of justice . . . to declare all acts contrary to the manifest tenor of the Constitution void. Without this," he said, "all the reservations of particular rights or privileges would amount to nothing."⁴

But it should be emphasized that the Constitution grants no special powers of interpretation of it to the courts. Specifically, it grants no power of judicial review of legislation to the courts. The President is granted a power of the review of legislation, and he may veto bills on constitutional or other grounds. The Convention considered more than once the advisability of having the Supreme Court review legislation in conjunction with the executive. The proposal was rejected.

"Judicial Review"

In fact, the courts do not "review" acts of Congress to determine whether or not they are in accord with the Constitution. Any literal minded person might suppose that is what they do, or have done, by the

use of the dubious phrase, "judicial review," to describe their procedures. In the course of applying the law to particular cases, courts sometimes adjudge an act of the legislature to be in conflict with the Constitution. They may then refuse to give the force of law to the legislative act. That is the basis of the traditional claim of the courts to make decisions, binding on themselves, regarding the constitutionality of acts. The power is not mentioned in the Constitution.

Jefferson was the first President to challenge the extent of the powers of the Federal courts. Indeed, he raised the challenge even before he attained the highest office in the land and continued to express various concerns in letters to individuals long after he retired to private life. Also, he was the most outstanding public figure in his day to confront directly the question of a judicial monopoly of the interpretation of the Constitution. From the confrontations he developed a coherent view of the matter.

Jefferson became embroiled in this question for both broad and general as well as particular considerations. From the outset, he was a strict constructionist of the Constitution. The first major constitutional question that came up for him was about the Bank of the United States. Jefferson was Secretary of State and President Washington asked for the opin-

ions of his heads of departments. He wrote Washington that ours is a government of delegated powers. "The incorporation of a bank," he said, "and the powers assumed by this bill, have not, in my opinion, been delegated to the United States by the Constitution."⁵ He went on to explain the case by an examination of the powers enumerated and to recommend that the bill be vetoed.

Jefferson's Concern for Liberty

Jefferson's insistence on the strict construction of the Constitution was based on two broad and enduring concerns which lasted the whole of his adult life. One was his commitment to individual liberty. On one occasion, he wrote: "I have sworn upon the altar of God eternal hostility against every form of tyranny over the mind of man."⁶ As to a definition "of liberty," he explained, "I would say that, in the whole plenitude of its extent, it is unobstructed action according to our will, but rightful liberty is unobstructed according to our will within limits drawn around us by the equal rights of others."⁷ Jefferson subscribed to the natural rights theory, holding that man has certain God-given rights. Although there are many listings of these rights, he thought those most often threatened were "the rights of thinking and publishing our thoughts by speaking or writing; the right of free commerce;

the right of personal freedom."⁸

His second broad concern was to restrain and limit government so that people might enjoy their rights. "The natural progress of things," he said, "is for liberty to yield and government to gain ground."⁹ It was not safe, he thought, to confide overmuch power in government. "I own," Jefferson said, "I am not a friend to a very energetic government. It is always oppressive. It places the governors indeed more at their ease, at the expense of the people."¹⁰ It was to hold governments in their place and restrain them in their activities that he was so concerned with strict construction of the Constitution.

"In questions of power, then," Jefferson declared in his draft of the Kentucky Resolution, "let no more be heard of confidence in man but bind him down from mischief by the chains of the Constitution."¹¹ Further, "Our peculiar security is in the possession of a written Constitution. Let us not make it a blank paper by construction. I say the same as to the opinion of those who consider the grant of the treaty making power as boundless. If it is, then we have no Constitution. If it has bounds, they can be no others than the definitions of powers which that instrument gives."¹²

Although Jefferson wrote boldly and frequently without equivocation, it may be well to point out that he was not by temperament a con-

troversialist. He did not like to debate, and avoided public confrontations before crowds. Though he was trained in the law, Jefferson did not like the courtroom clashes and only practiced it briefly. He relished intellectual exchanges among people of a questing disposition and much preferred the search for truth to any contest of wills for dominance.

All that is a way of saying that Jefferson did not enjoy political controversy, nor was he long a member of Washington's cabinet before he was thinking of some way to retire. He wrote James Madison that he had devoted more than 20 years to the public service and that he thought he ought to be able to leave it with a clear conscience, having paid his debt to society, so to speak. He wrote the President in 1792 that he looked forward to his early retirement "with the longing of a wave-worn mariner, who has at length the land in view, and shall count the days and hours which still lie between me and it."¹³

As he prepared to step down the next year, he wrote Madison that "The motion of my blood no longer keeps time with the tumult of the world. It leads me to seek for happiness in the lap and love of my family, in the society of my neighbors and my books, in the wholesome occupations of my farm and my affairs, in an interest or affection in every bud that opens, in every breath

that blows around me. . . ."¹⁴ It was in this frame of mind, so far as we can know, that he left public life in 1793, hoping never to return to it.

Return to Public Office

But however strong his resolve to stay out, Jefferson was drawn, almost inevitably, back into the political maelstrom within two or three years. He was a man still in the full vigor of his middling years, among the most prominent men in America, and the concern he felt for restraining the government by strict construction and thus protecting individual liberty did not diminish out of office. A political party was abuilding in the mid-1790s, the Republican Party, Jefferson called it, which opposed Hamilton's banking and taxing policies, and Jefferson became its leader. He was elected Vice President in 1796, but this did not alter the course of the government, which was controlled by the Federalists, with John Adams at the head.

Although there were other issues, Jefferson's concern about how the Constitution was being interpreted had been increasing from the early 1790s. These concerns provided him with the particulars of the case. As already noted, Jefferson opposed Hamilton's broad construction of the Constitution to justify the chartering of the bank. Indeed, that Hamilton won Washington to his side may

have precipitated Jefferson's resignation from the cabinet as early as he thought he decently could.

The manner of the imposition of the whiskey and other similar taxes in the course of the 1790s disturbed Jefferson just as much. The Constitution required that direct taxes be apportioned among the states on the basis of their populations. To Jefferson, and to many others, these were clearly direct taxes. But Hamilton and the Federalists called them excises, thus evading the constitutional requirement. That aside, however, Jefferson was bothered by the intrusion of revenue agents in the affairs of citizens in order to collect these taxes.

The Alien and Sedition Acts

But it was the Alien and Sedition Acts, passed in 1798, that really aroused Republicans in general and Jefferson in particular. It certainly appeared that the Federalists were bent on riding roughshod over constitutional limitations, to say nothing of what they were prepared to do to their Republican opponents. The Alien Acts were bad enough, particularly for their ignoring due process, required by the 5th Amendment, in authorizing the President to deport aliens without even the semblance of a trial. Good John Adams, however, was no enemy to liberty, or even aliens, and he never exercised the authority.

The Sedition Act, however, was another matter. It prohibited people to defame or slander high government officials either in speech or in writing. Jefferson drew up what became known as the Kentucky Resolution in which he declared that these acts violated constitutional prohibitions, and he called on other states to join in opposing it. Madison followed suit in a somewhat milder Virginia Resolution.

The Sedition Act was no idle threat to Republicans and particularly newspaper publishers. Government attorneys and the courts began to bring them to trial and punish them for their alleged seditious acts. Only Republicans, it should be added, were prosecuted. The Jeffersonian suspicion of the courts dates from the late 1790s, if not before. Indeed, judges did seem to try such cases with inordinate zeal, charging juries sometimes in such a way as to assure guilty verdicts, and meting out tough sentences. Even Supreme Court justices who, in those days, rode circuit and tried cases, were high handed in conducting their courts.

By the time he became President in 1801, then, Jefferson had incentive aplenty for limiting the government by a strict construction of the Constitution. He had a theory for how it could be done and was determined to do it. Meanwhile, another development had occurred which aroused his fears about a judicial monopoly

of the interpretation of the Constitution. Before leaving office, the Federalists had created new courts, new judgeships, positions for government attorneys, and the like. The outgoing President Adams filled these positions with Federalists, so that Federalists were solidly ensconced in the courts with lifetime appointments. The stage was set for a confrontation between the Jeffersonians and the courts, if ever there was to be one.

But Jefferson was not a man inclined to engage in confrontations. He was quiet and thoughtful, even philosophical, in demeanor, not given to attempting to ride roughshod over anyone. He always professed to respect the independence of the other branches in their proper spheres, and there is evidence to support his claims. He simply acted with the powers of the President and encouraged Congress to act with its powers so as to prevent any monopoly by the courts over the Constitution. He took care, generally, to see that if there were a confrontation it would be instituted by one of the other branches, not by himself. Nor did he engage in public declamations on the question, as a rule; most of what we know of his views comes from private correspondence—and what may be deduced from his acts.

First, do the courts have a monopoly of the interpretation of the Constitution? Jefferson did not equivocate

on his answer. He answered the question most emphatically in a letter written in 1820, long after he had left office. "You seem . . . to consider the judges as the ultimate arbiters of all constitutional questions," he wrote to a correspondent. But that, Jefferson said, is "a very dangerous doctrine indeed and one which would place us under the despotism of an oligarchy. . . . The constitution has erected no such single tribunal, knowing that, to whatever hands confided, with the corruptions of time and party its members would become despots."¹⁵

Who Decides?

Who, then, does decide constitutional questions? Let us leave to the side for the moment how they may be ultimately decided, so far as they ever are, in order to get to Jefferson's intermediate answer. So far as the Federal government is concerned, each of the branches—and in the Congress, each of the houses—decides for itself in matters that come before them. "The constitution has," Jefferson pointed out, "wisely made all the departments co-equal and co-sovereign within themselves."¹⁶ He explained how it works this way: "Questions of property, of character, and of crime being ascribed to the judges through a definite course of legal proceeding, laws involving such questions belong of course to them, and as they decide on them ulti-

mately and without appeal, they of course decide *for themselves*. The constitutional validity of the law or laws again prescribing executive action and to be administered by that branch ultimately and without appeal, the executive must decide *for themselves* also. . . . So also as to laws governing the proceedings of the legislature, that body must judge *for itself* the constitutionality of the law and equally without appeal or control from its co-ordinate branches. And, in general, that branch which is to act ultimately and without appeal on any law is the rightful expositor of the validity of the law, uncontrolled by the opinions of the other co-ordinate authorities."¹⁷

On first reading of the above it may appear that Jefferson has evaded the issue or begged the question. It may be given that appearance, I think, because he used the qualifying phrase, "without appeal," and that may have a legal ring to it, suggesting an appeal to the judiciary. But that was not his meaning, or not his only meaning. Of course, in a case taken and decided in a lower court there may be an appeal to a higher court. But Jefferson was referring to something much broader than this. Many of the powers of the government are jointly exercised by or intertwined with other branches. In that case, usually there is no appeal from a negative decision of one of the other branches. For example, if

the Senate refuses to approve an appointment of the President, there is no appeal, and the decision is final.

Checks and Balances

In order to understand Jefferson's view it is necessary to view it in the context of the constitutional provision of checks and balances and the separation and partial independence of powers, not in the judicial framework to which we have become accustomed. The powers of government are divided among the branches, Jefferson was maintaining, and with that division goes the power of determining the constitutionality of what they do. To put it in its strongest form, none of the branches may force the others to act on its view of the Constitution. Jefferson said, "If the legislature fails to pass laws for a census . . . ; if the President fails to supply the place of a judge . . . , the judges cannot force [them]. . . ."¹⁸

How these checks and balances work, how each branch interpreting the Constitution for itself limits and restrains government, may best be illustrated with actual examples. When Jefferson became President, he pardoned those who had been convicted under the Sedition Act. He explained his action in letters to Abigail Adams: "I discharged every person under punishment or prosecution under the Sedition Law because I considered, and now con-

sider, that law to be a nullity. . . . The judges, believing the law constitutional, had a right to pass a sentence of fine and imprisonment, because the power was placed in their hands by the Constitution. But the executive, believing the law to be unconstitutional, was bound to remit the execution of it, because that power has been confided to them by the Constitution. That instrument meant that its co-ordinate branches should be checks on one another."¹⁹

Marbury vs. Madison

Chief Justice John Marshall also wisely avoided a confrontation with the President by his opinion in the celebrated case of *Marbury vs. Madison*. William Marbury had been appointed justice of the peace by President Adams, but the appointment was so late that the commission was not delivered. James Madison, the incoming Secretary of State, refused to deliver it under orders from Jefferson. Marbury sued in the Supreme Court for a writ of mandamus that would force Madison to deliver the commission.

Marshall held that Marbury was indeed entitled to a commission and force was appropriate, but, unfortunately, by his reading of the Constitution, he had applied to the wrong court. Thus, petition denied, and no mandamus was issued. It was just as well, too, for the general view has been that Jefferson would not have

honored it, and the court would have been powerless to enforce it. By Jefferson's interpretation of the Constitution the court could no more force him to act than he could force it to render a decision in accord with his wishes.

Marshall got his opportunity to try force on the President again in the Burr trial for treason in 1807. He issued a subpoena, on motion of defense, for Jefferson to appear in court. Jefferson declined, though he did send some papers, and gave the court a lecture on the separation of powers.²⁰ Marshall took no further action.

But before either of these cases came before the courts, Congress had begun to move to rein in and restrain the courts. In 1802, it repealed the Judiciary Act of 1801, taking away a number of new offices. Shortly after, it passed a new act returning Supreme Court justices to riding circuit and restricting the Supreme Court to one session each year. Then, gently prodded by Jefferson, it zeroed in on the most notorious of the judges.

District judge John Pickering, ill famed for his drunken, if not insane, carrying on in court, was impeached by the House and removed from office by the Senate. Supreme Court justice Samuel Chase was impeached by the House for his intemperate behavior in court, but the Senate failed of the two-thirds ma-

majority required for conviction. Jefferson was disappointed and thereafter maintained that impeachment was very nearly an empty threat. That was surely an overly pessimistic assessment, however, for it appears that the behavior of judges improved perceptibly for quite a while after the Pickering and Chase cases.

The broader point is this. As Jefferson held, the House of Representatives, the Senate, and the President, as well as the courts, are empowered to act in ways that depend upon interpreting the Constitution. They take oaths to uphold and defend the Constitution, and if its meaning could only be divined by the courts this would amount to nothing more than oaths to obey the courts. Happily, however, the Constitution is written in English, and the other branches have powers that enable them to act upon their own interpretations and even restrain the courts if they get out of line.

All legislative power is vested in the Congress and executive power in the President. If the courts invade the legislative domain of the Congress by their constructions of the Constitution, as they have most certainly done in recent years, Congress has the power to set them straight. The Constitution authorizes Congress to define and limit (or expand) the appellate jurisdiction of the courts.

The President can refuse to en-

force court orders he believes in conflict with the Constitution. (The courts have no enforcement machinery, i. e., prosecuting attorneys, police, armies, prisons, or electric chairs, of their own.) As Andrew Jackson is alleged to have said, "John Marshall has made his decision; now let him enforce it."

Judges can be impeached and removed from office, though lawyers rail impotently that they can only be removed for indictable crimes. It happens that when the Senate acts as such a high court, there is no appeal from its decisions. As a last resort, Congress can refuse to appropriate money for the operation of the courts. In short, not only can the other branches interpret the Constitution, but they are also in as good position as the courts to make their interpretations stick.

A System of Limited Government

What I have been describing is a system of checks and balances, a system in which no branch has a monopoly of interpretation, in which any branch with a will can work to restrain the others. It is a system of limited government, limited toward the branch which most strictly construes the Constitution. Jefferson hoped that clashes between the branches over the Constitution could be avoided. To that end, he recommended that each branch refrain from approaching too near to the

bounds of its powers. That would tend to limit government even more and give room for the liberty of the people, which he thought was the greater end of government.

Jefferson did not believe, however, that all the branches of government together are the final arbiters of constitutionality. Not even the Federal and state governments, to whom he would certainly provide some place, are the ultimate arbiters. Government is too dangerous, too bent on aggrandizing its own powers, to leave to it or them the final decision. "I know of no safe depository of the ultimate powers of the society but the people themselves," he said.²¹ In the final analysis, he thought, that was where the power of interpreting the Constitution resides. The people may turn out members of Congress who displease them on constitutional issues. They can refuse the re-election of a President. If all else fails, or if the branches of government cannot agree, the constitution can be amended by the consensual process prescribed.

There is great danger, Jefferson thought, in a court monopoly of the interpretation of the Constitution. Any monopoly would be fearsome, but that of the courts would be the most dangerous. The members of the court are appointed for life, are difficult to remove, and hold perilous power over the populace. Although

Jefferson's nose was undoubtedly finely tuned to sniff the threat of despotism in every tainted breeze, he meant no exaggeration when he said that it would be an oligarchic despotism. ☉

—FOOTNOTES—

¹Edward Dumbauld, ed., *The Political Writings of Thomas Jefferson* (New York: Liberal Arts Press, 1955), p. 153.

²Quoted in L. Brent Bozell, *The Warren Revolution* (New Rochelle, N. Y.: Arlington House, 1966), p. 111.

³For example, see Elbridge Gerry's remarks in Charles C. Tansill, ed., *Formation of the Union of the American States* (Washington: Government Printing Office, 1927), p. 147. But there were objections to this view as well; see pp. 548-49.

⁴Alexander Hamilton, James Madison, and John Jay, *The Federalist Papers* (New Rochelle, N. Y.: Arlington House, n. d.), p. 466.

⁵Henry S. Commager, ed., *Documents of American History*, vol. I (New York: Appleton-Century-Crofts, 1962), p. 159.

⁶Dumbauld, *op. cit.*, p. 76.

⁷*Ibid.*, p. 55.

⁸*Ibid.*, p. xxvi.

⁹Adrienne Koch and William Peden, eds., *The Life and Selected Writings of Thomas Jefferson* (New York: Modern Library, 1944), p. 447.

¹⁰*Ibid.*, p. 440.

¹¹Dumbauld, *op. cit.*, p. 161.

¹²Koch and Peden, *op. cit.*, p. 573.

¹³*Ibid.*, p. 520.

¹⁴*Ibid.*, p. 523.

¹⁵Dumbauld, *op. cit.*, p. 153.

¹⁶*Ibid.*

¹⁷*Ibid.*, p. 151. Emphasis by Jefferson.

¹⁸*Ibid.*, p. 153.

¹⁹*Ibid.*, p. 154.

²⁰See Claude G. Bowers, *Jefferson in Power* (Boston: Houghton Mifflin, 1964), p. 410.

²¹Dumbauld, *op. cit.*, p. 154.



THE ETHICS OF CRIME

PRESIDENT JOHN F. KENNEDY said that “every American ought to have the right to be treated as he would wish to be treated.”¹ The political consequence of the philosophy behind this statement has been rapid growth in government control, as politicians have worked to make people do what others wish them to do. Any statement about rights is not simply a political statement, but an ethical one as well. And the effects of such ideas go beyond politics. Although Kennedy clearly intended that the government would be the enforcer of this “right,” many people have drawn a further inference: that if the government is lax in enforcing it, there is little or nothing wrong with taking personal action to make sure one is treated as he would like to be.

This view of rights stands in sharp

Mr. McGath is a computer programmer and free-lance writer in Hollis, New Hampshire.

contrast to the kind of rights proclaimed in the Declaration of Independence. The rights to “life, liberty, and the pursuit of happiness” come from the *laissez-faire* view of rights—that is, the view that rights are a moral sanction on one’s freedom to live and act without unwanted interference from others. On the other hand, the “right to be treated as one would wish to be treated” implies an obligation on the part of others not only to refrain from interfering, but to engage in positive action as required by the claimant of the right. This formulation stems from what might well be called the *devez-faire* (“must do”) view of rights in contrast with the *laissez-faire* or “let do” view.

Sometimes the *devez-faire* theory of rights serves as an explicit justification for committing crimes; politically motivated groups that take over buildings and offices in order to

press their demands on the owners of the property are an obvious example. The more typical way in which it encourages crime, though, is simply through giving a stamp of legitimacy to a person's desire to attain his goals by illegitimate means.

What is at issue here is not the psychology of criminals—a matter on which I claim no expertise—but the logical consequences of certain moral premises which are widely accepted today. The argument that these premises promote crime rests only on the observation that they offer encouragement and vindication to people who are inclined to crime, and that they make the victims of crime feel less sure that they can really regard themselves as victims. Certainly other factors also contribute to the decision to resort to crime; but anyone who has any capacity for self-esteem on the one hand or guilt on the other has to be affected by his view of the moral rightness of his actions.

The average mugger or burglar is not a philosopher; but for exactly the reason that he is not, he passively absorbs the influences around him and lets other people's beliefs mold his own moral values. When a person with no convictions of his own hears that people who are better off than himself are robbing him of what is rightfully his, he will see little reason to balk at taking it "back."

Anyone who has not descended to

the mental state of an animal must recognize, however vaguely, that he has to follow certain principles to exist, whether he lives in isolation or in a society. A person who realizes that people cannot live together without property rights may still decide to steal, but he is likely to be discouraged by his knowledge that everyone else in the world can legitimately regard him as an enemy. If, on the other hand, one believes that people who own property are already his enemies because they have what he doesn't have, then he may as well take their property as not; he may even think he increases his self-respect by righting the "injustice" they are doing to him.

Devez-Faire vs. Property Rights

The *devez-faire* view of rights undercuts the principle of property rights and thereby lends an air of legitimacy to crime. The right to property is a *laissez-faire* right; the obligation it imposes is the obligation not to take or damage another person's property. Under a *devez-faire* theory, the right to property is a conditional one at best, since a person's right to his property may be overridden by another person's "right" to be provided for. A thoroughgoing advocate of this theory may even regard property as an impediment to the implementation of rights.

Proudhon's dictum that "property

is theft" has been absorbed—to the extent that a mind can absorb contradictions—by a large part of our culture. Businessmen are reluctant to use the principle of property rights in their own defense. Many self-proclaimed defenders of capitalism avoid the issue of property rights, preferring to talk about secondary social issues rather than to upset people. The Supreme Court has told us that "neither property rights nor contract rights are absolute."²

Attacks on property are often based on the egalitarian variation of the *devez-faire* view of rights—on the notion that everyone is entitled to the same degree of well-being, whether he has earned it or not. By this criterion, a person who is more successful than the average, and who keeps what he earns, is depriving others of their rightful share of the products of his effort. In granting him the right to keep his property, the government is helping him to oppress those who want it.

What gives egalitarianism its appeal is the belief that one person can gain in society only through someone else's loss. This idea effectively wipes out the concept of productivity, leaving distribution as the only issue. If one person's gain were always another's loss, there would be no basis either for trade or for property rights, since the only way to acquire wealth would be to take it from someone else. The concept of prop-

erty (as well as that of theft, which means the taking of someone's property) would become meaningless, leaving only the concepts of possession at a given time and of force as the sole means of gaining possession.

A Distorted View

This "zero-sum" view of society cannot stand up to examination; when people engage in productive activity, they do not simply redistribute what already exists, but create new wealth. Those who believe that wealth is static regard the possession of it as the mark of a looter. Therefore, they speak of businesses "exploiting" workers or "ripping off" customers in the course of voluntary transactions, and they cannot see any moral difference between the source of a well-paid business employee's money and the source of a thief's income. Since wealth is not created, but only transferred, some of them conclude, the fairest thing to do with it is to distribute it equally among all people. Others who share this belief draw the conclusion that the only right is the right of superior force. An opportunistically inclined person can switch at will between these two conclusions.

A genuine egalitarian society would not reward anyone for his achievements or permit anyone to benefit from his own efforts; to do so would be to acknowledge the exist-

tence of productivity and to permit inequality. The idea of such a society ought to horrify anyone who fully understands it, but it can be attractive to a person who ignores its ultimate implications. In popular language, egalitarianism takes the form of denouncing the "injustice" in differences between the rich and the poor. A thief does not have to understand the theory of egalitarianism to get the message that he should resent those who have what he doesn't.

Arguing Against Crime

If someone accepts the egalitarian philosophy and sees others earning more than he does, what reason can we offer as to why he should not take it from them?

Can we tell him that he should not use force to attain his goals? Modern usage has so diluted the concept of "force" that it has become nearly meaningless. The society that does not provide a person with as pleasant a job as he would like is said to force him to take the job he is offered. The property owner who does not allow people to use his property for their political purposes is said to force his views on them.

This broadening of the idea of force comes from the *devez-faire* view that a person can have a natural claim on the services of others. Under *laissez-faire* theory, rights are negatives—prohibitions on what one

person may do to another—and force is a positive action against a person's rights. The *devez-faire* view, on the other hand, makes rights into positive claims on people, and correspondingly expands the definition of force to include the failure to satisfy the claims that people make by right.

A thief who has heard the word "force" applied so broadly is not going to regard his own use of force as particularly distinctive or reprehensible. "I force people to give me their wallets?" he might say. "So what? They force me to live in a dump!"

Can we morally deter the criminal by telling him that he should obey the law? It would not help, at least not in the United States; Americans have never placed a high value on obedience to authority, except when they have been convinced that its demands are justified. If they do not believe there is a good reason for a law, they will not give it their support. This characteristic of Americans may, in fact, be the reason why crime is a worse problem here than in many other parts of the world. In Europe, people are more likely to wait for the government to provide the property of others which they are told is rightfully theirs. In many other parts of the world, they are apt to join revolutionary movements in order to create a government that will provide it to them. Both of these kinds of people think

in terms of having an authority set things right rather than doing it for themselves.

In the United States, though, people are more likely to act on their own initiative. If they do not reject force as a means to their ends, then they may decide to correct their "inequities" by direct and forcible action. The source of American initiative is, in fact, the laissez-faire principle; Americans have recognized that they do not have a claim on other people to give them what they want, and that no one has the right to direct their actions, so they have gone out and done things for themselves.

Today, however, many people who reject laissez-faire have learned to take matters into their own hands; they have seen, without understanding its source, the example of those who live by their own initiative. People of this sort are likely to be only a transitional phase if current trends continue; the next step beyond the criminal's pseudo-independence is the mentality that

clamors for a dictator. It is not much of a consolation, though, to think of this as a long-term solution to crime.

The *devez-faire* principle simply does not offer any solid moral arguments against seizing people's property. At most, it can serve as a basis for arguing that the government should be doing the seizing and that individuals should not make up their own distribution plans for society.

Legal remedies alone will not stop crime. As long as criminals can believe that what they are doing is right, punishment alone will not discourage them. Only the laissez-faire principle of rights provides a fully satisfactory reason why theft is wrong; thus, this principle is as important a weapon against crime as it is against dictatorship. ☉

—FOOTNOTES—

¹John F. Kennedy, June 11, 1963, quoted in T. H. White, *The Making of the President 1964*, Mentor, 1965, p. 210.

²*Prune Yard Shopping Center vs. Robins*, 447 U.S. 74, 81, 100 S. Ct. 2035, 2040 (1980).

Keeping the Peace

IDEAS ON



LIBERTY

IN SPITE OF repeated attempts to curb it, "patronage" continues to grow as government gets bigger and bigger. And how could it be otherwise? Government, among other things, is today a huge business, handing out contracts, awarding franchises, and filling jobs of influence all over the world. These are often rich rewards for favors conferred. It is not surprising that crime finds its way into such an arrangement.

The Myth of Self-Regulation

MYTH shrouds the concept of industrial and professional self-regulation like a thick coastal fog, obscuring fundamental truth and casting light and shadows of chimera and deception. Analysis should disperse the fog and dispel the myth, revealing to the world the true nature of the apparition and its inherent tendencies.

Regulation necessarily implies the application of coercive force to voluntary human behavior. It consists of normative restraints upon otherwise free conduct. It matters not that the policing function derives from some or all members of an association or related group of similar businesses: the end result must be restriction of otherwise unimpeded acts—compulsion.

Attachment of the appellation "self" to the concept of regulation does

little other than to disguise the concept and delude the unwary. True self-restraint presupposes internal strictures upon uninhibited courses of action, bars which stem from personal, ethical, or moral values inherent or learned. Self-regulation in the business or professional context attains quite a different picture: in place of individual assessment and determination of value rises the specter of compulsive control by the group, often engrafted into inviolate legislative principles carrying sanctions for non-compliance. Normally, a dissenter possesses no choice as to membership in the group, other than a desire to create, produce, and trade a given good, service, or idea. Once one decides to engage in a profession or an industry, he finds himself subject, as part and parcel of his activity, to the oft-Draconian codification of taboos which attend that choice. Thus, while an actor may obtain an

Mr. Foley, a partner in Schwabe, Williamson, Wyatt, Moore & Roberts, practices law in Portland, Oregon.

initial choice as to market entry, self-regulation serves to circumscribe his range of choices flowing from that basic decision.

To the extent that self-regulation imposes only voluntary compliance without jural penalties, a believer in individual liberty or the doctrine of voluntarism ought take no umbrage. It is consonant with fundamental freedom to apply non-coercive peer pressure and moral suasion to inculcate right values and persuade proper conduct by one's compatriots. It is quite another thing—a malevolent matter indeed—to band together to invoke the legal processes in order to fit one's fellows unto Procrustes' bed even in the good names of morals, honor, and justice! Further analysis in this essay challenges the propriety of industrial/professional self-regulation of the coercive sort.

The Problems with Codes

The Anglo-American tradition, perhaps by madness, has degenerated into a pseudo-European system of legal codification, a significant change from the open texture of the common law. Premised upon the principle that punishment or penalties ought only to flow from the violation of known, positive, normative rules, legislators seek to deduce all likely events and to make all necessary regulations regarding their occurrence. Business self-policing

generally takes the form of cartel-like codes; as such, self-regulation suffers all of the dreadful defects indigenous to codification.

First, codes cannot anticipate all likely occurrences. The minds of little men who attempt to presage and rule in advance are just too small and uncreative to recognize and comprehend the gamut of free human action in the market. Mankind understands the natural law of causal consequences but dimly at best: we cannot edify our brethren because we see obscurely and forecast imperfectly. Therefore, all codification is doomed to a greater or lesser degree of failure by the nature of man and his universe.

Second, codification tends to limit consequences to the lowest (and most unacceptable) common denominator. Prior restraint possesses one fundamental failing—it deals solely with the seen and ignores the unseen. Prior restraint as exercised by codifiers and regulatory draftsmen prevents untrammelled behavior and thereby inhibits, proscribes, or alters results. No one can discern what choices would follow an idea if the seminal choice is thwarted.

Two Root Assumptions Reinforcing Regulation

Pared to essentials, all regulatory standards rest upon two premises: First, that unregulated conduct is evil, and second, that the regulator

possesses the inherent ability to curb that malevolence. Subjected to proper scrutiny, both ideas prove fallacious.

Initially, consider the proposition that autonomous human activity deserves condemnation as evil. Not necessarily true. All analysis requires a comprehension of fundamental human nature. Mankind possesses a propensity for betterment, for kindness, sympathy, and empathy, along with a more sinister side tending toward darkness and cruelty. The philosopher and the theologian have long observed and considered this duality of human nature. Man exhibits inherent flaws consistent with his finite condition; neither inherently good nor naturally evil, he enjoys the capacity for improvement but not perfection.

Given this indisputable fallibility, the contention that unregulated conduct constitutes evil proves too much. As with all human endeavor, business or professional activity manifests the dual capacity for good or evil. It does not differ in this respect from any other human action.

However, rational and empirical investigation reveals that mankind generally performs better with lessened (rather than increased) regulation. Although not subject to certain proof, reason demonstrates that unfettered creative endeavors normally lead to an astonishing array of goods, services, and ideas, as dis-

tinguished from the more turgid output emanating from a closed or managed system.¹ Historical evidence supports this thesis: witness the imaginative flowering during the times of the Saracenic Empire or nineteenth century America.²

One caveat: by reason of mankind's recognized duality and propensity to evil, completely unfettered human action cannot be tolerated. A free society, governed by rules of justice and opposed to coercion, requires constraints inhibiting the initiation of force and the pursuit of fraud against unwilling participants and providing a final resolution of otherwise insoluble disputes. In essence, such rules and orders circumscribe destructive conduct while leaving creative accomplishment without manacles. To the extent, then, that industry codes and professional standards tether force and fraud or provide an orderly means for solving disputes, those devices serve the legitimate ends of justice and comport with legal propriety.³ However, if these devices exceed the described boundaries, they represent unwise and improper excursions into conduct which should remain unbound and wholly voluntary.

The Wisdom of the Regulator

Secondarily, refer to the proposition that regulators possess the capacity to regulate more wisely than

a market of myriad voluntary actors, each propelled by his own subjective value structure. No evidence exists that those who would control human endeavor offer any surfeit of experience, intelligence, integrity and value beyond the mill run of men. Indeed, just the opposite seems true: persons who would exercise dominion over their fellows (singly or by means of that eternal abomination, the committee) generally lack the necessary humility required to admit that they know not all (or any) of the answers to the perplexing questions of creation, production, distribution, trade and transfer.

Nevertheless, suppose the industry planner to be the best and the brightest, a cut above his peers in intelligence, integrity, and ability. Even with this unlikely supposition, the matter simply will not work. No one among us possesses the insight, the foresight, and general mental and moral equipment to perceive, evaluate, and decide the myriad choices necessary to control creative human behavior. Each individual holds a dynamic set of values dependent upon his view of the world, self, and propriety.

No one can enter into the human mind of another, assimilate his perceptions, values and desires, and make equal or better choices for the latter than the subject. As proof of the pudding, consider the fiduciary—conservator, guardian, or

trustee—who must act for another in personal investment or decisional matters: no such fiduciary ever performs as well or as carefully for his ward as he does in his own personal investment and life decisions. A fundamental natural law decrees that the actor will always spend his own money more wisely than the property belonging to another. Consequently, the regulator cannot possibly act harmoniously with the market desires of the many, if the trustee cannot even act beneficially for the one.

Consumer Protection

One common fable supporting industry/professional self-regulation derives from the overworked rubric of consumer protection: regulation is necessary to protect the users of goods, services, and ideas. But protect from what? From force and fraud? If so, why not rely on general laws enacted by a general legislature and enforced by a general judicial system? After all, most informed citizens agree that compulsion and deceit constitute wrongs to be avoided. From disorder? The beauty of a market unhampered by prior restraint lies in its inherent harmony, its benevolence arising out of seeming disorder, its balance surging from countless minds seeking incalculable subjective values and, in this interaction, soaring toward untold heights with

unexpected discoveries. From unsafe products and shoddy goods? The normative rules and orders of the common law courts impose substantial penalties upon purveyors and practitioners who do not carry out their creed and contract and cause harm to an innocent along the way. The market will produce that which is desired, and safety and fitness ought to be determined by seller and purchaser in an unrepressive atmosphere.

Saviors of the Public

The rhetoric of consumer protection—all too often—proves to be the shrill chantings of common scolds. Who is the consumer to be guarded? The self-anointed saviors of the public generally represent no one outside of a narrow band of self-interested persons who wish to recast society (or a particular portion thereof) in their wee graven images. The buyer of goods, services, or ideas chooses from among many options in a free society, and he normally chooses well. The protector (like the hypothesized omnipotent regulator discussed before) cannot assume the character of any (let alone each) of the members of the purchasing public and render wiser choices for that (or those) persons. At best, the so-called champion inserts his value system into the scheme; at worst, he robs all others—vendors and purchasers—of their essential human-

ity by declaring their value structures wrong or illicit and by substituting his own judgment for theirs in a coercive milieu.

No one can create a perfect world. No one can even conceive of a universe where imperfect man produces only that which is safe and exemplary. We live in a perfectly ordered universe governed by a harmony of natural law, but we are finite and fallible beings who deviate from that plan and cause discord in the political/economic Garden of Eden. To the extent that our attempts at human action accord most closely with the rules of the universe, we tend to generate greater success and find more happiness; to the extent that we stray from these rules of natural order, we encounter greater difficulty and travail.

In no case do we approach perfection: the world and the political economy will always find danger in design and manufacture and imperfection in concept and execution. If, *sans* prior restraint, one alleges harm caused by another by reason of departure from generally recognized rules of behavior, and can prove his case in a general court of law, the common law provides an abundant recovery; however, the freer the society, the less incidence of economic error and impropriety.

In any event, those who cry out for consumer protection display an often disguised antidemocratic men-

tality. In a market, each person takes on many roles; creator/producer, owner/shareholder, employee, user. As a user, every man votes in a dollar democracy, casting his hard-earned money ballots for the goods, services, and ideas he deems most efficacious and necessary to satisfy his wants. In the grand name of consumer protection, a few individuals owning subjective views of what is right and good for all, and currying the political powers to effect such goals, thwart the true desires of mankind in society. Simply put, the panjandrumatic champion decides what is best for his neighbors and exchanges his determination for the free choice of those less politically fortunate.

The Public Interest

In a slightly altered guise, self-regulation advocates recur to the public interest in an attempt to justify forceful intervention in the lives of others. Another fantasy masking fact.

All interests are truly private. The "public" resides beyond meaningful definition, for each and every inhabitant of a given territory makes up the "public." Each such individual enjoys different desires in a differing and ever-changing scale of preferences. No universal inclination encompasses all mankind: neither philosopher nor scientist has been

able to discern a universally good chair, good book, good city, or good idea. All interests, therefore, derive from private persons, from discrete inhabitants of this earth, and no two persons evidence an identical value structure.

One may define a private interest as a value held by an individual. A public interest must mean that a heretofore purely private interest, in the speaker's subjective opinion, has assumed such seminal importance that all members of society should embrace it as an eternal verity to the extent that if any other personal interest conflicts with the advancement of the ultimate interest, the conflicting or secondary interest must be shunted aside and the holders thereof deprived of their liberty to elevate and enjoy that value.

If one views man as possessed of dignity and worthy of the exercise of free choice, he cannot condone the imposition of laws which traduce that choice under the label of public interest. The hedonistic calculus of the utilitarian Jeremy Bentham sought to justify this very obstruction of the decision-making power and right of free human beings. Although laid to rest in the later nineteenth century by such thinkers as Frederic Bastiat, Herbert Spencer, and William Graham Sumner, the concept arose like a phoenix in the last century under the mask of public interest. Thus cloaked, the abstraction has

wrought great and continuing wrongs.

The Reality Behind Regulation

What lies behind the facade of regulation in consumer protection erected for the public interest? Thrust the high-sounding phrases to one side and uncover reality: self-regulation operates to propagate and foster the twin evils of limited market entry or public monopoly, and entitlement transfers or subsidies. Pious prattle will not disguise the fact that economic control by those involved in the regulated industry or profession will reduce the variety and quality of goods, services, and ideas and inflate their respective prices, all the while diminishing freedom for us all. The depravities forged by coercive practice know no bounds, but all may be reduced to one of the two categories of monopoly or subsidy.

Many correctly perceive monopoly as a wrong to be shunned, yet incorrectly apprehend it as a private affair. Monopoly fetters the market by coercively reducing the array of available choice. Nonetheless, the only monopoly to be feared is the public monopoly of force. Absent compulsion, no private monopoly can exist, for mankind operates on differing sets of value judgments and principles.⁴ A complete harmony of mind would adduce a single seller of a single product: everyone would drive Buicks or launder with Fels-

Naptha. Impossible, given the nature of the human creature. It is only when the state enforces market limitations that monopoly rears its ugly head.⁵

Coercive self-regulation advances the fascist cartel by varying deceptions. For example, in the appellation of public protection, professions may erect barriers to market entry, or may circumscribe practice in a manner calculated to divide the market. Public political rhetoric assigns "competition" as a good and "monopoly" as an evil, yet the indiscriminating may assert the need for regulation (read: Restriction on Market Entry) in the same breath. That limitation curtails actual competition and reserves a setting at the economic bounty table to those who gain favor with the controlling establishment. The rulemakers tend to accommodate their friends and favorites and to exclude those who appear different or who seem likely to be tough competitors.

The brouhaha about professional advertising marks but a single episode in man's eternal struggle to be free from unnecessary shackles. Why not open the gates of production and practice wide enough to let all who wish to do so compete? Why not allow the market to decide who best satisfies the needs and desires of the user of services or the consumer of goods? A negative answer must rest upon the tacit or explicit elitist as-

sumption that some person or group may make better choices than the user or consumer. Objective observers of human nature must reject this arrogation.

Disguised Transfer Payments

Self-regulation also serves as a vehicle for disguised transfer payments pursuant to the tired doctrine of entitlement. Reduced to basics, subsidies occur when one party induces the state to take private property from another unwilling person and to transfer it to the first party under sanction of law. Transfer payments assume many forms: Outright gifts and grants, assured and artificially high prices, guaranteed market share, and territorial monopoly to name a few.

Self-regulation enhances the transfer payment structure in several ways. First, the draftsmen or codifiers assume a quasi-governmental role within which they are able to implement their own desires and choices. Second, regulators tend to view the state as a necessary partner with the industry or profession; political machinations and easy ethics lead to rapid rationalization of entitlement (" 'my profession attains supreme importance', 'our needs are different' "). Third, concurrently with limited market entry devices, the controllers foster programs which increase their market share and return to the disadvantage of new or

disfavored participants.

All of these factors, and myriad variations on the theme, permeate the professional/industrial scene once controls are handed over to those involved in the business; any other outcome would be unexpected and incompatible, positing the predilections of man to coerce and rule his fellows if tendered the opportunity to wield state monopoly power.

Who Should Rule?

One final inquiry merits investigation: assuming the need for regulation of industry and profession to prevent initiation of aggression and to compel the resolution of disputes in a court of last resort, who should make the rules: interested representatives of the regulated association or elected representatives of the general government?

Application of the principle of subsidiarity (government acts most appropriately the greater the propinquity to the governed) suggests associational self-regulation: those in rule-making and adjudicative capacities understand the nature of the arena and the problems of the enterprise; rules and orders will more nearly accord with justice.

Reflection augurs for a different result. While subsidiarity might be conducive to a rough equity given a wide sway over the industry, this essay has demonstrated that only rules and orders concerned with the pre-

vention of force and fraud and the application of common justice deserve sanction in a free society. Given that supposition, the principles undergirding democratic government seem to outweigh the concept of subsidiarity. No talisman is required to guide one through a particular profession or industry: general rules of law appear quite adequate to assure compliance with state-wide standards. Fragmentation by enterprise would produce unnecessary conflict and chaos in an area where only a few simple and understandable standards are required.

Conclusion

Self-regulation represents a chimaera. It operates as a code phrase to denote sanctioned coercion by prior restraint of free human conduct by interested parties not governed by benevolent motives. This human creative energy, if released unrestrained, might dispatch wondrous development for all mankind. Instead, the regulators argue for dullness, sameness, and a mere trickle of the possible goods, services, and

ideas. If the free society represents an ultimate quest for the human actor, industrial and professional self-control effected by the police powers of the state poses an unnecessary barrier to the attainment of that laudable end. ☉

—FOOTNOTES—

¹Wilhelm Röpke, *A Humane Economy* (Liberty Fund, Inc., Indianapolis, 1971).

²Henry Grady Weaver, *The Mainspring of Human Progress* (Foundation for Economic Education, Inc., Irvington-on-Hudson, New York, 1953).

³A subsidiary question remains: should universal standard-making be delegated to an interested body, or should it subsist with the general government in the spirit of democracy and the rule of law? This essay addresses such an inquiry in the section, "Who Should Rule?"

⁴To debunk the charade of monopoly, see Hans Sennholz, "The Phantom Called Monopoly," VII *Essays on Liberty*, 295-317 (The Foundation For Economic Education, Inc., Irvington-on-Hudson, New York, 1960) and Armentano, D. T., *The Myths of Anti-Trust* (Arlington House, New Rochelle, New York 1972).

⁵The belief in the private monopoly also misconstrues or ignores the doctrine of substitution of products which defeats any attempt to increase the price of a good beyond the interaction of free supply and demand.

Freedom and Majority Rule

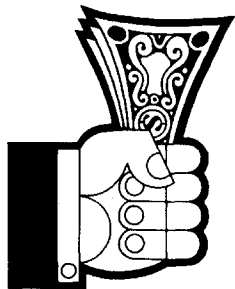
IDEAS ON



LIBERTY

THERE'S not a single plank in the platform of the welfare state that was put there because of a genuine demand by a genuine majority. A welfareist government is always up for grabs, and various factions, pressure groups, special interests, causes, ideologies seize the levers of government in order to impose their programs on the rest of the nation.

HOW "OBSCENE" ARE PROFITS?



A few months ago in these pages, I hinted that in this allegedly "capitalistic" country, the dominant ideology, as revealed daily by the majority of politicians, TV programs, and the press, was anticapitalistic. This is shown by the endless number of faults daily alleged against capitalism. I dealt specifically with ten of these charges, as presented in a letter from a troubled young college graduate, in an effort to reassure him that the alleged faults, if they were serious, were in any case not inherent in the capitalistic system as such.

But one criticism that was sur-

Henry Hazlitt, a frequent contributor to *The Freeman*, has a long and distinguished career as an economist, journalist, editor, and literary critic. Best known of his numerous books is *Economics in One Lesson*, originally published in 1946 and since translated into ten languages with sales of more than 700,000 copies. The recently revised edition is once more available in inexpensive paperback.

prisingly not in his list of ten is probably the most frequent of all. It is made every day by at least some politician, or some TV program, or some newspaper, charging that as a result of "unrestrained" capitalism this or that person or firm has just been caught making "obscene" profits. Or it is charged that under capitalism profits are in general inexcusably high and wages shamefully low.

One reply to the first of these charges is that it is very fortunate in the long run that profits are sometimes extravagantly high, because this incites more people to become entrepreneurs, stimulates increased production in the line in which the high profits exist, and eventually brings down the relative price that consumers have to pay for that product.

As for the general charge about

the relation between wages and profits, it is easily shown that the truth is the exact opposite. In 1982, according to the calculations of the U. S. Department of Commerce, the U. S. national income amounted to \$2,436.6 billion, the wages and salaries of workers to \$1,856.5 billion, and corporate profits before taxes to \$174.9 billion. In other words, wages were more than ten times as great as corporate profits.

The comparison is much the same if we consult Table B-12 in the latest Economic Report of the President (February, 1983). This table presents the "gross domestic product of nonfinancial corporate business" for 46 years, including 1929, 1933, and every year from 1939 on. If we take 1981, the last year for which final figures were available, we find that these corporations paid in that year \$1,150.1 billion as compensation to their employees, had left profits before tax of \$186.6 billion, and paid their stockholders \$52.9 billion in dividends. In other words, the wages paid by these corporations were six times as great as their profits, and twenty-one times as great as the amount paid out to their stockholders.

I find I was also calling attention to this typical distribution in an article in *The Freeman* in August 1979, in which I presented tables of both the dollar and percentage distribution of corporate earnings for the

years from 1949 through 1978 inclusive. (In the last ten years of this comparison, employees got an average of 90.2 per cent of the combined total available for division between the two groups, and stockholders an average of only 9.8 per cent—a 9 to 1 split.) But in view of the persistence of the Marxian myth that the workers are mere "slaves" of the bourgeois class, are systematically "oppressed," and are subjected to "naked, shameless, direct, brutal, exploitation" (in the words of *The Communist Manifesto*), the real distribution cannot be presented too often.

Concerning the Accuracy of the Statistics

Before I go further, I should say a word about the official figures I have just been citing. Are they accurate? My reply is that I believe them to be careful and conscientious. Especially when we consider that all values are ultimately subjective (as the "Austrian" economists have reminded us) there are basic questions to be raised about the validity and meaning of estimates of such things as total national income.

Questions about legitimacy are much less serious when we are dealing with such smaller and more explicit figures as the total of money-wages and corporate profits and dividends. But even such estimates have to be extrapolated from smaller

samples. For example, the Department of Commerce estimates of the total net profits of some 2.7 million corporations are based on the total net profits reported to the Internal Revenue Service by only 85,000 of the largest corporations (including all with assets of more than \$25 million). But I have neither the detailed knowledge nor the statistical skills to second-guess the Department's official figures, so I am assuming them—with one reservation—to be good enough for our present purposes.

That reservation concerns not the government compilation, but the accounts of the individual corporations. In an inflationary period such as we have been having, net profits are likely to be systematically overestimated, because costs, for example, are likely to be systematically underestimated. Depreciation is apt to be written off against acquisition cost, rather than against present or future replacement cost.

There remain further questions to ask about profits. What per cent are they of the total national income? What is the net burden that they impose upon the consumer?

Let us take these questions in order. First, let us look again at the official estimates of profits. The national income for 1982 is estimated at \$2,436.6 billion and corporate profits before taxes at \$174.9 billion. But we must also add to this second

figure the profits of small unincorporated business—the farmers, grocers, butchers, drug stores, independent gas stations, and so on. We find these estimated under “proprietors' income”—for farms \$19 billion, for nonfarms \$101.3 billion. From this we get a total of \$295.2 billion. This would come to about 12 per cent of the national income.

This figure may seem modest enough, compared with most popular assumptions, but now we have to ask a further question. Is the estimate too high?

The answer turns partly on what we decide to call a “profit.” Economists—including those in the Department of Commerce—now conventionally divide the sources of personal income into wages, rent, interest, capital consumption, and profit.

Profits Tend Toward Zero

With the exception of a few socialistic writers, economists have seldom deplored profits. Adam Smith, the father of classical economics, viewing the problem historically, looked forward to a time when profits would tend to diminish. John Stuart Mill, in his *Principles of Political Economy* (1848), wrote a special chapter on “The Tendency of Profits to a Minimum”—though his conception of “profits” included what economists are now careful to separate as “interest.” Since a little after

the appearance of Alfred Marshall's *Principles of Economics* in 1890, an increasing number of economists have even agreed that under conditions of perfect competition pure profits tend to fall to zero.

This conclusion will amaze most laymen, but there are economists who go even further. Frank H. Knight, in his book *Risk, Uncertainty, and Profit*, which appeared in 1921, concluded that "pure" profit is probably a negative sum: "The writer is strongly of the opinion that business as a whole suffers a loss" (p. 365); and "It seems probable that with society and human nature as they are, the individual not only charges nothing for this [risk-taking] service, but pays something for the privilege of rendering it—on the average" (p. 368). The entrepreneur did this, Knight believed, not because he was an altruist, but because he was an optimist. The typical entrepreneur not only believes that the business on which he has embarked will enjoy higher than average profits, but he tends to be overconfident about his own abilities.

Can we reconcile such a conclusion—or even the conclusion that profits tend to be non-existent on the average—with the Department of Commerce profit figures that we have just been citing?

Let me remind the reader that what we are now discussing is not the total amount that the typical en-

trepreneur receives, but what he receives in the form of "pure" profit. Part of his income in any one year may consist of what he receives for his managerial labor (or would receive as salary if he worked for somebody else); part of it may represent the equivalent of interest on his investment; part of it what he might otherwise have received in rent on his buildings; and part of it capital consumption, represented either by insufficient write-offs for depreciation or withdrawal of previous savings.

So there is no irreconcilable contradiction between the positive figures of corporate and individual "profits" that the government compiles and the conclusion that on the average "pure" profits may be zero or even a negative sum. We need merely recognize that corporations tend to earn, for the most part, little more than the equivalent of interest on their investment (even though it is called "earnings" or "dividends") and that entrepreneurs, on the average, tend to work for less than they might otherwise have received from others in salary.

So, finally, what should be the buying public's political attitude toward the profit-seeker, the entrepreneur? Broadly speaking, it should be just the opposite of what it actually is.

All entrepreneurs are trying to meet better than others the needs or

wants of the consumers. If, under competitive conditions, one company is making greater profits than others—even “inordinate” profits—it means that it is serving the wants of consumers better. Either it is supplying them, in their own judgment, a product superior to that of its competitors, or it is supplying them with it at a lower price. (It could not be selling it to them at an obviously higher price, for they would not buy it.) It is selling the product at a lower price, or making a greater margin of profit at the same price, because it has learned how to cut costs below its competitors. So profits, under free competition, cost the consumer nothing—or less than nothing.

If the consumer ought to get mad at somebody, it ought rationally to be at the unsuccessful competitor, the company that is losing money. For

such a company is wasting resources. The value of the resources it is pouring into manufacturing and selling a product is greater than the value for which that product can be sold. True, the losses fall in the first instance on the unsuccessful company itself, but in the long run its failure tends to impoverish the rest of us, because it has wasted capital that could have been employed in supplying something at a lower cost that was more needed.

It is not rationality that leads politicians to denounce what they call “obscene” profits, but an appeal to envy. Their denunciations lead to the conclusion that profits deserve to be punished by heavy taxation. But as Ludwig von Mises once put it: “Taxing profits is tantamount to taxing success in best serving the public.”

Profit and Loss

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.

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.

IDEAS ON



LIBERTY

Healing America

IN 1965 a young man named Richard Cornuelle, who had studied with Ludwig von Mises and worked for Gareth Garrett, wrote a book called *Reclaiming the American Dream*. With its plea for voluntarist solutions to our social problems, it should have had wide acceptance as a landmark work. But it was manifestly ahead of its time. I remember talking with Senator Vance Hartke of Indiana in his office about it, and telling the Senator about Cornuelle's efforts to get Middle Western bankers to establish a fund for boys and girls who needed funds for a college education. The next time I saw Hartke he said, "Tell your friend Cornuelle not to worry about the kids. We've taken care of it." Meaning, of course, that the government was about to put up the money for indigent college students.

The tide, in 1965, was still run-

ning heavily in Statist directions. No Achilles, Richard Cornuelle did not sulk in his tent, but his subsequent efforts to sell voluntarist projects to and through such organizations as the National Association of Manufacturers came to little.

Eighteen years later, in a different economic climate, Cornuelle has returned to the wars with *Healing America: What Can Be Done About the Continuing Economic Crisis* (Putnam, 208 pp., \$14.95). With almost two decades of socialist and semi-socialist failures on a world scale to provide him with horrible examples, Cornuelle's new book, though it repeats the theme of the old, comes to us with a tremendously augmented authority. This time it should be a landmark for the many, not the few.

With a perception that has been sharpened by the years, Cornuelle

can deal with Herbert Hoover and Franklin D. Roosevelt as two representatives of an older America who were humbled in the same way. Hoover, as the leading voluntarist of his time, had had tremendous success in rallying the independent sector to surmount disaster, whether in war torn Belgium and Russia, or during the unemployment crisis of 1921, or in the Mississippi flood of 1927. He had no reason to suppose that the shocks of 1929 and 1931 could not have been met by voluntarists pooling their funds and concerting their actions. Puzzled when foreign banking and monetary disasters combined with the Smoot-Hawley tariff to snuff out promising upturns, he turned to such devices as the Reconstruction Finance Corporation and the Farm Board, which were negations of his own basic philosophy.

The New Deal

Roosevelt did not disagree with Hoover. He accepted a "supply-side" Democratic platform in 1932, promising to keep the dollar sound and the destructive power of government contained. But once in office he acted as Hoover had acted. "We didn't admit it at the time," so Rexford Tugwell said forty years later, "but practically the whole New Deal was extrapolated from programs that Hoover had started."

Things broke better for Roosevelt

individually than they had for Hoover, but it was not because the first New Deal really worked. Despite heavy outlays for welfare, despite putting young men to work in CCC camps, and despite the efforts to jockey price and wage levels and deal with farm surpluses, unemployment remained high. As late as 1940 there were 1,239,000 Americans on welfare.

The war bailed Roosevelt out, but if it hadn't been for the resourcefulness of the American industrialists, whose virtues had been nourished and flattered by Hoover in his long years as Secretary of Commerce, the war might have had a different end. Ironically, the war seemed to sustain the reputation of John Maynard Keynes, who could point to government-financed war production as a type of "pyramid-building" that could substitute for true ingenuity in opening up new lines of industrial endeavor.

The war saved Roosevelt, but it obscured the nature of the problems raised by "Keynesianism." When the Keynesians freed the government from what Cornuelle calls "the discipline of cost consciousness," it tilted the balance between the public and independent sectors "in favor of centralization." It loosed inflation upon the world as the prime tool for supporting pyramid-building. Keynes himself saw the fallacy involved; he admitted to Hayek that a new serf-

dom might be down the road. But Americans, who still sang the praises of "pluralism," lost sight of the fact that we had become a society "with two important sectors and the vestige of a third."

When Galbraith wrote *The Affluent Society* in 1958, he made no mention of a third sector—and "no one noticed the omission for years." With no independent nonprofit sector to serve as a cushion, there was nothing to prevent government from trying to push its taxing and inflation powers to the limit. We had, as Macaulay had said in another connection, become "all sail and no anchor."

New Institutionalism

In pushing for a return to "independent action," Cornuelle finds that numerous efforts are being made to by-pass the State. He does not advocate that we go the route of Italy, where thousands consider taxation a form of theft. But he notes the growth of a "new institutionalism." Governments are slipshod when it comes to maintaining bridges, but there is no complaint about the privately owned and operated 7,490-foot span that connects Detroit with Canada; and in Pittsburgh the city officials are negotiating with U.S. Steel to build a bridge and then rent it to the city. The Audubon Society leases natural-gas rights on its land in Louisiana to three oil companies

with the assurance that the oil companies will do nothing to hurt wild life. This sort of thing could do wonders for protecting the whooping crane.

Cornuelle's "anatomy of the independent sector" is far-reaching, done in the Tocqueville manner. We all know about Blue Cross and Blue Shield medical insurance. And private schools continue to flourish. But how many people know about the twenty-week course in spelling, punctuation and grammar that the Continental Illinois National Bank and Trust Company gives to all its new employees?

Philanthropy is only a small part of the independent sector. Some 10 million Americans are now involved in 700,000 to 800,000 mutual-aid groups. There is the Portland Friends of Cast Iron Architecture, the Theatre for Revolutionary Satire, the Guild of English Handbell Ringers. There is even a Flat Earth Society.

C. William Verity of Armco Steel headed a task force for Reagan on Voluntary Activities. The task force set up a Data Bank. Cornuelle thinks this is all very well, but he bemoans the fact that the Verity bank is "at least the sixth such . . . clearing house of independent projects." None of them "has led to any significant imitation of the listed programs."

It won't stay that way for very long if Cornuelle remains in a writing mood. ☉

MR. JEFFERSON

by Albert Jay Nock

Introduction by Russell Kirk

202 pages ■ \$8.95 paperback

OUR ENEMY, THE STATE

by Albert Jay Nock

Introduction by Edmund A. Opitz

109 pages ■ \$6.95 paperback

(Both books published by Hallberg
Publishing Corporation, Delavan, WI
53115) 1983

*Reviewed by Edmund A. Opitz and
Robert M. Thornton*

THE republication of these two classics occurs, auspiciously, forty years after the *Memoirs of a Superfluous Man* and twenty years after the founding of The Nockian Society. The books are attractively printed and each includes a long introductory essay written for the occasion, plus some notes on A.J.N. by the secretary of The Society.

Western nations were well down the road to serfdom when *Our Enemy* appeared in 1935. Nock had no expectation that his book would slow our Gadarene progress, but he believed that anyone who had uncovered the plain truth of things in some area of life ought to hang up his findings in plain sight where questioning minds might find them. That there are such minds among us is attested by the growing demand for this book.

The tone of *Our Enemy* is set by the magisterial opening sentences: "If we look beneath the surface of our public affairs we can discern one fundamental fact, namely: a great redistribution of power between society and State. This is the fact that interests the student of civilization . . . an increase of State power and a corresponding decrease in social power."

In order to grasp Nock's argument we must understand his major terms—society, government and the State. A society is a multi-generational group of kindred—men, women and children—occupying a given territory, sharing a common heritage and vision, acknowledging and mostly practicing the moral code—don't murder, assault, steal, or lie; keep your word, fulfill your contracts, love your neighbor and don't covet his goods. Every society is founded upon certain "rules of the game," precepts which must be observed if the social order is to endure. These rules are codified as the law.

Society is the context in which individuals choose and pursue their personal goals, ride their hobbies, play, loaf, or whatever—so long as it's peaceful. It includes the economy, where millions of men and women engage in the voluntary production and amicable exchange of goods and services. Society is the vast and intricate network of people

linked in voluntary associations seeking to advance their educational, religious, scientific, artistic, recreational or other purposes. Society is intrinsically peaceful; force is alien to the several kinds of activities which comprise the basic nature of society. But every existing social order has to contend with people who are anti-social; predatory and criminal elements who disturb the peace of the community by violating the life, liberty and property of the citizens. Acts of violence must ultimately be countered by lawful force—government.

Society needs an agency authorized to use defensive force in situations specified under the law in order to protect individual citizens against violations of life and liberty and property and the nation against external aggressors. This is, basically, the idea of government set forth in the Declaration of Independence. It is a political philosophy premised upon the conviction that people, by and large, are competent to run their own lives and direct their personal affairs; it contemplates a government that lets people alone, intervening only to check those who refuse to let others alone.

The law is set in motion by a breach of the peace, and then it intervenes negatively to punish those who initiate force against others; it counters violence by an exercise of lawful force. But all human institu-

tions suffer corruptions, and the law is no exception; government is subject to capture by power hungry groups from within the private sector who twist the institution of justice into an instrument of plunder. At which point the State comes into operation.

The State, in Nock's terminology, is a double barrelled affair, part public and part private. It is a pincer movement, with office holders misusing their political power to operate a scam in cahoots with groups of private citizens, to gain economic and other advantages for both at the expense of the general public. The State is the law perverted into an instrument of plunder. It is a cabal of politicians and pressure groups operating behind a screen of legality to the disadvantage of peaceful and productive citizens. The State is a parasitic and predatory burden upon society. It is our enemy.

Nock brought out his *Jefferson* on the hundredth anniversary of our third President's death. When the book was reprinted in 1960 it contained a charming and perceptive Introduction by Jefferson scholar, Merrill D. Peterson, who called Nock's study "the most captivating volume in the Jefferson literature." He praised Nock as "a finished scholar, a brilliant editor, and a connoisseur of taste and intellect."

Jefferson was one of Nock's favorite Americans, the most apolitical

politician our country has produced, a multi-faceted man and a model of civilized conduct. Nock sums up Jefferson's character: "A dominant sense of form and order, a commanding instinct for measure, harmony and balance, unflinchingly maintained for fourscore years toward the primary facts of human life—towards discipline and training, towards love, parenthood, domesticity, art, science, religion, friendship, business, social and communal relations."

Shortly after the original appearance of his *Jefferson*, Nock ventured a prediction: "I think my *Jefferson* will work in the same way (as *The Freeman*), very quietly and for a long time, and with an effect entirely dis-

proportionate to the amount of fuss made over it. I think this is the natural way for an influence to work."

Just so! "The high merits of *Jefferson's* urbane and persuasive style," writes Russell Kirk, "have lost nothing since 1926." Indeed they have gained, and a new generation of readers has a rich experience in store. ®



The Nockian Society,
30 South Broadway,
Irvington, N.Y. 10533,
offers *Freeman* readers a discount price of \$11.00 for both books.

HANDSOME BLUE LEATHERLEX

FREEMAN BINDERS

\$5.00

Order from:

THE FOUNDATION FOR ECONOMIC EDUCATION, INC.

IRVINGTON-ON-HUDSON, NEW YORK 10533

IN MEMORY OF LEONARD E. READ
1898–1983

Included in this issue of *The Freeman* are samplings from the pen of the founder and president of The Foundation for Economic Education—his pledge to the cause of freedom—his call to those who would continue to serve that cause.

| | |
|--|------------|
| Memorial Resolution—Trustees of FEE | 643 |
| ESSAYS BY LEONARD E. READ: | |
| The Essence of Americanism (1961) | 645 |
| Those Things Called Money (1975) | 659 |
| Looking Out for Yourself (1956) | 663 |
| Flight from Integrity (1959) | 670 |
| Every Person Should Be Free (1954) | 676 |
| On That Day Began Lies (1949) | 677 |
| The Magic of Believing (1959) | 690 |
| I, Pencil (1958) | 691 |
| On Improving the World (1960) | 697 |
| Book Review: "Essays on Liberty" | 700 |



the Freeman

A MONTHLY JOURNAL OF IDEAS ON LIBERTY

FOUNDATION FOR ECONOMIC EDUCATION

Irvington-on-Hudson, N.Y. 10533

Tel: (914) 591-7230

Leonard E. Read, 1898-1983

Managing Editor: Paul L. Poirot
Production Editor: Beth A. Hoffman
Contributing Editors: Robert G. Anderson
Bettina Bien Greaves
Edmund A. Opitz (Book Reviews)
Brian Summers

THE FREEMAN is published monthly by the Foundation for Economic Education, Inc., a nonpolitical, nonprofit, educational champion of private property, the free market, the profit and loss system, and limited government.

The costs of Foundation projects and services are met through donations. Total expenses average \$18.00 a year per person on the mailing list. Donations are invited in any amount. THE FREEMAN is available to any interested person in the United States for the asking. For foreign delivery, a donation is required sufficient to cover direct mailing cost of \$10.00 a year.

Copyright, 1983. The Foundation for Economic Education, Inc. Printed in U.S.A. Additional copies, postpaid: single copy \$1.00; 10 or more, 50 cents each.

THE FREEMAN is available on microfilm from University Microfilms International, 300 North Zeeb Road, Ann Arbor, Mich. 48106.

Permission granted to reprint any article from this issue, with appropriate credit.

Memorial Resolution

Board of Trustees The Foundation for Economic Education, Inc.

It is with deepest regret that we are compelled to note the passing of our founder and President, Leonard Read.

Leonard was born in rural Michigan just before the turn of the century. Farm chores plus clerking in the local store schooled him early in the work ethic.

Later, he earned his way through Ferris Institute, but interrupted his education to enlist in the army. The troopship, *Tuscania*, carrying him to Europe, was sunk off the Irish coast but Leonard made it to shore and served in England as a rigger with the air corps. After the war's end he was with the army of occupation in Germany before returning to Michigan.

Back in Ann Arbor he started a wholesale produce business. Despite long hours and hard work the business proved unprofitable. Staring at the accumulated debts, Leonard figured that the market was trying to tell him something. As he decoded the message, the market was telling him to go to California, which he did in 1925, with his wife and two young sons. After a stint in the real estate business he became Secretary of the Burlingame Chamber of Commerce where he discovered that he had a knack for organization. Within a few years he had become the Manager of the Western Division, U.S. Chamber of Commerce.



LEONARD E. READ
1898-1983

By this time the nation was experiencing the early years of the New Deal, which had the Chamber's support, as well as the support of many businessmen—as well as such spokesmen as young Read.

A dramatic turn in Leonard's life took place at this time. A prominent Los Angeles businessman was openly critical of the New Deal and of the Chamber for supporting it, so Read decided to set him straight. Instead, Bill Mullendore set Leonard straight, and the two men became lifetime friends.

Leonard expounded his freedom philosophy in a book entitled *Romance of Reality*, published in 1937. It was this book that persuaded the Los Angeles Chamber of Commerce, the nation's largest, to oppose the collectivist drift by intellectual methods, and that Leonard was the man they needed as General Manager. Leonard became a nationally prominent figure during his six years in Los Angeles, gaining the confidence of leaders in business and public life.

Read came to New York in 1945 as the Executive Vice-President of the National Industrial Conference Board, but continued to nourish a dream born a few years earlier—of an independent organization which would stand uncompromisingly for freedom and publish literature in the modern idiom. The Foundation for Economic Education was the result, and the rest is history.

Leonard has preached the gospel of freedom all over the world, travelling two and one half million miles by air and scores of thousands of miles by other means. He has written twenty-nine books and numerous articles. But FEE is the enduring witness to Leonard's life.

Leonard's philosophy is, basically, that of the Declaration of Independence, to which he added a dash of mysticism, some hard-nosed free market economics, spiced by a dash of native American go-getter spirit. Leonard has always shunned argument and debate, preferring instead to win over his readers by striking illustrations, parables, and stories. His lifelong devotion to human freedom amounted to an obsession. He sought a better understanding of freedom and worked to expound it with ever greater clarity and persuasiveness. The methodology he stressed was based on self-improvement—let each person work on himself and present society with one improved unit.

The Foundation for Economic Education was born out of Leonard's original vision. It attests to the integrity and passion with which he served that vision; it is the monument by which he will be remembered—and that's the way he would want it. Leonard stood tall, and FEE is his lengthened shadow.

The Essence of Americanism

SOMEONE ONCE SAID: It isn't that Christianity has been tried and found wanting; it has been tried and found difficult—and abandoned. Perhaps the same thing might be said about freedom. The American people are becoming more and more afraid of, and are running away from, their own revolution. I think that statement takes a bit of documentation.

I would like to go back, a little over three centuries in our history, to the year 1620, which was the occasion of the landing of our Pilgrim Fathers at Plymouth Rock. That little colony began its career in a condition of pure and unadulterated communism. For it made no difference how much or how little any

member of that colony produced; all the produce went into a common warehouse under authority, and the proceeds of the warehouse were doled out in accordance with the authority's idea of need. In short, the Pilgrims began the practice of a principle held up by Karl Marx two centuries later as the ideal of the Communist Party: From each according to ability, to each according to need—and by force!

Now, there was a good reason why these communalistic or communistic practices were discontinued. It was because the members of the Pilgrim colony were starving and dying. As a rule, that type of experience causes people to stop and think about it!

Anyway, they did stop and think about it. During the third winter Governor Bradford got together with

This article was delivered as a speech in December 1961. Government spending and inflation, of course, have increased sharply beyond the figures applicable then.

the remaining members of the colony and said to them, in effect: "This coming spring we are going to try a new idea. We are going to drop the practice of 'from each according to ability, to each according to need.' We are going to try the idea of 'to each according to merit.'" And when Governor Bradford said that, he enunciated the private property principle as clearly and succinctly as any economist ever had. That principle is nothing more nor less than each individual having a right to the fruits of his own labor. Next spring came, and it was observed that not only was father in the field but mother and the children were there, also. Governor Bradford records that "Any generall wante or famine hath not been amongst them since to this day."

It was by reason of the practice of this private property principle that there began in this country an era of growth and development which sooner or later had to lead to revolutionary political ideas. And it did lead to what I refer to as the real American revolution.

Now, I do not think of the real American revolution as the armed conflict we had with King George III. That was a reasonably minor fracas as such fracas go! The real American revolution was a novel concept or idea which broke with the whole political history of the world.

Up until 1776 men had been con-

testing with each other, killing each other by the millions, over the age-old question of which of the numerous forms of authoritarianism—that is, man-made authority—should preside as sovereign over man. And then, in 1776, in the fraction of one sentence written into the Declaration of Independence was stated the real American Revolution, the new idea, and it was this: "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 was it. This is the essence of Americanism. This is the rock upon which the whole "American miracle" was founded.

This revolutionary concept was at once a spiritual, a political, and an economic concept. It was spiritual in that the writers of the Declaration recognized and publicly proclaimed that the Creator was the endower of man's rights, and thus the Creator is sovereign.

It was political in implicitly denying that the state is the endower of man's rights, thus declaring that the state is not sovereign.

It was economic in the sense that if an individual has a right to his life, it follows that he has a right to sustain his life—the sustenance of life being nothing more nor less than the fruits of one's own labor.

It is one thing to state such a revolutionary concept as this; it's quite

another thing to implement it—to put it into practice. To accomplish this, our Founding Fathers added two political instruments—the Constitution and the Bill of Rights. These two instruments were essentially a set of prohibitions; prohibitions not against the people but against the thing the people, from their Old World experience, had learned to fear, namely, over-extended government.

Benefits of Limited Government

The Constitution and the Bill of Rights more severely limited government than government had ever before been limited in the history of the world. And there were benefits that flowed from this severe limitation of the state.

Number One, there wasn't a single person who turned to the government for security, welfare, or prosperity because government was so limited that it had nothing on hand to dispense, nor did it then have the power to take from some that it might give to others. To what or to whom do people turn if they cannot turn to government for security, welfare, or prosperity? They turn where they should turn—to themselves.

As a result of this discipline founded on the concept that the Creator, not the state, is the endower of man's rights, we developed in this country on an unprecedented scale a

quality of character that Emerson referred to as "self-reliance." All over the world the American people gained the reputation of being self-reliant.

There was another benefit that flowed from this severe limitation of government. When government is limited to the inhibition of the destructive actions of men—that is, when it is limited to inhibiting fraud and depredation, violence and misrepresentation, when it is limited to invoking a common justice—then there is no organized force standing against the productive or creative actions of citizens. As a consequence of this limitation on government, there occurred a freeing, a releasing, of creative human energy, on an unprecedented scale.

This was the combination mainly responsible for the "American miracle," founded on the belief that the Creator, not the state, is the endower of man's rights.

This manifested itself among the people as individual freedom of choice. People had freedom of choice as to how they employed themselves. They had freedom of choice as to what they did with the fruits of their own labor.

But something happened to this remarkable idea of ours, this revolutionary concept. It seems that the people we placed in government office as our agents made a discovery. Having acquisitive instincts for af-

fluence and power over others—as indeed some of us do—they discovered that the force which inheres in government, which the people had delegated to them in order to inhibit the destructive actions of man, this monopoly of force could be used to invade the productive and creative areas in society—one of which is the business sector. And they also found that if they incurred any deficits by their interventions, the same government force could be used to collect the wherewithal to pay the bills.

I would like to suggest to you that the extent to which government in America has departed from the original design of inhibiting the destructive actions of man and invoking a common justice; the extent to which government has invaded the productive and creative areas; the extent to which the government in this country has assumed the responsibility for the security, welfare, and prosperity of our people is a measure of the extent to which socialism and communism have developed here in this land of ours.

The Lengthening Shadow

Now then, can we measure this development? Not precisely, but we can get a fair idea of it by referring to something I said a moment ago about one of our early characteristics as a nation—individual freedom of choice as to the use of the fruits of one's own labor. If you will measure

the loss in freedom of choice in this matter, you will get an idea of what is going on.

There was a time, about 120 years ago, when the average citizen had somewhere between 95 and 98 per cent freedom of choice with each of his income dollars. That was because the tax take of the government—federal, state, and local—was between 2 and 5 per cent of the earned income of the people. But, as the emphasis shifted from this earlier design, as government began to move in to invade the productive and creative areas and to assume the responsibility for the security, welfare, and prosperity of the people, the percentage of the take of the people's earned income increased. The percentage of the take kept going up and up and up until today it's not 2 to 5 per cent. It is now over 35 per cent.

Many of my friends say to me, "Oh, Read, why get so excited about that? We still have, on the average, 65 per cent freedom of choice with our income dollars."

I would like to interpolate here a moment and say that we ought to be careful how we use that term, "on the average." Take a person who works 40 hours a week, who goes to work at 8:00 o'clock in the morning, takes an hour off for lunch, works Monday through Friday. That's 40 hours. The average person in this country has to work all Monday and

until 2:15 on Tuesday for the government before he can start working for himself.

But, if the individual has been extraordinarily successful, he finds that he has to work all day Monday, Tuesday, Wednesday, Thursday, and until noon on Friday for the government before he can start earning for himself!

Nonetheless, on the average, we do have 65 per cent freedom of choice with our earned income. But, please take no solace from this fact for it has been discovered, as research work has been done on the fiscal behavior of nations covering a period of many centuries—this is a very important point—that whenever the take of the people's earned income by government reaches a certain level—20 or 25 per cent—it is no longer politically expedient to pay for the costs of government by direct tax levies. Governments then resort to inflation as a means of financing their ventures. This is happening to us now! By "inflation" I mean increasing the volume of money by the national government's fiscal policy. Governments resort to inflation with popular support because the people apparently are naive enough to believe that they can have their cake and eat it, too. Many people do not realize that they cannot continue to enjoy so-called "benefits" from government without having to pay for them. They do not appreciate the fact

that inflation is probably the most unjust and cruelest tax of all.

Methods of Inflation

There are numerous ways governments have inflated. You may recall reading in your history books about coin clipping. That was where the sovereign called in the coin of the realm and clipped off the edges. He kept the edges and returned the smaller pieces to the owners. That was a good stunt until the pieces got too small to be returned.

During the French revolutionary period, the government got itself into dire financial straits and began to issue an irredeemable paper money, known as "assignats," secured, not by gold but by confiscated church properties. Well, of course, France went bankrupt under that.

In Argentina, a situation with which I am reasonably familiar, the policy of the national government has been to spend about 100 billion pesos a year. But all they can collect by direct tax levies are 50 billion pesos a year. How do they handle that? Very simple. They just print 50 billion pesos a year. You don't have to be a great economist to realize that when you increase the volume of money, everything else being equal, the value of money goes down. And when the value of money goes down, all things being equal, prices tend to rise.

You can imagine what has hap-

pened to bank accounts, insurance, social security, and to all forms of fixed income in Argentina. They are practically worthless.

Now in this country, we have a method of inflation which has one distinguishing merit. It is so complicated that hardly anyone can understand it.

What we do here is monetize debt. The more we go in debt the more money we have. Since we started our program of monetizing debt and deficit financing, we have enormously increased the quantity of our money. You have observed that our dollar isn't worth quite as much as it used to be. Perhaps you have also observed that prices are tending to increase.

The Russians, in my judgment, have the most honest system of dishonesty. There the government compels the people to buy government bonds. And then, after the people have bought the government bonds, the government cancels them. There are quite a number of Russians who are aware that some sort of chicanery is going on.

Frankly, I wish we were using this system, because then more people would understand the significance of inflation. If we were inflating this crudely, our people wouldn't be fooled as they are now.

What I am trying to say is this: Inflation is the fiscal concomitant of socialism or the welfare state or state

interventionism—call it what you will. Inflation is a political weapon. There are no other means of financing the welfare state except by inflation.

So, if you don't like inflation, there is only one thing you can do: assist in returning our government to its original principles.

One of my hobbies is cooking and, therefore, I am familiar with the gadgets around the kitchen. One of the things with which I am familiar is a sponge. A sponge in some respects resembles a good economy. A sponge will sop up an awful lot of mess; but when the sponge is saturated, the sponge itself is a mess, and the only way you can make it useful again is to wring the mess out of it. I hope my analogy is clear.

I want to say a few more things about inflation because it is particularly relevant to this country. To do this I want to take a look at somebody else because it's always difficult to look at ourselves. Let's take a look at France, which in numerous respects has resembled the United States economically.

French Experience

France began this thing I am talking about—that is, government invasion of productive and creative areas, government assuming the responsibility for the security, welfare, and prosperity of the French people—just 47 years ago, in 1914.

If my previous contentions are correct, the French franc should have lost some of its purchasing power in these 47 years for, I have argued, state intervention can be financed only by increasing the volume of the money and such increases result in a decline of the circulating medium's value. Thus, the franc should have declined in value. How much?

The French franc has less than one-half of one per cent of the purchasing value it had 47 years ago, or to put it another way, the franc has lost more than 99½ per cent of its value in these few years, and by reason of inflation brought about by government intervention.

In Paris, during World War I, I bought a dinner for 5 francs, then the equivalent of the 1918 dollar. I didn't get to Paris again until 1947. I took a friend to lunch, admittedly at a better restaurant than the one I went to as a soldier boy. But I didn't pay 20 or 30 or 50 francs for the two luncheons. I paid 3,400 francs! I was there two years later with Mrs. Read, same restaurant, same food, because I wished to compare prices. It wasn't 3,400 but 4,100! Recently, when I was in Paris, the price for the same two luncheons was about 6,000 francs.

Visualize with me, if you can, a Frenchman back in the year 1914. Let's say he was in his late teens. A forethoughtful lad, he was looking forward to the year of 1961 when he would reach the age of retirement.

So, at that time he bought a paid-up annuity, one which would return him 1,000 francs a month beginning January 1961. Well, back then he could have eaten as well on 1,000 francs as Grace Kelly's husband. But my doctor friends are of the opinion that no one can exist on only one meal every 30 days. That is all 1,000 francs will buy today, and that would be a meal about one-third the quality that any of us would buy were we in France at this time.

"Creeping" or "Gallopings"?

Inflation, in popular terms, is divided into two types. There is what is called "creeping inflation," and what is called "galloping inflation." "Creeping inflation" is supposed to be the type that we are now experiencing.

I don't think the term is quite lusty enough to describe a dollar that has lost somewhere between 53 and 62 per cent of its value since 1939.

"Gallopings inflation" is the type that went on in Germany during the years after World War I, in France after the revolutionary period, in China recently, and in the Latin American countries today. Here is an example of what I mean.

I hold in my hand the currency of Bolivia. This little piece is 10,000 Bolivianos. In 1935 this piece of paper was worth 4,600 present-day dollars. Do you know what it's worth now? Eighty cents! That's what you

call "galloping inflation." It was all brought about—they didn't have any wars—by government interventionism.

Now then, what I want to suggest is that inflation in this country has ever so many more catastrophic potentials than has ever been the case in any other country in history. We here are the most advanced division-of-labor society that has ever existed. That is, we are more specialized than any other people has ever been; we are further removed from self-subsistence.

Indeed, we are so specialized today that every one of us—everybody in this room, in the nation, even the farmer—is absolutely dependent upon a free, uninhibited exchange of our numerous specialties. That is a self-evident fact.

Destroying the Circulatory System

In any highly specialized economy you do not effect specialized exchanges by barter. You never observe a man going into a gasoline station saying, "Here is a goose; give me a gallon of gas." That's not the way to do it in a specialized economy. You use an economic circulatory system, which is money, the medium of exchange.

This economic circulatory system, in some respects, can be likened to the circulatory system of the body, which is the blood stream.

The circulatory system of the body

picks up oxygen in the lungs and ingested food in the mid-section and distributes these specialties to the 30 trillion cells of the body. At those points it picks up carbon dioxide and waste matter and carries them off. I could put a hypodermic needle into one of your veins and thin your blood stream to the point where it would no longer make these exchanges, and when I reached that point, we could refer to you quite accurately in the past tense.

By the same token, you can thin your economic circulatory system, your medium of exchange, to the point where it will no longer circulate the products and services of economic specialization. When this happens, the economy of our nation will be "discombobulated."

Let me show you how it works. Right after the Armistice my squadron was sent to Coblenz with the Army of Occupation. The German inflation was underway. I didn't know any more then about inflation than most Americans do now. I liked what I experienced—as do most Americans now—because I got more marks every payday than the previous payday—and not because of a raise in pay. I had security. The government was giving me food, shelter, clothing, and so forth. I used the marks to shoot craps and play poker, and the more marks, the more fun.

German inflation continued with mounting intensity and by 1923 it

got to the point where 30 million marks would not buy a single loaf of bread.

About the time I arrived, an old man died and left his fortune to his two sons, 500,000 marks each. One boy was a frugal lad who never spent a pfennig of it. The other one was a playboy and spent it all on champagne parties. When the day came in 1923 that 30 million marks wouldn't buy a loaf of bread, the boy who had saved everything had nothing, but the one who spent his inheritance on champagne parties was able to exchange the empty bottles for a dinner. The economy had reverted to barter.

Those of you who are interested in doing something about this, have a right to ask yourselves a perfectly logical question: Has there ever been an instance, historically, when a country has been on this toboggan and succeeded in reversing itself? There have been some minor instances. I will not attempt to enumerate them. The only significant one took place in England after the Napoleonic Wars.

How England Did It

England's debt, in relation to her resources, was larger than ours is now; her taxation was confiscatory; restrictions on the exchanges of goods and services were numerous, and there were strong controls on production and prices. Had it not been

for the smugglers, many people would have starved!

Now, something happened in that situation, and we ought to take cognizance of it. What happened there might be emulated here even though our problem is on a much larger scale. There were in England such men as John Bright and Richard Cobden, men who understood the principle of freedom of exchange. Over in France, there was a politician by the name of Chevalier, and an economist named Frederic Bastiat.

Incidentally, if any of you have not read the little book by Bastiat entitled, *The Law*, I commend it as the finest thing that I have ever read on the principles one ought to keep in mind when trying to judge for oneself what the scope of government should be.

Bastiat was feeding his brilliant ideas to Cobden and Bright, and these men were preaching the merits of freedom of exchange. Members of Parliament listened and, as a consequence, there began the greatest reform movement in British history.

Parliament repealed the Corn Laws, which here would be like repealing subsidies to farmers. They repealed the Poor Laws, which here would be like repealing Social Security. And fortunately for them they had a monarch—her name was Victoria—who relaxed the authority that the English people themselves

believed to be implicit in her office. She gave them freedom in the sense that a prisoner on parole has freedom, a permissive kind of freedom but with lots of latitude. Englishmen, as a result, roamed all over the world achieving unparalleled prosperity and building an enlightened empire.

This development continued until just before World War I. Then the same old political disease set in again. What precisely is this disease that causes inflation and all these other troubles? It has many popular names, some of which I have mentioned, such as socialism, communism, state interventionism, and welfare statism. It has other names such as fascism and Nazism. It has some local names like New Deal, Fair Deal, New Republicanism, New Frontier, and the like.

A Dwindling Faith in Freedom

But, if you will take a careful look at these so-called "progressive ideologies," you will discover that each of them has a characteristic common to all the rest. This common characteristic is a cell in the body politic which has a cancer-like capacity for inordinate growth. This characteristic takes the form of a belief. It is a rapidly growing belief in the use of organized force—government—not to carry out its original function of inhibiting the destructive actions of men and invoking a common justice,

but to control the productive and creative activity of citizens in society. That is all it is. Check any one of these ideologies and see if this is not its essential characteristic.

Here is an example of what I mean: I can remember the time when, if we wanted a house or housing, we relied on private enterprise. First, we relied on the person who wanted a house. Second, we relied on the persons who wanted to compete in the building. And third, we relied on those who thought they saw some advantage to themselves in loaning the money for the tools, material, and labor. Under that system of free enterprise, Americans built more square feet of housing per person than any other country on the face of the earth. Despite that remarkable accomplishment, more and more people are coming to believe that the only way we can have adequate housing is to use government to take the earnings from some and give these earnings, in the form of housing, to others. In other words, we are right back where the Pilgrim Fathers were in 1620-23 and Karl Marx was in 1847—from each according to ability, to each according to need, and by the use of force.

As this belief in the use of force as a means of creative accomplishment increases, the belief in free men—that is, man acting freely, competitively, cooperatively, voluntarily—correspondingly diminishes. In-

crease compulsion and freedom declines. Therefore, the solution to this problem, if there be one, must take a positive form, namely, the restoration of a faith in what free men can accomplish.

Let me give you an example of how faith in free men is lost. If I were to go out today and ask the people I meet, "Should government deliver mail?" almost everybody would say, "Yes." Why would they say yes? One reason is that the government has pre-empted that activity, has had a monopoly for so many decades that entrepreneurs today would not know how to go about delivering mail if it were a private enterprise opportunity. You know, you businessmen have a very odd characteristic. You don't spend any time working on something you will never get a chance to try out!

Anyway, I did a little research job a while ago and found that we deliver more pounds of milk in this country than we do pounds of mail. I next made a more startling discovery. Milk is more perishable than a love-letter, a catalogue, or things of that sort. And third, I found out that we deliver milk more efficiently and more cheaply. I asked myself what appeared to be a logical question: Why should not private enterprise deliver mail? We deliver freight, and that's heavier. But many people have lost faith in themselves to deliver as simple a thing as a letter!

Who are these people who have lost faith in themselves to deliver a letter? I am going to stick just to the subject of delivery and to recent times.

Less than a hundred years ago the human voice could be delivered the distance that one champion hog-caller could effectively communicate with another champion hog-caller, which I have estimated at about 44 yards. Since that time man, acting freely, privately, competitively, voluntarily, has discovered how to deliver the human voice around the earth in 1/7 of a second—one million times as far in about the same time that the voice of one hog-caller reached the ear of the other. When men were free to try, they found out how to deliver an event like the Rose Bowl game in motion and in color into your living room while it is going on. When men were free to try, they found out how to deliver 115 individuals from Los Angeles to Baltimore in three hours and nineteen minutes. When men are free to try, they deliver gas from a hole in the ground in Texas to my range at Irvington, New York, without subsidy and at low prices. Men who are free to try have discovered how to deliver 64 ounces of oil from the Persian Gulf to our eastern seaboard, more than half the way around the world for less money than government will deliver a one-ounce letter across the street in your home town. And the

people who accomplish these miracles have lost faith in their capacity to deliver a letter, which is a Boy Scout job. You may get the idea that when it comes to productive and creative work, I have more faith in free men than in government.

Now then, why is this happening to us? I don't know all the reasons. I am not sure that anyone does. If pressed, however, for the best reason I could give, the most profound one, it would be this: the American people, by and large, have lost track of the spiritual antecedent of the American miracle. You are given a choice: either you accept the idea of the Creator as the endower of man's rights, or you submit to the idea that the state is the endower of man's rights. I double-dare any of you to offer a third alternative. We have forgotten the real source of our rights and are suffering the consequences.

Millions of people, aware that something is wrong, look around for someone to blame. They dislike socialism and communism and give lip service to their dislike. They sputter about the New Frontier and Modern Republicanism. But, among the millions who say they don't like these ideologies, you cannot find one in ten thousand whom you yourself will designate as a skilled, accomplished expositor of socialism's opposite—the free market, private property, limited government philosophy with its moral and spiritual antecedents. How

many people do you know who are knowledgeable in this matter? Very few, I dare say.

Developing Leadership

No wonder we are losing the battle! The problem then—the real problem—is developing a leadership for this philosophy, persons from different walks of life who understand and can explain this philosophy.

This leadership functions at three levels. The first level requires that an individual achieve that degree of understanding which makes it utterly impossible for him to have any hand in supporting or giving any encouragement to any socialistic activities. Leadership at this level doesn't demand any creative writing, thinking, and talking, but it does require an understanding of what things are really socialistic, however disguised. People reject socialism in name, but once any socialistic activity has been Americanized, nearly everybody thinks it's all right. So you have to take the definition of socialism—state ownership and control of the means of production—and check our current practices against this definition.

As a matter of fact, you should read the ten points of the *Communist Manifesto* and see how close we have come to achieving them right here in America. It's amazing.

The second level of leadership is

reached when you achieve that degree of understanding and exposition which makes it possible to expose the fallacies of socialism and set forth some of the principles of freedom to those who come within your own personal orbit. Now, this takes a lot more doing.

One of the things you have to do to achieve this second level of leadership is some studying. Most people have to, at any rate, and one of the reasons the Foundation for Economic Education exists is to help such people. At the Foundation we are trying to understand the freedom philosophy better ourselves, and we seek ways of explaining it with greater clarity. The results appear in single page releases, in a monthly journal, in books and pamphlets, in lectures, seminars, and the like. Our journal, *The Freeman*, for instance, is available to anyone on request. We impose no other condition.

The third level of leadership is to achieve that excellence in understanding and exposition which will cause other persons to seek you out as a tutor. That is the highest you can go, but there is no limit as to how far you can go in becoming a good tutor.

When you operate at this highest level of leadership, you must rely only on the power of attraction. Let me explain what I mean by this.

On April 22 we had St. Andrew's Day at my golf club. About 150 of us

were present, including yours truly. When I arrived at the club, the other 149 did not say, "Leonard, won't you please play with me? Won't you please show me the proper stance, the proper grip, the proper swing?" They didn't do it. You know why? Because by now those fellows are aware of my incompetence as a golfer. But if you were to wave a magic wand and make of me, all of a sudden, a Sam Snead, a Ben Hogan, an Arnold Palmer, or the like, watch the picture change! Every member of that club would sit at my feet hoping to learn from me how to improve his own game. This is the power of attraction. You cannot do well at any subject without an audience automatically forming around you. Trust me on that.

If you want to be helpful to the cause of freedom in this country, seek to become a skilled expositor. If you have worked at the philosophy of freedom and an audience isn't forming, don't write and ask what the matter is. Just go back and do more of your homework.

Actually, when you get into this third level of leadership, you have to use methods that are consonant with your objective. Suppose, for instance, that my objective were your demise. I could use some fairly low-grade methods, couldn't I? But now, suppose my objective to be the making of a great poet out of you. What could I do about that? Not a thing—

unless by some miracle I first learned to distinguish good poetry from bad, and then learned to impart this knowledge to you.

The philosophy of freedom is at the very pinnacle of the hierarchy of values; and if you wish to further the cause of freedom, you must use methods that are consonant with your objective. This means relying on the power of attraction.

Let me conclude with a final thought. This business of freedom is an ore that lies much deeper than most of us realize. Too many of us are prospecting wastefully on the surface. Freedom isn't something to

be bought cheaply. A great effort is required to dig up this ore that will save America. And where are we to find the miners?

Well, I think maybe we will find them among those who are reasonably intelligent. I think we will find these miners of the freedom-ore among those who love this country. I think we will probably find them in this room. And if you were to ask me who, in my opinion, has the greatest responsibility as a miner, I would suggest that it is the attractive individual occupying the seat you are sitting in. ☸



» "Thou shalt not steal" presupposes private ownership. Sharing ideas suggests having ideas to share. Charity is possible only if one has something to give. Plainly, the excellence of our performance as social beings stems from private ownership of our labor and its fruits, whether material, moral, intellectual, or spiritual.



» Legislatures, laws, courts, constabularies, bureaucracies can do little more than exert a mild influence along lines consistent with the current consensus. The consensus moves this way or that in accord with its content; it rises when filled with truths and virtues and sinks when bogged down with nonsense. So, what I can do about the government depends upon the quality of the ideas I feed into the consensus. This defines both my limitation and my potentiality.



» "More powerful than armies," thought Victor Hugo, "is an idea whose time has come." And more powerful, I would add, than political action or any other form of pseudo-suasion! Only ideas can reverse the present trend toward all-out statism.

Those Things Called Money

ACCORDING to Ed Wynn, "What this country needs is a good five-cent nickel."

Nearly everyone at this moment of money madness will agree with Wynn's statement—humorous but sound. H. B. Bohn remarked: "Of money, wit, and virtue, believe one-fourth of what you hear." As to wit and virtue, Bohn may be right. But I doubt that as much as a fourth of what we hear about money is worth serious consideration, for most of the pronouncements stem from a premise that it is a function of government to issue money and regulate the value thereof. The premise seems wrong to me. I believe that if money is to be useful to traders as a medium of exchange then the decisions

as to what shall serve as money must be worked out by traders in the market, *voluntarily*, rather than by governmental edict.

If you are further interested in what I believe, reflect for a moment on the various commodities and other things that have been used for money: wampum, sea shells, salt, fur, dried fish, ivory, cigarettes, silk stockings, gold and other metals—the list is long. These are some of the things called money, but note that of those listed thus far, all are commodities that, at the time, were in common use in trade—so common that they were useful as a medium of exchange.

But things of a different category, "non-commodities," also are called money—and thereby hangs our tale. German marks are things; in 1923

five billion of these things wouldn't buy a loaf of bread. Paper dollars also are things called money—legal tender—government money which the law requires a creditor to accept in payment of a debt. Or to put it another way, government money, if created out of thin air by edict, is in no sense a scarce and valuable resource useful to traders but is rather a means of taxing or taking scarce resources from the market without offering anything useful in exchange. Such “money” may be a clever form of taxation, but it is far worse than useless as a medium of exchange.

Not Worth a Continental?

Am I arguing that government money never has been “worth a Continental”? Not necessarily. If a government issues paper receipts that are fully backed by some valuable and widely acceptable item of trade—fully redeemable upon demand by the bearer—such receipts may serve very well as a medium of exchange. But, of course, there's no reason on earth why the issuance of warehouse receipts should be a governmental function. Let anyone do it who has a warehouse, and printing press, and a sufficient stock of gold or silver or whatever else the receipt calls for. And let government intervene only to see that the receipts are not fraudulent—counterfeit.

If money is to be useful to traders as a medium of exchange then the decisions as to what shall serve as money must be worked out by traders in the market, rather than by governmental edict.

I am well aware that some governments of some nations at some times have been in charge of monetary policy with quite satisfactory results, when the policy was to mint standardized coins and issue receipts fully redeemable in some well-known and highly marketable commodity. But there is no reason to suppose that the managers of a governmental monopoly will long function in competitive fashion if the monopoly can be exploited to gain additional political power. And it doesn't take a genius to figure how to exploit a money monopoly: just print bogus warehouse receipts and declare them to be legal tender; then pass laws to penalize suppliers of goods or services who refuse to accept the bogus receipts at face value. Finally, this can be pushed to the point of issuing receipts based not on the *fullness* of the warehouse but on its *emptiness* instead—the use of the national debt as the backing for the paper money.

What would be the grossest fraud if an individual tried it has become the common practice of governments—all quite legal because it is a governmental monopoly. And the result is a runaway inflation that disrupts business activities and hinders rather than facilitates trade. This is why governments cannot be trusted with power to determine what traders should use as a medium of exchange. Let the traders choose. Leave the decisions about money to the market. Limit the government to its proper function of policing the market and punishing traders who cheat or rob or willfully injure other peaceful persons.

There Is No Blueprint

When I say that decisions about money should be left to the market, I do not presume to know precisely what those decisions might be. Nor do I find much agreement among monetary experts as to what those decisions ought to be. Would traders insist on pure gold as money? Would they use checking accounts or American Express or credit cards? Would they patronize banks and insist on 100 per cent reserves? I don't know, and I'm not terribly concerned that no one else seems to know precisely. What I am concerned about is that men be free to choose whatever best seems to serve their own respective purposes. And I believe that from such freedom to succeed or

fail in open competition in the market will come the most nearly perfect and tamper-proof monetary policy humanly possible.

Leave the decisions about money to the market. Limit the government to its proper function of policing the market and punishing traders who cheat or rob or willfully injure other peaceful persons.

How much understanding of money is required of us? No more understanding than any one of us has about how to make a jet airplane.

To support this point, let me repeat for the umpteenth time that no single person knows how to make an ordinary wooden lead pencil, explained in a brevity entitled, "I, Pencil." Yet, the year that piece was written, we made in the U.S.A. 1,600,000,000 wooden pencils. How come? How explain a know-how that exists in no one of us, even remotely? My answer: It is the overall luminosity, the wisdom in the free market. When millions of people are free to act creatively as they choose, an unimaginable wisdom is the consequence. To assert that it is a billion times greater than exists in any discrete individual would be a gross understatement.

Keep in mind that any single person's understanding of how money could be made to serve us honestly and efficiently is precisely as impossible as understanding how to make a pencil!

It is appropriate at this point to ask a question to which no one has a correct answer: What would be the medium-of-exchange situation were it left not to dictocratic control but to the fantastic wisdom of the market? To hazard a guess would be to feign a clairvoyance beyond human experience. Guessing would be as farfetched as expecting Socrates to have foreseen and described the makings of present-day air travel, electric lighting, the human voice delivered around the earth in one-seventh of a second, my dictaphone, or a thousand and one other phenomena. I call these "phenomena" because no one understands or can describe the genesis of these countless economic blessings even after their existence! The wisdom that accounts for them is not in you or me; it derives from the overall luminosity. *Why then should we not entrust money—the medium of exchange—to this same wisdom rather than to the*

coercive power of those now in public office?

Yes, what this country needs is a good five-cent nickel. The way is clear: Relegate organized force—government—to the defense of life and property, invoking a common justice, keeping the peace. And leave all creative activities, including the medium of exchange—money—to the wisdom of the market. Do this or our country will end up with a five-cent thousand-dollar bill.

Difficult? Yes! Impossible? Who knows! One thing for certain: Turning money affairs over to the free market is no more an idealistic dream than reducing government to its proper role. And, another thing for certain: Standing for that which seems politically expedient or feasible gains nothing; such techniques are doomed to failure. On the other hand, every boon to mankind has had its birth in the pursuit and upholding of what's right. Humanity has been graced with many boons, every one of which was first thought to be impossible. Bear in mind that righteousness, as well as faith, works miracles. Ⓜ

Looking Out for Yourself

FIRST, may I offer you hearty and well deserved congratulations on completing the formal, institutional phase of your education. And I especially offer you best wishes for the next and most important phase of your education—that which is to come under your own management. For assuredly, graduates of this splendid Institute will avoid an all too common error—the notion that the beginning of earning is the end of learning!

It is not at all improbable that you have, until now, been so engrossed in technical and other formal educational pursuits, that you have given but scant thought to the educational program you must resolve for yourself, beginning tomorrow. I would like to present for your con-

sideration some of the problems I foresee for you, issues with which students of specialized subjects may not be too familiar.

Unless you are alerted, or are different from most of the folks I know, you can easily remain unaware of the two opposed ways of life that will be contesting for your attention and support in the years ahead. One of these ways—the collectivistic—has by far the most numerous adherents. Indeed, you will be fortunate if you find even a few individuals who harbor no collectivism whatever. Collectivism is easy enough to identify when it comes plainly tagged as socialism, communism, Fabianism, Nazism, the Welfare State, the planned economy, or state interventionism. But one has to be sharply discriminating to discern it when it is untagged or concealed; when it is

From a 1956 college commencement address.

offered as proper fare by so-called conservative political parties; when it is endorsed by many high-ranking business leaders and their organizations; or when it is urged upon you by your best friends.

Collectivism is a system or idea which holds that the collective—as distinguished from the individual—is what counts. Individual hopes, aspirations, and needs are subordinated to what is termed “the collective good.” Practically, no such system can be implemented unless some person or set of persons interprets what “the collective good” is. Since it is impossible to obtain unanimous and voluntary agreements to these interpretations, they have to be enforced—and enforcement requires a police arrangement which in turn dominates the lives of all persons embraced by the collective. Implicit in all authoritarian systems are wage and price controls, dictation as to what will be produced and distributed, and by whom.

Russia is the world's most pronounced example, but here at home we see the same thing rearing its head in the form of rent control, Valley Authorities, public housing, parity prices, acreage allotments, union monopoly, federal subsidies of every description, federal subventions to states and cities and districts, governmental foreign-aid programs, import quotas, tariffs, manipulation of money, such as the

monetization of debt, and so forth.

However, it is more or less idle for me to dwell on what I believe to be error. As has been well repeated over and over again, “It is better to light a candle than to damn the darkness.” A much sounder approach is to displace the wrong by advancing the right, to argue positively instead of negatively. With this in mind, I should like to take sides in the ideological conflict of our times and commend to your attention the way of life which is the opposite of collectivism. This way of life, also, has numerous labels, but I'm going to give it a simple and descriptive name, “Looking Out for Yourself.” That's about as opposite as you can get from having the government looking out for you.

A Positive Approach

Now there's a lot more to this looking-out-for-yourself philosophy than first meets the eye. To the unreflective person—to the victim of clichés and catch phrases—it will suggest a life of non-cooperation, greed, the law of the jungle, and no concern for the well-being of others. But, be not deceived. If you intelligently look out for yourself, you will thereby follow the way of life most valuable to others.

Perhaps you will better understand this idea when I explain why there isn't anyone on earth you can constructively control except your-

Creatively, man has no control over others, no power over others, except the power of attraction; and even then, it is the other person who decides upon and determines the degree of attraction.

self. Control can be divided into two types, the destructive and the creative. It is simple enough to control others destructively. Little intellectual achievement is required to restrain others, to inhibit their actions, to destroy their lives. There are all sorts of ways to get on the backs of others and hinder them in their creative actions. But the hindering type of control is quite different from the helping type. The hindering type rests primarily and ultimately on the application of brute or physical force.

The Limited Role of Force

Now brute or physical force is all right if confined to its proper sphere—that is, restraining and inhibiting destructive actions such as violence, fraud, misrepresentation, and predation against peaceful persons. Broadly speaking, this is the logical function of government. In sound theory, government should use its police powers only to do for all of us equally that which each of us has

a moral right to do for himself in defense of his life, liberty, and property. It should apply physical force only defensively in order to repel that which is evil and unjust.

It should be clearly understood that brute, physical, or police force cannot constructively help anyone. It can give only a negative assist by clearing the obstacles from the road to opportunity. No person, nor any set of persons, can physically force anyone to invent, to discover, to create. Let us face this fact: One can have no control whatever over any other person creatively. We are indeed fortunate if we have very much control even over ourselves creatively. In any event, such creative control as any of us possesses is confined strictly and exclusively to self.

Creatively, man has no control over others, no power over others, except the power of attraction; and even then, it is the other person who decides upon and determines the degree of attraction. This is a God-bestowed limitation on all men for which we should be forever grateful. I, at least, am pleased that others cannot *compel* me to accept as eternal verities that which they claim to know. And I am even more pleased that I cannot force my opinions and beliefs upon others.

The Power of Attraction

The power of attraction is always and forever a subjective judgment!

One may be attractive to none, to a few, to many. Figuratively, others look us over and decide for themselves whether or not we have anything worth their consideration. After all these years of schooling, you fully realize that no teacher is ever self-designated. It has always been you who decided what, if anything, you learned from your teachers. Or, to use a more obvious example, it is the person with the receiving set who does the tuning in—it is never the broadcaster.

Put it this way: I can help you in a material sense only if I have money to lend or give to you, or goods and services to exchange with you. I cannot help you materially if I am a pauper. Intellectually, I can assist you if I possess understanding not yet yours. The moron can give us no help intellectually. Spiritually, I can be of value to you only if I am in possession of insights which you have not yet experienced. Materially, intellectually, and spiritually, I am limited as to what I can do for any other person by what I have to give, by how well I have looked out for myself in these areas.

Once we have grasped the idea that the best way to help others is first to look out for ourselves, we should next consider how important it is that we do help others. I would like to emphasize the point that each of us, if self-interest be interpreted accurately, has a vested interest in the

Materially, intellectually, and spiritually, I am limited as to what I can do for any other person by what I have to give, by how well I have looked out for myself in these areas.

material, intellectual, and spiritual well-being of others; that our very existence depends on others.

A Society of Specialists

To appreciate the extent of our dependence on others, we need but realize that we are living in the most specialized, the most advanced division-of-labor, the most removed-from-self-subsistence society in all of recorded history.

For example, you will discover, as you take up your highly specialized tasks, that someone else will be growing, processing, and delivering your food, that someone else will be making your clothing, building your home, providing your transportation, supplying your heat, and making available to you most of the new knowledge you acquire. Indeed, you will discover that individuals from all over this earth will be at your service, willingly exchanging their millions of specialties for your own single specialty. You will discover that you will consume in a single day that which you could not possi-

bly produce solely by yourself in thousands of years. You will see about you a release and exchange of creative energies so fabulous that no living man can trace or diagnose the miracle. You will, for instance, pick up the receiver of a telephone, and instantly there will flow to your personal service the creative energies of Alexander Graham Bell—of tens of thousands of metallurgists, engineers, scientists, operators, linemen—a complex of creative energies flowing through space and time in order that you may talk to your parents or friends in a matter of seconds.

No one of us can exist without these others. And I repeat, each of us has a vested and vital interest in the creative energies of other people and in the uninhibited exchange of their services, ideas, and insights. We must, if we would intelligently look out for ourselves, see to it as best we can that these others be free of private or political marauders, interventionists, and parasites. Any inhibition to their creative lives is opposed to your and my personal interests, and we err and do not look out for ourselves if we sanction or fail to oppose such debasement. And further, it is incumbent upon all of us to rise as far as we can in our own intellectual and spiritual statures so that these others, on whom we depend, may find something in turn to draw from us.

Material wealth, morally speaking, is but the means to free us from lower employments so that we may labor more industriously at higher employments, that we may develop more fully the life of the intellect and of the spirit.

There is another point about this highly specialized society which deserves your reflection. You men and women, highly trained as specialists yourselves, represent the cream of this year's crop. Tomorrow, you will enter a society in which there will be millions of specialists, the cream of numerous former crops. I hope you will not emulate so many of them who attend only to their own specialties and little else beyond acquiring wealth and entertainment. Perhaps the most dangerous trend of our times is this: Specialists—the cream of the crop in intellectual and spiritual potentialities—who, by attending only to their diverse specializations, leave to the skim milk of the crop the vital problems of man's proper relationships to man.

Danger of Overspecialization

Specialization has its unquestioned blessings. But there is always the danger, which we are now witnessing, of its taking off like spokes

from the hub of a wheel, on and on with no regard to boundary or periphery, with each specialist heading into an ever-advancing remoteness, into an atomistic world of his own, always widening his distance from others, losing social cohesiveness with society disintegrating as each of us loses integration with others, with communication between specialists becoming more and more impossible, with nearly all specialists "too busy" to read, study, and meditate on the general problems of man's proper relationships to man. When these trends characterize a society, that society isn't merely doomed to collapse; it is destined to explode! If you would look out for yourself—and thus for others—you will by example and precept do your part in reversing such trends.

In order that I be not misunderstood, I repeat that specialization has its unquestioned blessings. Specialization, when practiced by whole men, by those who reflect on the meaning of life, by those who have an acquaintance with the humanities, and in a society where creative energies are uninhibited, is the road to material wealth—which can, in turn, lead to intellectual and spiritual wealth. But while specialization is the means to wealth, let us not think of material wealth as an end in itself. Material wealth, like specialization, is only the means to

higher ends—intellectual and spiritual wealth.

Wealth Can Free Man for Higher Aims

It seems to me that if material wealth has any moral purpose at all, it is to free man from the restrictions which are imposed by a subsistence level of living; for when one has to labor in the rice paddies from sunrise to sunset merely to eke out an animal existence, he doesn't stand much chance of evolving and developing those numerous potentialities peculiar to his own person. But wealth is not something to be pursued for wealth's sake or merely for luxuries, or quick retirement, or for shirking the problems of life. Material wealth, morally speaking, is but the means to free us from lower employments so that we may labor more industriously at higher employments, that we may develop more fully the life of the intellect and of the spirit. Material wealth is but a tool to help us develop our God-given faculties of intellect and spirit.

And now, a word of counsel. The market place is in high-pitched competition for your specialized services, and the emoluments being offered are relatively high. This may make the future look extraordinarily promising to you. And it can be promising if you don't become isolated in your own specializations. There are many brilliant but lost


specialists in industry today, persons who cannot be promoted into higher positions because of a narrowness in their scope. They lack an interest in the problems of others on whom they depend, and an understanding of the society in which it is their lot to live.

Broadening One's Perspective

Broadening one's scope, continuing one's education into other than one's own specialty, is not a dismal but a glorious prospect. It can be the very zest of life. Certainly, it is a well-known fact that any specialist, be he writer, painter, cook, or engineer, is a better specialist if there be breadth in his understanding, if he be an integrated person, if he has balanced judgments as to right and wrong principles in man's relationships to man.

The devilry going on in the world today is not primarily caused by criminals. The truly malevolent persons are too few in number to account for our wars and the continuing accumulation of vast armaments between major conflicts. The thoroughly evil persons among us are not numerous enough to account for all the racial and national hatreds and prejudices, for labor violence, for the growing belief that the honest fruits of one's labor no longer belong

to the earner, for restrictions on the exchange of goods and services, and for the many other collectivistic inanities and horrors. These things are not the doings of criminals. They originate mostly with the well-intentioned, those who wish to do good to others but who, lacking personal means, thoughtlessly see no harm in employing the police establishments to impose their brand of good on the rest of us, to use the fruits of other persons' labor to satisfy their own charitable instincts.

God bless you in your chosen pursuits, but I implore you not to specialize to the exclusion of your role as good citizens. Don't leave us and yourselves to the mercy of political parasites, those who would try to act the part of God, those who would cast us all in their immature little images. If you would effectively look out for yourselves and thus for others, if you would have a society in which your specializations are to have meaning for you and for your fellow men, if you would realize the possibilities in your own individual creations, you will attend to the perfections of that society. And you will best do this by the perfection of yourselves, not only as skilled specialists but also as accomplished expositors of the looking-out-for-yourself philosophy. 

Flight from Integrity

SOME YEARS AGO the public relations officer of a large corporation summarized for me his guiding principle: "Find out what the people want and do more of it; find out what they don't want and do less of it."

While seldom so succinctly stated, such an external, "other directed" guide to behavior is finding ever wider acceptance in American life. Implicit in its acceptance is a flight from personal integrity; and here may be found an important explanation for some of the mischief presently besetting our society.

Doubtless, this is good enough as a formula for getting rich. However, if an individual looks upon wealth as a means to such higher ends as his own intellectual and spiritual emergence or realizing those creative potentialities inherent in his

nature, then the formula has its shortcomings. And, in certain areas, it is downright destructive.

This is a serious charge. Let's explore it. In order to get this matter into perspective, contemplate the countless specialized subjects known to mankind. Take any one of them—landscape painting, for instance—and arrange the population of the U.S.A. in a pyramid according to proficiency or quality. There would be some one person at the very peak. Under him would be a few competent landscape painters; there would follow perhaps one million having a discriminating appreciation of such art; after which there would be the great mass—millions upon millions, unconscious, unaware, utterly ignorant of the art or the standards by which its perfection could be attained or judged.

Rearrange the population in pro-

iciency pyramids for all of the countless subjects which engage human interest and each of us would find himself near the base of most of the pyramids. Few are leaders or among the highly competent—except rarely and momentarily, if at all. Each of us has a potential for growth and development—especially if advantage is taken of the help available from those on higher levels.

With the above in mind, let us explore the implications of integrity to the situation we are contemplating. It involves the accurate reflection in word and deed of that which one's highest insight and conscience dictate as true and right. Now, a person's concept of what is true may not in fact be truth, but it is as close to truth as he can get. It is the individual's nearest approximation to truth, his most faithful projection of that approximation, the most accurate reflection of his best lights.

Adverse Selectivity

With the pyramid picture and this conception of integrity in mind, let us now observe what happens when the skilled in any subject—the competent who are near the peak—adopt the practice of finding out what the people want in order to “do more of it” and finding out what they do not want in order to “do less of it.” In such circumstances, from whence comes the instruction for what each

of the skilled is to do? From the best that is in each skilled person or available to him? From the highest conscience of each? Indeed not! The instruction and leadership in such circumstances is tailored to the level of the “know-nothings” of the given subject, to the values at the base of our imagined pyramid where over 90 per cent of the people are. Integrity is forsaken. Potential leadership is diverted from higher aspiration and, instead, panders to the tastes and foibles of the ignorant.

The fields of art and music, where new “lows” are now so much in evidence, illustrate the flight from integrity. Consider the following confession, ascribed to the famous painter, Picasso:

“In art, the mass of the people no longer seek consolation and exaltation, but those who are refined, rich, unoccupied, who are distillers of quintessences, seek what is new, strange, original, extravagant, scandalous. I myself, since cubism and even before, have satisfied these masters and critics, with all the changing oddities which passed through my head, and the less they understood me, the more they admired me. By amusing myself with all these games, with all these absurdities, with all these puzzles, rebuses, and arabesques, I became famous, and that very quickly. And fame for a painter means sales, gains, fortune, riches. And today, as you

know, I am celebrated, I am rich. But when I am alone with myself, I have not the courage to think of myself as an artist in the great and ancient sense of the term. Giotto, Titian, Rembrandt, and Goya were great painters; I am only a *public entertainer* who has understood his times and has exhausted as best he could the imbecility, the vanity, the cupidity of his contemporaries. Mine is a bitter confession, more painful than it may appear, but it has the merit of being sincere."¹

I have a TV program in mind. The star is an accomplished actress with an attractive voice. Does she sing the lovely songs of which she is capable?

Only now and then. For the most part, she and those in charge of her TV appearances insist on the stuff which nickels in juke boxes indicate as mass-popular. Instead of the millions at the lower part of the pyramid being lifted in their musical tastes by this singer at her creative best, we observe her descending and catering to the lowest or base tastes—an imitation of ignorance, so to speak. Thus is the music of our day degraded.

However unhappily we may view the wreckage which these responses to ignorance have brought to the fields of music, art, literature, entertainment, journalism, and the like,

we must concede that the individual who cares anything about himself has the choice, in these fields, of turning off the TV and not reading or viewing the rubbish that is so overwhelmingly served up to him.

The Realm of Politics

But no such freedom of choice is allowed the individual when flight from integrity occurs in the realm of politics. The individual, irrespective of his scruples, his morals, his ideals, his tastes, is helplessly swept with millions of others into the miserable mess which the dull weight of ignorance gradually but inevitably inflicts on everyone.

A candidate for the Presidency, supposedly brighter and better educated than average, nevertheless polled the mass of voters to find what they wanted from government. As could have been foretold, they wanted the very things that crumbled the Roman Empire—"bread and circuses." The farmers wanted subsidies, not for outstanding performance, but for not farming. The labor unions wanted grants of coercive power that they might extort more pay for less work. Many businessmen wanted various protections against competition. Vast hordes wanted the guaranteed life: pensions, ease, retirement; in short, to be relieved of responsibility for self. These are the things our candidate professed to stand for and promised

¹Broderick, Alan Houghton. *Mirage of Africa*. London: Hutchinson & Co., Ltd., 1953, p. 203.

to deliver, if elected. Instead of standing consistently for the highest principles of political economy known to him, he imitated the lowest common denominator opinion of the population. His campaign manager confided that he had to do this to get elected; that once in office he would then do what he regarded as right. This opportunity never came; the candidate was defeated. And, defeat was his just due. One who runs a campaign without integrity proves openly that he would, at any time, forsake integrity if it appeared expedient for him to do so.

This explains why the two major political parties in the United States today stand for the same things. Both have chosen to receive their instructions from precisely the same source, the lowest common denominator of popular opinion. The result is a one-party system under two meaningless labels. This deplorable situation can never be remedied until there is a return to integrity, with candidates whose outer selves and actions will reflect their own best thoughts, regardless of the effect this may have on their political fortunes.

Edmund Burke, addressing those who had just elected him to Parliament, put the case for integrity in unequivocal and unmistakable terms:

"But his [the successful candidate's] unbiased opinion, his mature judgment, his enlightened con-

science, he ought not to sacrifice to you, to any man, or to any set of men living. These he does not derive from your pleasure—no, nor from the law and the Constitution. They are a trust from Providence, for the abuse of which he is deeply answerable. Your representative owes you, not his industry only, but his judgment; and he betrays, instead of serving you, if he sacrifices it to your opinion."

George Washington had the same practical and lofty sentiments in mind when he reportedly said to the Constitutional Convention:

"If, to please the people, we offer what we ourselves disapprove, how can we afterwards defend our work? Let us raise a standard to which the wise and honest can repair. The event is in the hand of God."

Socialism Leaves Little Choice

No individual, whoever he may be, can escape the immediate consequences of ignorance in politics, as he can in art, music, journalism. There is no way to avoid the pains which bad political action inflicts. For ignorant political action encompasses all—one's life and the sustenance of life which is the fruit of one's own labor; one's freedom to choose how one shall live his own life. Political collectivism—the pattern consonant with political ignorance—means what it says: Everyone swept indiscriminately into a

vast human mass, the collective.² Why this wholesale divorce from personal conscience, this shameless acceptance of mass ignorance as our Director of Doing?

Doubtless, there are numerous reasons, some of which may be too obscure for ready discovery and examination. One possible explanation has to do with a false economic assumption. We, having paid so much heed to material progress and well-being, to ever higher standards of living, let our economic concepts pattern other aspects of our lives. Erring in our economic assumptions, we compound the error in our social, political, moral, and spiritual judgments.

Here is the error in economic diagnosis: We assume that "Find out what the people want and do more of it" has been the formula for our success, for our prolific production of goods and services. Thus, in the economic area, so we think, our guidance has come from the mass market rather than from conscience or higher realms of mind. The current cliché says, "The consumer is king."

²This dim view of political collectivism is not to be mistaken as a backhanded endorsement of the "philosopher king" idea of Plato and its modern counterpart: that society should be wholly governed by committees of the creative elite. There is no political process of knowing or selecting in advance the persons who will be most creative. The only process that will bring the creative minority to the top, that will encourage their effectiveness, is complete freedom.

The Spiritual Nature of Progress

Actually, instruction from the mass market has to do only with duplication. The market determines whether or not an economic good is to be duplicated and, if so, to what extent.

Duplication, sometimes called "mass production," admittedly controlled by the market, is not, however, the secret of productivity. The secret lies back of that. It has its genesis in the creation, the invention. Ralph Waldo Trine helps with this explanation:

"Everything is first worked out in the unseen before it is manifested in the seen, in the ideal before it is realized in the real, in the spiritual before it shows forth in the material. The realm of the unseen is the realm of cause. The realm of the seen is the realm of effect. The nature of effect is always determined and conditioned by the nature of its cause."³

The noted economist, Professor Ludwig von Mises, reputedly the greatest free market theorist of our time, adds his judgment to this view:

"Production is a spiritual, intellectual, and ideological phenomenon. It is the method that man, directed by reason, employs for the best possible removal of uneasiness. What distinguishes our conditions from those of our ancestors who lived one thousand or twenty thousand years

³From *In Tune with the Infinite*. Indianapolis: The Bobbs-Merrill Co., 1897.

ago is not something material, but something spiritual. The material changes are the outcome of the spiritual changes."⁴

Where, for example, did Thomas Alva Edison get his ideas for the electric lamp? Not from the mass market! How could a people give specifications for something about which they were totally unaware?

In reality, the productive process works outward from that which is first presented uniquely to an individual mind as awareness or consciousness or insight (the reception of ideas—ideation) and is then accurately (with integrity) worked out or reflected in the material good or service. There is a distinctively spiritual accomplishment before the good or service is held up to view before the mass market.

Let Each Do His Best


American economic progress has been truly phenomenal. But this progress has been founded on inspiration from the highest insights of individuals, not on advice from the lower levels of ignorance. In this manner the masses progressively are freed from poverty and slavery, free men's material needs gratified as never before, and opportunities opened to everyone to pursue and develop those creative potentialities inherent in his own personality. If

we would succeed with our political institutions, we have in the productive process a model to emulate. However, we must understand how this process really works: that it finds its power in highest conscience and the accurate reflection thereof, in short, in integrity.

One's highest conscience, regardless of the step it occupies on the Infinite Stairway of Righteousness and Wisdom, is sensitive to the way one treats it. Lie about it, distort it, reflect it inaccurately, take contrary instruction from inferior sources or yield to the temptation of fame or fortune or popularity or other weaknesses of the flesh *at its expense* and it will become flabby and flaccid and will be incapable of rising to higher levels.

Now and then we observe individuals who can be depended upon to state accurately that which they believe to be right, persons unmoved by fickle opinions, by the lure of applause, or by the sting of censure. We may disagree with such persons, but be it noted that we trust them. For their creed appears to be:

This above all, to thine own self be true;
And it must follow, as the night the day
Thou canst not then be false to any man.

Such persons are possessed of integrity! 

⁴From *Human Action*. New Haven: Yale University Press, 1949, p. 141.

Every Person Should Be Free

- ... to pursue his ambition to the full extent of his abilities, regardless of race or creed or family background.*
- ... to associate with whom he pleases for any reason he pleases, even if someone else thinks it's a stupid reason.*
- ... to worship God in his own way, even if it isn't "orthodox."*
- ... to choose his own trade and to apply for any job he wants—and to quit his job if he doesn't like it or if he gets a better offer.*
- ... to go into business for himself, be his own boss, and set his own hours of work—even if it's only three hours a week.*
- ... to use his honestly acquired property or savings in his own way—spend it foolishly, invest it wisely, or even give it away.*
- ... to offer his services or products for sale on his own terms, even if he loses money on the deal.*
- ... to buy or not to buy any service or product offered for sale, even if the refusal displeases the seller.*
- ... to disagree with any other person, even when the majority is on the side of the other person.*
- ... to study and learn whatever strikes his fancy, as long as it seems to him worth the cost and effort of studying and learning it.*
- ... to do as he pleases in general, as long as he doesn't infringe the equal right and opportunity of every other person to do as he pleases.*

The above, in a nutshell, is the way of life which the libertarian philosophy commends. It means no special privilege from government for anyone. It is the way of individual liberty, of the free market, of private property, of government limited to securing these rights equally for all.

On That Day Began Lies

From the day when the first members of councils placed exterior authority higher than interior, that is to say, recognized the decisions of men united in councils as more important and more sacred than reason and conscience; on that day began lies that caused the loss of millions of human beings and which continue their unhappy work to the present day.

LEO TOLSTOY¹

THIS is a striking statement. Is it possible that there is something of a wholly destructive nature which has its source in councilmanic, or in group, or in committee-type action? Can this sort of thing generate lies

that actually cause the loss of "millions of human beings"?

Any reasonable clue to the unhappy state of our affairs merits investigation. Two world wars that settled nothing except adding to the difficulties of avoiding even worse ones; men lacking in good character rising to positions of power over millions of other men; freedom to produce, to trade, to travel, disappearing from the earth; everywhere the fretful talk of security as insecurity daily becomes more evident; suggested solutions to problems made of the stuff that gave rise to the problems; the tragic spectacle, even here in America, of any one of many union leaders being able, at will, to control a strategic part of the complex exchange machinery on which the livelihood of all depends; these and other perplexities of import

First published in 1949.

¹*The Law of Love and the Law of Violence* (Rudolph Field, N.Y.), p. 26.

combine to raise a tumultuous "why," and to hasten the search for answers.

The Search for Answers

"... on that day began lies. . . ." That is something to think about. Obviously, if everything said or written were lies, then truth or right principles would be unknown. Subtract all knowledge of right principles and there would not be even chaos among men. Quite likely there would be no men at all.

If half of everything said or written were lies. . . .

Human life is dependent not only on the knowledge of right principles but dependent, also, on actions in accordance with right principles. Admittedly there are wrong principles and right principles. However, the nearest that any person can get to right principles—truth—is that which his highest personal judgment dictates as right. Beyond that one cannot go or achieve. *Truth, then, as nearly as any individual can express it, is in strict accordance with this inner, personal dictate of rightness.*

The accurate representation of this inner, personal dictate is intellectual integrity. It is the expressing, living, acting of such truth as any given person is in possession of. Inaccurate representation of what one believes to be right is untruth. It is a lie.

Attaining knowledge of right principles is an infinite process. It is a development to be pursued but never completed. Intellectual integrity, the accurate reflection of highest personal judgment, on the other hand, is within the reach of all. Thus, the best we can do with ourselves is to represent ourselves at our best. To do otherwise is to tell a lie. To tell lies is to destroy such truth as is known. To deny truth is to destroy ourselves.

It would seem to follow, then, that if we could isolate any one or numerous origins of lies we might put the spotlight on the genesis of our troubled times. This is why it seems appropriate to accept Tolstoy's statement as a hypothesis and examine into the idea that lies begin with "decisions of men united in councils as more important and more sacred than reason and conscience." For, certainly, today, much of the decision that guides national and world policy springs from "men united in councils."

In what manner, then, do "the decisions of men united in councils" tend to initiate lies? Experience with these arrangements suggests that there are several ways.

The Spirit of the Mob

The first has to do with a strange and what in most instances must be an unconscious behavior of men in association. Consider the mob. It is

a loose-type association. The mob will tar and feather, burn at the stake, string up by the neck, and otherwise murder. But dissect this association, pull it apart, investigate its individual components. Each person, very often, is a God-fearing, home-loving, wouldn't-kill-a-fly type of individual.

What happens, then? What makes persons in a mob behave as they do? What accounts for the distinction between these persons acting as responsible individuals and acting in association?

Perhaps it is this: These persons, when in mob association, and maybe at the instigation of a demented leader, remove the self-disciplines which guide them in individual action; thus the evil that is in each person is released, for there is some evil in all of us. In this situation, no one of the mobsters consciously assumes the *personal* guilt for what is thought to be a collective act but, instead, puts the onus of it on an abstraction which, without persons, is what the mob is.

There may be the appearance of unfairness in relating mob association to association in general. In all but one respect, yes. But in one respect there is a striking similarity.

Persons advocate proposals in association that they would in no circumstance practice in individual action. Honest men, by any of the common standards of honesty, will,

in a board or a committee, sponsor, for instance, legal thievery—that is, they will urge the use of the political means to exact the fruits of the labor of others for the purpose of benefiting themselves, their group, or their community.

These leaders, for they have been elected or appointed to a board or a committee, do not think of themselves as having sponsored legal thievery. They think of the board, the committee, the council or the association as having taken the action.² The onus of the act, to their way of thinking, is put on an abstraction which is what a board or an association is without persons.

Imagine this: Joe Doakes passed away and floated up to the Pearly Gates. He pounded on the Gates and St. Peter appeared.

"Who are you, may I ask?"

"My name is Joe Doakes, sir."

"Where are you from?"

"I am from Updale, U.S.A."

"Why are you here?"

"I plead admittance, Mr. St. Peter."

St. Peter scanned his scroll and

²It is acknowledged that most of us acting in association do not consciously regard any of our acts as bad. Yet, the fact remains that we persist in doing things in this circumstance that we would not do on our own responsibility. Actually, involved is a double standard of morality. Morality is exclusively a personal quality. Any action not good enough to be regarded as attached to one's person is, ipso facto, bad.

said, "Yes, Joe, you are on my list. Sorry I can't let you in. You stole money from others, including widows and orphans."

"Mr. St. Peter, I had the reputation of being an honest man. What do you mean, I stole money from widows and orphans?"

"Joe, you were a member, a financial supporter and once on the Board of Directors of The Updale Do-Good Association. It advocated a municipal golf course in Updale which took money from widows and orphans in order to benefit you and a hundred other golfers."

"Mr. St. Peter, that was The Updale Do-Good Association that took that action, not your humble applicant, Joe Doakes."

St. Peter scanned his scroll again, slowly raised his head, and said somewhat sadly, "Joe, The Updale Do-Good Association is not on my list, nor any foundation, nor any chamber of commerce, nor any trade association, nor any labor union, nor any P.T.A. All I have listed here are persons, *just persons*."

The Spirit of the Committee

It ought to be obvious that we as individuals stand responsible for our actions regardless of any wishes to the contrary, or irrespective of the devices we try to arrange to avoid personal responsibility. Actions of the group character heretofore referred to are lies for in no sense are they

accurate responses to the highest judgments of the individuals concerned.

The second way that lies are initiated by "the decisions of men united in councils" inheres in commonly accepted committee practices. For example: A committee of three has been assigned the task of preparing a report on what should be done about rent control. The first member is devoted to the welfare-state idea and believes that rents should forever be controlled by governmental fiat. The second member is a devotee of the voluntary society, free market economy and a government of strictly limited powers and, therefore, believes that rent control should be abolished forthwith. The third member believes rent controls to be bad but thinks that the decontrol should be effected gradually, over a period of years.

This not uncommon situation is composed of men honestly holding three irreconcilable beliefs. Yet, a report is expected and under the customary committee theory and practice is usually forthcoming. What to do? Why not hit upon something that is not too disagreeable to any one of the three? For instance, why not bring in a report recommending that landlords be permitted by government to increase rents in an amount not to exceed 15%? Agreed!

In this hypothetical but common instance the recommendation is a

fabrication, pure and simple. Truth, as understood by any one of the three, has no spokesman. By any reasonable definition a lie has been told.

The Lowest Common Denominator

Another example. Three men having no preconceived ideas are appointed to bring in a report. What will they agree to? Only that which they are willing to say in concert which, logically, can be only the lowest common-denominator opinion of the majority! The lowest common-denominator opinion of two persons cannot be an accurate reflection of the highest judgment of each of the two. The lowest common-denominator opinion of a set of men is at variance with truth as here defined. Again, it is a fabrication. Truth has no spokesman. A lie has been told.

These examples (numberless variations could be cited) suggest only the nature of the lie in embryo. It is interesting to see what becomes of it.

Not all bodies called committees are true committees, a phase of the discussion that will be dealt with later. However, the true committee, the arrangement which calls for resolution in accordance with what a majority of the members are willing to say in concert, is but the instigator of fabrications yet more pronounced. The committee, for the most part, presupposes another larger body

to which its recommendations are made.

These larger bodies have a vast, almost an all-inclusive, range in present-day American life. The neighborhood development associations; the small town and big city chambers of commerce; the regional and national trade associations; the P.T.A.'s; labor unions organized vertically to encompass crafts and horizontally to embrace industries; farmers' granges and co-ops; medical and other kinds of professional societies; ward, precinct, county, state and national organizations of political parties; governmental councils from the local police department board to the Congress of the United States; the United Nations; thousands and tens of thousands of them, every citizen embraced by several of them and millions of citizens embraced by scores of them; most of them "resoluting" as groups, deciding as "men united in councils."

These associational arrangements divide quite naturally into two broad classes, (1) those that are of the voluntary type, the kind to which we pay dues if we want to, and (2) those that are a part of government, the kind to which we pay taxes whether we want to or not.

For the purposes of this critique, emphasis will be placed on the voluntary type. In many respects criticisms applying to the former are valid when applied to the latter;

nonetheless, there are distinctions between the way one should relate oneself to a voluntary association and the way one, for the sake of self-protection, is almost compelled to relate himself to a coercive agency.³

Now, it is not true, nor is it here pretended, that every associational resolution originates in distortions of personal conceptions of what is right. But any one of the millions of citizens who participates in these associations has, by experience, learned how extensive these fabrications are. As a matter of fact, there has developed a rather large acceptance of the notion that wisdom can be derived from the averaging of opinions, providing there are enough of them. The quantitative theory of wisdom, so to speak!

A Lie Compounded

If one will concede that the aforementioned committee characteristics and council behaviors are perversions of truth, it becomes

³The common political idea that a member of Congress, for instance, must "compromise," that is, must on some issues vote contrary to his convictions in order to effect a greater good on some subsequent issue, or to keep himself in office that he may insure the public good, leaves shattered and destroyed any moral basis of action. If each member of Congress were to act in strict accordance with his inner dictate of what is right, the final outcome of Congressional action would, of course, be a composite of differing convictions. But the alternative of this is a composite of inaccurate reflections of rightness.

interesting to observe the manner of their extension—to observe how the lie is compounded.

Analyzed, it is something like this: An association takes a stand on a certain issue and claims or implies it speaks for its 1,000,000 members. It is possible, of course, that each of the 1,000,000 members agrees with the stand taken by the organization. But, in all probability, this is an untruthful statement, for the following possible reasons:

(1) If every member were actually polled on the issue, and the majority vote was accepted as the organization's position, there is no certainty that more than 500,001 persons agreed with the position stated as that of the 1,000,000.

(2) If not all members were polled, or not all were at the meeting where the voting took place, there is only the certainty that a majority of those voting favored the position of the organization—still claimed to be the belief of 1,000,000 persons. If the quorum should be 100, there is no certainty that more than 51 persons agreed with that position.

(3) It is still more likely that the opinion of the members was not tested at all. The officers, or some committee, or some one person may have determined the stand of the organization. Then there is no certainty that more than one person (or a majority of the committee) favored that position.

(4) And, finally, if that person should be dishonest—that is, untrue to that which he personally believed to be right, either by reason of ulterior motives, or by reason of anticipating what the others will like or approve—then, it is pretty certain that the resolution did not even originate in honest opinion.

An example will assist in making the point. The economist of a national association and a friend were breakfasting one morning, just after V-J Day. Wage and price controls were still in effect. The conversation went something as follows:

"I have just written a report on wage and price controls which I think you will like."

"Why do you say you *think* I will like it? Why don't you say you *know* I will like it?"

"Well, I—er—hedged a little on rent controls."

"You don't believe in rent controls. Why did you hedge?"

"Because the report is as strong as I think our Board of Directors will adopt."

"As the economist, isn't it your business to state that which you believe to be right? If the Board Members want to take a wrong action, let them do so and bear the responsibility for it."

Paying for Misrepresentation

Actually, what happened? The Board did adopt that report. It was

represented to the Congress as the considered opinion of the constituency of that association. Many of the members believed in the immediate abolishment of rent control. Yet, they were reported as believing otherwise—and paying dues to be thus misrepresented. By supporting this procedure with their membership and their money they were as responsible as though they had gone before the Congress and told the lie themselves.

To remove the twofold dishonesty from such a situation, the spokesman of that association would have to say something like this:

"This report was adopted by our Board of Directors, 35 of the 100 being present. The vote was 18 to 12 in favor of the report, 5 not voting. The report itself was prepared by our economist, *but it is not an accurate reflection of his views.*"⁴

Such honesty or exactness is more the exception than the rule as everyone who has had experience in associational work can attest. What really happens is a misrepresentation of concurrence, a program of lying about how many of who stands for what. Truth, such as is known, is seldom spoken. It is warped into a misleading distortion. It is obliterated.

⁴It is evident that any such report as this is worthless. Yet, a more pretentious report would be a lie, a thing of positive harm. If a procedure can result only in worthlessness or harm, the procedure itself should be in question.

ated by this process of the majority speaking for the minority, more often by the minority speaking for the majority, sometimes by one dishonest opportunist speaking for thousands. Truth, such as is known—the best judgments of individuals—for the most part, goes unrepresented, unspoken.

This, then, is the stuff out of which much of local, national and world policy is being woven. Is it any wonder that many citizens are confused?

Three questions are in order, and deserve suggested answers:

(1) What is the reason for having all these troubles with truth?

(2) What should we do about these associational difficulties?

(3) Is there a proper place for associational activity as relating to important issues?

“And now remains

That we find out the cause of this effect;

Or, rather say, the cause of this defect,

For this effect, defective, comes by cause.”

Pointing out causes is a hazardous venture for, as one ancient sage put it, “Even from the beginnings of the world descends a chain of causes.” Thus, for the purpose of this critique, it would be folly to attempt more than casual reference to some of our own recent experiences.

First, there doesn't appear to be any widespread, lively recognition of

the fact that conscience, reason, knowledge, integrity, fidelity, understanding, judgment and other virtues are the distinctive and exclusive properties of individual persons.

Somehow, there follows from this lack of recognition the notion that wisdom can be derived by pooling the conclusions of a sufficient number of persons, even though no one of them has applied his faculties to the problems in question. With this as a notion the imagination begins to ascribe personal characteristics to a collective—the committee, the group, the association—as though the collective could think, judge, know, or assume responsibility. With this as a notion, there is the inclination to substitute the “decisions of men united in councils” for reason and conscience. With this as a notion, the responsibility for personal thought is relieved and, thus relieved, fails to materialize to its fullest.

A Blind Faith

Second, there is an almost blind faith in the efficacy and rightness of majority decision as though the mere preponderance of opinion were the device for determining what is right. This thinking is consistent with and a part of the “might makes right” doctrine. This thinking, no doubt, is an outgrowth of the American political pattern, lacking, it seems, an observance of the essential distinc-

tions between voluntary and coercive agencies. It is necessary that these distinctions be understood unless the whole associational error is to continue. The following is, at least, a suggested explanation:

Government—organized police force—which according to best American theory should have a monopoly of coercive power, must contain a final authority. Such authority was not planned to be in the person of a monarch, in an oligarchy or even in a set of elected representatives. The ultimate, final authority was designed to derive from and to reside with the people. Erected as safeguards against the despotism that such a democratic arrangement is almost certain to inflict on its members were (1) the Constitution and (2) the legislative, executive and judicial functions so divided and diffused that each might serve as a check on the others.

When the concession is made that government is necessary to assure justice and maximum freedom, and when the decision is made that the ultimate authority of that government shall rest with the people, it follows that majority vote is not a matter of choice *but a necessity* whenever this ultimate authority expresses itself. No alternative exists with this situation as a premise. To change from majority vote as a manner of expression would involve

changing the premise, changing to a situation in which the ultimate authority rests in one person.

A Restraint Against the Abuse of the Police Power

For reasons stated and implied throughout this critique the majority-decision system is considered to be most inexpert. However, it proves to be a virtue rather than a fault as applied to the exceedingly dangerous coercive power, *providing the coercive power is limited to its sphere of policing*. This inexpertness in such a circumstance tends to keep the coercive power from becoming too aggressive.

Conceding the limitation of the coercive power, which was implicit in the American design, the really important matters of life, all of the creative aspects, are outside this coercive sphere and are left to the attentions of men in voluntary effort and free association.

The idea of citizens left free to their home life, their business life, their religious life, with the coercive power limited to protecting citizens in these pursuits presents, roughly, the duality of the American pattern. On the one hand is the really important part of life, the creative part. On the other hand is the minor part, the part having to do with constraint. Constraining and creating call for distinctly different arrangements. Constraint can stop the trains but it

is not the force we use to build a railroad.

Out of this pattern has developed a high appreciation for our form of government, particularly as we have compared it with the coercive agencies of the Old World. Here is the point: The majority-decision system, an effect rather than a cause of our form of government, has been erroneously credited as responsible for the superiority of our form of government. It has been thought of as its distinctive characteristic. Therefore, the majority-decision system is regarded as the essence of rightness. Without raising questions as to the distinctions between creating and constraining we have taken a coercive-agency device and attempted its application in free association. Something is not quite right. Perhaps this is one of the causes.

Loss of Reason

Third, we have in this country carried the division-of-labor practice to such a high point and with such good effect in standard-of-living benefits that we seem to have forgotten that the practice has any limitations. Many of us, in respect to our voluntary associational activities, have tried to delegate moral and personal responsibilities to mere abstractions, which is what associations are, without persons. In view of (1) this being an impossibility, (2) our persistent attempts to do it,

nonetheless, and (3) the consequent loss of reason and conscience when personal responsibility is not personally assumed, we have succeeded in manufacturing little more than massive quantities of collective declarations and resolutions. These, lacking in both wit and reason, have the power to inflict damage but are generally useless in conferring understanding. So much for causes.

"What should we do about these associational difficulties?" This writer, to be consistent with his own convictions, finds it necessary to drop into first person, singular, to answer this question.

In brief, I do not know what our attitude should be, but only what mine is. *It is to have no part in any association whatever which takes actions implicating me for which I am not ready and willing to accept personal responsibility.*

Put it this way: If I am opposed, for instance, to spoliation—legal plunder—I am not going to risk being reported in its favor. This is a matter having to do with morals, and moral responsibility is strictly a personal affair. In this, and like areas, I prefer to speak for myself. I do not wish to carry the division-of-labor idea, the delegation of authority, to this untenable extreme.

This determination of mine refers only to voluntary associations and does not include reference to membership in or support of a political

party. The latter has to do with my relationship to coercive agencies and these, as I have suggested, are birds of another feather.

One friend who shares these general criticisms objects to the course I have determined on. He objects on the ground that he must remain in associations which persist in misrepresenting him in order to effect his own influence in bettering them. If one accepts this view, how can one keep from "holing up" with any evil to be found, anywhere? If lending one's support to an agency which lies about one's convictions is as evil as lying oneself, and if to stop such evil in others one has to indulge in evil, it seems evident that evil will soon become unanimous. The alternative? Stop doing evil. This at least has the virtue of lessening the evil-doers by one.

The question, "Is there a proper place for associational activity as relating to important issues?" is certainly appropriate if the aforementioned criticisms be considered valid.

First, the bulk of activities conducted by many associations is as businesslike, as economical, as appropriate to the division-of-labor process, as is the organization of specialists to bake bread or to make automobiles. It is not this vast number of useful service activities that is in question.

The phase of activities here in dispute has to do with a technic, a

method by which reason and conscience—such truths as are possessed—are not only robbed of incentive for improvement but are actually turned into fabrications, and then represented as the convictions of persons who hold no such convictions.

It was noted above that not all bodies called committees are true committees—a true committee being an arrangement by which a number of persons bring forth a report consistent with what the majority is willing to state in concert. The true committee is part and parcel of the majority-decision system.

Intellectual Leveling-Up

The alternative arrangement, on occasion referred to as a committee, may include the same set of men. The distinction is that the responsibility and the authority for a study is vested not in the collective, the group, but in one person, preferably the one most skilled in the subject at issue. The others serve as consultants. The one person exercises his own judgment as to the suggestions to be incorporated or omitted. The report is his and is presented as his, with such acknowledgments of assistance and concurrence as the facts warrant. In short, the responsibility for the study and the authority to conduct it are reposed where responsibility and authority are capable of being exercised—in a person. This

arrangement takes full advantage of the skills and specialisms of all parties concerned. The tendency here is toward an intellectual leveling-up, whereas with the true committee the lowest common-denominator opinion results.

On occasion, associations are formed for a particular purpose and supported by those who are like-minded as to that purpose. As long as the associational activities are limited to the stated purpose and as long as the members remain like-minded, the danger of misrepresentation is removed.

It is the multi-purposed association, the one that potentially may take a "position" on a variety of subjects, particularly subjects relating to the rights or the property of others—moral questions—where misrepresentation is not only possible but almost certain.

The remedy here, if a remedy can be put into effect, is for the association to quit taking "positions" except on such rare occasions as unanimous concurrence is manifest, or except as the exact and precise degree and extent of concurrence is represented.

The alternative step to most associational "positions" is for the members to employ the division-of-labor theory by pooling their resources to supply services to the members—as individuals. Provide headquarters and meeting rooms where they may

assemble in free association, exchange ideas, take advantage of the availability and knowledge of others, know of each other's experiences. In addition to this, statisticians, research experts, libraries and a general secretariat and other aids to effective work can be provided. Then, let the individuals speak or write or act as individual persons! Indeed, this is the real, high purpose of voluntary associations.

The practical as well as the ethical advantages of this suggested procedure may not at first be apparent to everyone. Imagine, if you can, Patrick Henry as having said: "I move that this convention go on record as insisting that we prefer death to slavery."

Now, suppose that the convention had adopted that motion. What would have been its force? Certainly almost nothing as compared with Patrick Henry's ringing words: "I know not what course others may take; but as for me, give me liberty or give me death!"

No one in this instance concerned himself with what Patrick Henry was trying to do to him or to someone else. One thought only of what Patrick Henry had decided for himself and weighed, more favorably, the merits of emulation. No convention, no association, no "decisions of men united in councils" could have said such a thing in the first place, and second, anything the members might

have said in concert could not have equalled this. Third, had the convention been represented in any such sentiments it is likely that misrepresentation would have been involved.

One needs to reflect but a moment on the words of wisdom which have come down to us throughout all history, the words and works that have had the power to live, the words and works around which we have molded much of our lives, and one will recognize that they are the words and works of persons, not collective resolutions, not what men have uttered in concert, not the "decisions of men united in councils."

A Waste of Time

In short, if effectiveness for what's right is the object then the decision-of-men-united-in-council procedure could well be abandoned, if for nothing else, on the basis of its impracticality. It is a waste of time in the creative areas, that is, for the advancement of truth. It is a useful and appropriate device only as it relates to the coercive, that is to the restrictive, suppressive, destructive functions.

The reasons for the impracticality of this device in the creative areas seem clear. Each of us when seeking perfection, whether of the spirit, of

the intellect, or of the body, looks not to our inferiors but to our betters, not to those who self-appoint themselves as our betters, but to those who, in our own humble judgment, are our betters. Experience has shown that such perfection as there is exists in individuals, not in the lowest common-denominator expressions of a collection of individuals. Perfection emerges with the clear expression of personal faiths—the truth as it is known, not with the confusing announcement of verbal amalgams—lies.

"... on that day began lies that caused the loss of millions of human beings and which continue their unhappy work to the present day." The evidence, if fully assembled and correctly presented, would, no doubt, convincingly affirm this observation.

How to stop lies? It is simply a matter of personal determination and a resolve to act and speak in strict accordance with one's inner, personal dictate of what is right. And for each of us to see to it that no other man or set of men is given permission to represent us otherwise.

If such truth as we are in possession of were in no manner inhibited, then life on this earth would be at its highest possible best, short of further enlightenment. ☉

The Magic of Believing

A FEELING OF HOPELESSNESS is the straw that could break the back of the freedom movement—for freedom will never be achieved without faith. In any event, this feeling of futility more seriously threatens the continuance of the work of the Foundation for Economic Education than does any other discernible influence. People do not continue to work at a problem after its solution appears hopeless to them.

Too many opponents of socialism—once convinced that there is no simple remedy at hand, and aware that the problem at issue is nothing less than altering the *mores* of a vast society—tend to give up the ghost. Unnerved by the dimensions of the job, they say, “Oh, what’s the use!”

Experience leads one to believe that the forces which have to do with shaping human destiny are of no help to those of little faith. Indeed, they appear to have no truck with people who lack confidence in what determined effort can accomplish.

On the other hand, these forces—call them by your own name—tend to cooperate with those who believe they can accomplish the seemingly

impossible and never call it quits until the game is over. There are men, be it observed, who do, in fact, move mountains. *But they are not the men who doubt that mountains can be moved.*

Take note, for instance, of golfers on putting greens. There are those who doubt they can sink any but the simplest putts. And there are those who have confidence that they can sink every putt—they actually believe this! The former are miserable performers. Among the latter are to be found the skilled and all the miracle putters.

Miracles are all about us—a common loaf of bread is packed with wonders. Those who have no sense of the miraculous, who have no faith in achieving anything beyond what the unaided individual can accomplish, will be of little help in ridding our society of socialism. The problem seems too hopelessly impossible to them and they quit. But the undaunted, those who know the magic of believing, will make progress, for the forces which are available to those who believe will lend a hand to multiply their efforts. Too bad there aren’t more such efforts for them to multiply!

I, Pencil

I AM A LEAD PENCIL—the ordinary wooden pencil familiar to all boys and girls and adults who can read and write.*

Writing is both my vocation and my avocation; that's all I do.

You may wonder why I should write a genealogy. Well, to begin with, my story is interesting. And, next, I am a mystery—more so than a tree or a sunset or even a flash of lightning. But, sadly, I am taken for granted by those who use me, as if I were a mere incident and without background. This supercilious attitude relegates me to the level of the commonplace. This is a species of the

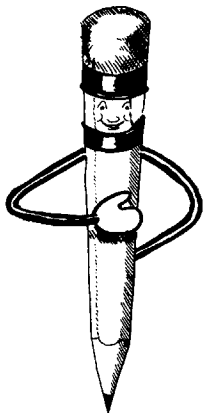
grievous error in which mankind cannot too long persist without peril. For, the wise G. K. Chesterton observed, "We are perishing for want of wonder, not for want of wonders."

I, Pencil, simple though I appear to be, merit your wonder and awe, a claim I shall attempt to prove. In fact, if you can understand me—no, that's too much to ask of anyone—if you can become aware of the miraculousness which I symbolize, you can help save the freedom mankind is so unhappily losing. I have a profound lesson to teach. And I can teach this lesson better than can an automobile or an airplane or a mechanical dishwasher because—well, because I am seemingly so simple.

Simple? Yet, *not a single person on the face of this earth knows how to make me.* This sounds fantastic, doesn't it? Especially when it is re-

From *The Freeman*, December 1958.

*My official name is "Mongol 482." My many ingredients are assembled, fabricated, and finished by Eberhard Faber Pencil Company, Wilkes-Barre, Pennsylvania.



alized that there are about one and one-half billion of my kind produced in the U.S.A. each year.

Pick me up and look me over. What do you see? Not much meets the eye—there's some wood, lacquer, the printed labeling, graphite lead, a bit of metal, and an eraser.

Innumerable Antecedents

Just as you cannot trace your family tree back very far, so is it impossible for me to name and explain all my antecedents. But I would like to suggest enough of them to impress upon you the richness and complexity of my background.

My family tree begins with what in fact is a tree, a cedar of straight grain that grows in Northern California and Oregon. Now contemplate all the saws and trucks and rope and the countless other gear used in harvesting and carting the

cedar logs to the railroad siding. Think of all the persons and the numberless skills that went into their fabrication: the mining of ore, the making of steel and its refinement into saws, axes, motors; the growing of hemp and bringing it through all the stages to heavy and strong rope; the logging camps with their beds and mess halls, the cookery and the raising of all the foods. Why, untold thousands of persons had a hand in every cup of coffee the loggers drink!

The logs are shipped to a mill in San Leandro, California. Can you imagine the individuals who make flat cars and rails and railroad engines and who construct and install the communication systems incidental thereto? These legions are among my antecedents.

Consider the millwork in San Leandro. The cedar logs are cut into small, pencil-length slats less than one-fourth of an inch in thickness. These are kiln dried and then tinted for the same reason women put rouge on their faces. People prefer that I look pretty, not a pallid white. The slats are waxed and kiln dried again. How many skills went into the making of the tint and the kilns, into supplying the heat, the light and power, the belts, motors, and all the other things a mill requires? Sweepers in the mill among my ancestors? Yes, and included are the men who poured the concrete for the dam of a Pacific Gas & Electric Company hy-

droplant which supplies the mill's power!

Don't overlook the ancestors present and distant who have a hand in transporting sixty carloads of slats across the nation from California to Wilkes-Barre!

Complicated Machinery

Once in the pencil factory—\$4,000,000 in machinery and building, all capital accumulated by thrifty and saving parents of mine—each slat is given eight grooves by a complex machine, after which another machine lays leads in every other slat, applies glue, and places another slat atop—a lead sandwich, so to speak. Seven brothers and I are mechanically carved from this “wood-clinched” sandwich.

My “lead” itself—it contains no lead at all—is complex. The graphite is mined in Ceylon. Consider these miners and those who make their many tools and the makers of the paper sacks in which the graphite is shipped and those who make the string that ties the sacks and those who put them aboard ships and those who make the ships. Even the lighthouse keepers along the way assisted in my birth—and the harbor pilots.

The graphite is mixed with clay from Mississippi in which ammonium hydroxide is used in the refining process. Then wetting agents are added such as sulfonated tallow—

animal fats chemically reacted with sulfuric acid. After passing through numerous machines, the mixture finally appears as endless extrusions—as from a sausage grinder—cut to size, dried, and baked for several hours at 1,850 degrees Fahrenheit. To increase their strength and smoothness the leads are then treated with a hot mixture which includes candelilla wax from Mexico, paraffin wax, and hydrogenated natural fats.

My cedar receives six coats of lacquer. Do you know all of the ingredients of lacquer? Who would think that the growers of castor beans and the refiners of castor oil are a part of it? They are. Why, even the processes by which the lacquer is made a beautiful yellow involves the skills of more persons than one can enumerate!

Observe the labeling. That's a film formed by applying heat to carbon black mixed with resins. How do you make resins and what, pray, is carbon black?

My bit of metal—the ferrule—is brass. Think of all the persons who mine zinc and copper and those who have the skills to make shiny sheet brass from these products of nature. Those black rings on my ferrule are black nickel. What is black nickel and how is it applied? The complete story of why the center of my ferrule has no black nickel on it would take pages to explain.

Then there's my crowning glory, inelegantly referred to in the trade as "the plug," the part man uses to erase the errors he makes with me. An ingredient called "factice" is what does the erasing. It is a rubber-like product made by reacting rape seed oil from the Dutch East Indies with sulfur chloride. Rubber, contrary to the common notion, is only for binding purposes. Then, too, there are numerous vulcanizing and accelerating agents. The pumice comes from Italy; and the pigment which gives "the plug" its color is cadmium sulfide.

No One Knows

Does anyone wish to challenge my earlier assertion that no single person on the face of this earth knows how to make me?

Actually, millions of human beings have had a hand in my creation, no one of whom even knows more than a very few of the others. Now, you may say that I go too far in relating the picker of a coffee berry in far off Brazil and food growers elsewhere to my creation; that this is an extreme position. I shall stand by my claim. There isn't a single person in all these millions, including the president of the pencil company, who contributes more than a tiny, infinitesimal bit of know-how. From the standpoint of know-how the only difference between the miner of graphite in Ceylon and the logger in

Oregon is in the *type* of know-how. Neither the miner nor the logger can be dispensed with, any more than can the chemist at the factory or the worker in the oil field—paraffin being a by-product of petroleum.

Here is an astounding fact: Neither the worker in the oil field nor the chemist nor the digger of graphite or clay nor any who mans or makes the ships or trains or trucks nor the one who runs the machine that does the knurling on my bit of metal nor the president of the company performs his singular task because he wants me. Each one wants me less, perhaps, than does a child in the first grade. Indeed, there are some among this vast multitude who never saw a pencil nor would they know how to use one. Their motivation is other than me. Perhaps it is something like this: Each of these millions sees that he can thus exchange his tiny know-how for the goods and services he needs or wants. I may or may not be among these items.

No Master Mind

There is a fact still more astounding: The absence of a master mind, of anyone dictating or forcibly directing these countless actions which bring me into being. No trace of such a person can be found. Instead, we find the Invisible Hand at work. This is the mystery to which I earlier referred.

It has been said that "only God can make a tree." Why do we agree with this? Isn't it because we realize that we ourselves could not make one? Indeed, can we even describe a tree? We cannot, except in superficial terms. We can say, for instance, that a certain molecular configuration manifests itself as a tree. But what mind is there among men that could even record, let alone direct, the constant changes in molecules that transpire in the life span of a tree? Such a feat is utterly unthinkable!

I, Pencil, am a complex combination of miracles: a tree, zinc, copper, graphite, and so on. But to these miracles which manifest themselves in Nature an even more extraordinary miracle has been added: the configuration of creative human energies—millions of tiny know-hows configuring naturally and spontaneously in response to human necessity and desire and *in the absence of any human master-minding!* Since only God can make a tree, I insist that only God could make me. Man can no more direct these millions of know-hows to bring me into being than he can put molecules together to create a tree.

The above is what I meant when writing, "If you can become aware of the miraculousness which I symbolize, you can help save the freedom mankind is so unhappily losing." For, if one is aware that these know-hows

will naturally, yes, automatically, arrange themselves into creative and productive patterns in response to human necessity and demand—that is, in the absence of governmental or any other coercive master-minding—then one will possess an absolutely essential ingredient for freedom: *a faith in free men.* Freedom is impossible without this faith.

Once government has had a monopoly of a creative activity such, for instance, as the delivery of the mails, most individuals will believe that the mails could not be efficiently delivered by men acting freely. And here is the reason: Each one acknowledges that he himself doesn't know how to do all the things incident to mail delivery. He also recognizes that no other individual could do it. These assumptions are correct. No individual possesses enough know-how to perform a nation's mail delivery any more than any individual possesses enough know-how to make a pencil. Now, in the absence of faith in free men—in the unawareness that millions of tiny know-hows would naturally and miraculously form and cooperate to satisfy this necessity—the individual cannot help but reach the erroneous conclusion that mail can be delivered only by governmental "master-minding."

Testimony Galore

If I, Pencil, were the only item that could offer testimony on what men

can accomplish when free to try, then those with little faith would have a fair case. However, there is testimony galore; it's all about us and on every hand. Mail delivery is exceedingly simple when compared, for instance, to the making of an automobile or a calculating machine or a grain combine or a milling machine or to tens of thousands of other things. Delivery? Why, in this area where men have been left free to try, they deliver the human voice around the world in less than one second; they deliver an event visually and in motion to any person's home when it is happening; they deliver 150 passengers from Seattle to Baltimore in less than four hours; they deliver gas from Texas to one's range or furnace in New York at unbelievably low rates and without subsidy;

they deliver each four pounds of oil from the Persian Gulf to our Eastern Seaboard—halfway around the world—for less money than the government charges for delivering a one-ounce letter across the street!

The lesson I have to teach is this: *Leave all creative energies uninhibited.* Merely organize society to act in harmony with this lesson. Let society's legal apparatus remove all obstacles the best it can. Permit these creative know-hows freely to flow. Have faith that free men will respond to the Invisible Hand. This faith will be confirmed. I, Pencil, seemingly simple though I am, offer the miracle of my creation as testimony that this is a practical faith, as practical as the sun, the rain, a cedar tree, the good earth. ☉

The Invisible Hand

By directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain. . . . 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. . . . By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it.

ADAM SMITH, *The Wealth of Nations*

IDEAS ON



LIBERTY

On Improving the World

A FRIEND OF OURS—call him John—born at the turn of the century, was associated with big affairs as far back as college days. A natural leader, he became president of one of the country's most successful corporations during the early thirties.

Devoted to private enterprise, he saw sooner than most men the fallacies in NIRA and a host of other political interventions. And he actively participated in program after program to alter the country's lunge into political, social, and financial disaster. He contributed generously to plans designed to educate "the masses who had the votes." Yet, nothing seemed to come of all this.

John served as a director of—and helped finance—all sorts of business

organizations which passed resolutions strongly condemning interventionist policy. But no one, least of all those in political power, appeared to be moved by these criticisms.

Time passed. Interventionism continued to grow. The national debt, coupled with the accrued liability of the federal government on various unfunded promises, slipped almost unnoticed beyond the trillion dollar mark. The dollar, as a result, progressively lost value in terms of what it would purchase. Labor union power kept growing into an awesome form of dictatorial government. To add insult to injury, the ranks of the staunch opposition steadily thinned.

Meanwhile, plans aimed at setting things straight were offered in endless profusion. For instance,

While self-improvement—learning the freedom philosophy and how to explain it—is generally conceded to be the sound approach, it is often rejected as being too slow. “We have to act now; time is of the essence.” Caution! Premature action is pointless at best, and to hurry with anything but the sound approach may be damaging. If I am working as intelligently, diligently, and rapidly on my own improvement as is within my power, the balance of the problem is in the hand of God. He did not commission me to manage the world, or the United States of America, or my neighbor. Further, I am unaware that any person has been so endowed or empowered.

* * *

Man tends to follow the lines of least resistance to satisfy his desires. He will stoop for the property of others if the government encourages him, and will stoop for power over the lives of others if the government grants him that special privilege. Remove these appeals to man’s avarice and, having nothing to stoop for, he will stand upright.

projects were set in motion, with John’s support, to educate the youth of the land after a poll of high school students showed that they knew no more about private enterprise and capitalism than could reasonably have been expected of Russian students. But such corrective efforts had no discernible effect.

Recently, came this unusually appealing proposal: Put the “right people” in public office; and, to accomplish this, organize “right down to the precinct level.” John’s company paid a lot of lip service to this one, going so far as to encourage their young executives to “get into politics.” Yet, nothing seemed to come of it. The “right people,” as it turned

out, had a few of the correct economic and political predilections, but little else in the way of qualifications. With several notable exceptions, they were not firmly anchored in private enterprise principles and thus were little better than the politicians they hoped to replace.

Next to managing the corporation, the problem uppermost in John’s mind all of his adult life had been how best to achieve private enterprise in its ideal form. He had given thousands of hours of thought and many hundreds of thousands of dollars to what he affectionately termed “the cause.” Lately, however, he has virtually conceded defeat—given up the ghost. In spite of

his efforts over the years, the opposite point of view grew stronger day by day. He had explored every avenue known to him, with no more to show for his pains than socialism—under its various labels—still on the march.

But the other day, in a reflective mood, John realized for the first time that every effort of his, all of his energies, all of these schemes, had been aimed at the utterly fruitless task of reforming others—a method that only put in motion the latent errors so widely entertained. It was like fanning dust—the more you fan, the more you fill the air with it. No wonder “the cause” was losing its enthusiasts. *The method was woefully at fault.*

Right method? As simple as a-b-c, just as anything is simple, once it is known. It is one thing to organize an army or police force to inhibit others or compel conformity to dictatorial decrees. But the practice of freedom cannot depend on coercion. When it comes to influencing another to think and act creatively, to help advance another’s understanding, one is limited to the power of attraction. Let anyone acquire mastery of any subject, and others will hunger for his counsel. This is a common fact, in evidence on every hand.

Once he had grasped the profound importance of right method, John gave up every thought of reforming

or making over others. Though vastly ahead of most people—even business leaders—in his understanding of private enterprise and his ability to explain its principles, he realized how incompetent he was, not by comparison with others but compared to his own potentialities. He turned his sights inward toward his own fulfillment instead of focusing his efforts upon others. It was as if he had escaped from a dungeon on a tiny ray of light into an openness as expansive as the Cosmos itself. No longer was every effort futile. Instead, every effort had its reward in personal upgrading, opportunities without end. He wrote a friend:

What a wonderful new life I have been introduced to. Never before have I realized the great power of the mind . . . it actually has changed my whole concept of living.

Before, John had “buttonholed” others. Now, others came to him. Previously, others ran away from his preachments. Lately, they were drawn toward his wisdom. Where he had sought, uselessly, to reform others, they now managed to reform themselves. An axiom learned in high school came to mind: “The whole is equal to the sum of its parts.” John forgot the whole and concentrated on the improvement of a part. As a result, John’s part of the world was changed, and thus the whole world improved. ⊕

Essays on Liberty

IF YOU happen to be one of the fortunate 28,712 people who are on the mailing list of The Foundation for Economic Education, Inc., you know all about the vital pamphlets and releases proclaiming liberty that issue periodically from its editorial sanctum at Irvington-on-Hudson. The Foundation is by any count a remarkable institution. It was founded six years ago by Leonard E. Read, formerly the Manager of the Los Angeles Chamber of Commerce and Executive Vice President of the National Industrial Conference Board.

Mr. Read is a curious mixture of American go-getter, Tolstoyan Christian, Herbert Spencer libertar-

ian and dedicated medieval monk. Every strand of his personality is entwined in his Foundation, which, in Emersonian terms, is simply the lengthened shadow of the man. The Foundation, which has a most capable staff of economists and libertarian thinkers, lives on voluntary contributions, which it never solicits. Mr. Read holds to the Emersonian belief that a good mouse trap advertises itself by its own goodness—and the world of people who wish to see all totalitarians, Statists, Welfare Staters and believers in political compulsion at the bottom of the ocean (figuratively speaking, of course) has been beating a path to his door.

Recently the Foundation published a book, "Essays on Liberty." Consisting of the cream of the Foundation's releases to date, this book is

From *The Freeman* of July 14, 1952, a fortnightly for individualists, of which Mr. Chamberlain served as one of the editors.

the definitive answer to the captive intellectuals of the New-Fair Deal in America and to the various issues of Fabian Essays which have, over the course of three or four generations, rotted out the entire social fabric of Great Britain.

In this book we have such notable things as Dean Russell's discovery that the first Leftists in the French Revolutionary National Constituent Assembly in 1789 were libertarians who were pledged to free their economy from government-guaranteed special privileges of guilds, unions and associations whose members were banded together to interfere with the workings of the free market. These first Leftists, as Mr. Russell succinctly tells the story, held a slim majority in their parliament for two years. They did a remarkable job of confounding authoritarians. Then they were bowled over by the Jacobins, the terroristic Leninists of their day.

The tragedy that flowed from Robespierre's and Marat's despicable Statist counter-revolution has bedeviled the world ever since. Not only did it pervert the whole vocabulary of freedom; it also established the theory of the totalitarian "general will" which permits any majority, whether "transient" or not, to ride roughshod over the God-given natural rights of the minority. In the guise of killing royal totalitarianism it popularized the totalitarian-

ism of 51 per cent of the population—and the supposedly individualistic peoples of western Europe have been kowtowing to this totalitarian conception since that evil day when the first head spurted blood under the guillotine that was set up in the name of liberty, equality and fraternity.

Developments After 1933

In America, as Betty Knowles Hunt and other contributors to Mr. Read's book make plain, the complex of ideas flowing from the Robespierrean counter-revolution never managed to become domesticated until after 1933. In Europe they had rent control and a concomitant shortage of houses, as Bertrand de Jouvenel shows in an excellent paper in this book, but in America a people free of rent control could rebuild the entire city of San Francisco after an earthquake in what amounts to the twinkling of a gnat's eye. In England, as Sir Ernest Benn says in an essay called "Rights for Robots," the Webbs and the other Fabians robbed the people of their Christian heritage of individual responsibility (which nurtures the divine, or the creative, spark), but in America (see W. M. Curtiss's amusing "Athletes, Taxes, Inflation") a Babe Ruth who climbed out of an orphanage to hit sixty home runs in a single year could reap the full reward for a highly individualized skill.

The period of Babe Ruth's development and ascendancy preceded, of course, the reign of Franklin I. After 1933 came the deluge, which is measured accurately by the cosmic water meters operated by Maxwell Anderson, C. L. Dickinson, Russell Clinchy, W. M. Curtiss, F. A. Harper and other contributors to Mr. Read's volume.

Not that these people deal in personalities: Mr. Read's genius is for collecting writers whose self-imposed duty is patiently to explain the principles (or the perversions of principles) that underlie the antics and convolutions of the various saints and devils who have been struggling for the control of our destiny. The approach in "Essays on Liberty" is not that of daily, weekly or fortnightly journalism, which must inevitably deal to some extent in the personalities that make or mar principles. Mr. Read's idea is to plant seeds that will mature in the fullness of time; he doesn't aspire to compete in immediacy with the editors of papers and magazines.

Nevertheless, Mr. Read is a journalist on a high level; he knows that principles (or their lack) are at the bottom of elections, wars, and legislative and administrative acts. The thing that distinguishes Mr. Read from most of our journalists is that he seeks to assess personalities in terms of their basic philosophies. Long ago, as a young Chamber of

Commerce man in the San Francisco region of California, Mr. Read was a Light Brigade soldier who simply executed the commands from on high. In those days the national Chamber of Commerce, under Henry Harriman, was promoting what amounted to trade association fascism. (It was the Harriman thinking that created the Blue-Eagled NRA, that ill-starred adventure in price-wage-and-production fixing that had us all salaaming to Iron Pants Johnson in the days of the first New Deal.)


Read Meets Mullendore: A Conversion to Freedom

A crusader then as now, Mr. Read went down from San Francisco to Los Angeles in 1932 to lecture W. C. Mullendore of the Southern California Edison Company on the virtues of NRA-ism. The trip south was his Road to Damascus, for in the space of an hour the persuasive Mr. Mullendore tore all of Mr. Read's thinking apart. The new Saul-become-Paul emerged from the Mullendore presence a changed man, a firm believer in freedom and voluntarism in all their phases, social, political and economic. The session with Mr. Mullendore was a pedagogical revelation to the young Mr. Read. It started him thinking about techniques and means of bringing collectivists of one stripe or another to a full realization of the Slave State implications of their position. As Mr.

Read thinks back on it, The Foundation for Economic Education—and the “Essays on Liberty”—were really born in Mr. Mullendore’s office that day.

Like most men of individualistic distinction, Mr. Read is not a mere product of our more conventional educational institutions. He learned the rough way. In World War I he was dumped from the torpedoed *Tuscania* into the Irish Sea. Saved from a watery grave, he knocked about England in war camps as a rigger in America’s pioneer air force, learning the truth that you can’t fake or fudge a problem in mechanics. He came home to take on Chamber of Commerce jobs in Palo Alto and San Francisco. During his years with the Los Angeles Chamber of Commerce he had a wonderful time fighting the myriad versions of collectivist lunacy that flourished on the Pacific Coast in the wake of Ham-and-Eggism, Townsendism, and Upton Sinclair’s attempt to hornswoggle the

voters with his EPIC (End Poverty in California) platform.

With Mullendore and others he started the Freeman Pamphleteers, a group which gaily revived such forgotten individualistic worthies as Bastiat and William Graham Sumner. Meanwhile, as a hobby, Mr. Read was exploring the fascinations of good food, and making himself into a *cordon bleu* cook. He can look at a complicated recipe in a cookbook and taste the thing accurately in his mind. Since he can also smell a believer in State compulsion fifty or even a hundred miles away, Mr. Read is a fit candidate for some of Professor Rhine’s future investigations into extra-sensory perception. He is a canny and extremely perceptive man with a vested interest in other people’s variations, and if his assembled “Essays on Liberty” were to be made even an elective part of our school curriculum America might have a new birth of freedom virtually overnight. 

Books by Leonard E. Read

The following 23 books by Leonard Read are available, some in cloth, others in paperback. For ordering information and special quantity discounts contact: The Foundation for Economic Education, Inc., Irvington-on-Hudson, New York 10533.

Accent on the Right
Anything That's Peaceful
Awake for Freedom's Sake
Castles in the Air
Comes the Dawn
The Coming Aristocracy
Deeper Than You Think
Elements of Libertarian Leadership
The Freedom Freeway
The Free Market and Its Enemy
Having My Way
How Do We Know?
Let Freedom Reign
Liberty: Legacy of Truth
The Love of Liberty
The Path of Duty
Seeds of Progress
Talking to Myself
Then Truth Will Out
Thoughts Rule the World
To Free or Freeze
Vision
Who's Listening?

the Freeman

VOL. 33, NO. 12 • DECEMBER 1983

- The Two Faces of Risk** Ernest G. Ross 707
The free economy affords a greater number of risks, but without such deadly penalties for failure.
- Economic Forecasting:
How Good Is It?** Henry Hazlitt 712
There is uncertainty and risk in human affairs.
- Why Socialism Fails—
Why Markets Survive** Bill Anderson 716
How the powerful urge of self-interest keeps the market in operation.
- The Irony of Eternal Vigilance** Ridgway K. Foley, Jr. 729
A warning against trying political action to get one's "fair share."
- Kick a Businessman Today** William H. Peterson 732
An analysis of the businessman's image on TV.
- Business and Ethics** Edmund A. Opitz 735
Lawyers, doctors, businessmen are judged by the same moral law that applies to all of us.
- Japan's "Fifth Generation" Computers:
Threat to the Free Market?** John Jefferson Davis 741
Not a challenge but a new opportunity to prove the superiority of the free economy.
- Can Capitalism Guarantee
Right Answers?** Barry J. Schwartz 747
Individuals can answer—if they are free to do so.
- On Labor Unions** Percy L. Greaves, Jr. 751
An article review of Clarence Carson's *Organized Against Whom?*
- Book Reviews:** 758
"A Stroll with William James" by Jacques Barzun
- Index for 1983** 761

Anyone wishing to communicate with authors may send first-class mail in care of THE FREEMAN for forwarding.



the Freeman

A MONTHLY JOURNAL OF IDEAS ON LIBERTY

FOUNDATION FOR ECONOMIC EDUCATION

Irvington-on-Hudson, N.Y. 10533

Tel: (914) 591-7230

Leonard E. Read, 1898-1983

Managing Editor: Paul L. Poirot
Production Editor: Beth A. Hoffman
Contributing Editors: Robert G. Anderson
Bettina Bien Greaves
Edmund A. Opitz (Book Reviews)
Brian Summers

THE FREEMAN is published monthly by the Foundation for Economic Education, Inc., a nonpolitical, nonprofit, educational champion of private property, the free market, the profit and loss system, and limited government.

The costs of Foundation projects and services are met through donations. Total expenses average \$18.00 a year per person on the mailing list. Donations are invited in any amount. THE FREEMAN is available to any interested person in the United States for the asking. For foreign delivery, a donation is required sufficient to cover direct mailing cost of \$10.00 a year.

Copyright, 1983. The Foundation for Economic Education, Inc. Printed in U.S.A. Additional copies, postpaid: single copy \$1.00; 10 or more, 50 cents each.

THE FREEMAN is available on microfilm from University Microfilms International, 300 North Zeeb Road, Ann Arbor, Mich. 48106.

Permission granted to reprint any article from this issue, with appropriate credit.



THE TWO FACES OF RISK

ASSESSING RISK these days is a risky business. In times when we are de-regulating our economy, are we to assume that risk will be increasing—or decreasing? Should we expect that businessmen will face greater risk—or lesser? Will the “dog-eat-dog” world of purer capitalism force entrepreneurs to take more dangerous chances than under a controlled economy—or more benign ones? In short, how do we judge the importance of risk in our future?

Judging anything requires that one start with a standard. Judging without one is like measuring without a common unit. What can we use as a unit of risk-measurement, as our standard for judging risk?

Mr. Ross is an Oregon commentator and writer especially concerned with new developments in human freedom.

Risk means the possibility of losing something of value. If so, our standard involves the pursuit of values. Economically, a value is anything an entrepreneur wishes to obtain or retain in the marketplace. (This is the Austrian School of economic values—which says that individuals *create* their own values by the choices they make—i.e., that values do not exist independent of man’s decisions and actions.)

What is the condition of the marketplace which *most* enhances one’s ability to obtain or retain values—for instance, to start a new business, to create new goods and services, to secure new markets, to earn a profit? What is the condition which offers the greatest number of opportunities to pursue one’s goals? It is, of course, *freedom*—the condition of

human action which exists in a society when only the first-use of force (or its threat) and fraud are outlawed.

Minimizing Risk

When only coercive or fraudulent activities are forbidden, all else is open to entrepreneurial pursuit—in other words, open to all of us, for in a free society because we must make our own economic decisions and take our own economic actions we are all entrepreneurs. In a most fundamental sense, freedom gives us the greatest number of options for gaining and preserving any economic values we might choose to pursue or defend. In the widest view, *when options are maximized, risk is minimized*. This is *not* the conventional view, which holds that freer people face *greater* risks.

Examine the point from another angle—from the angle of a controlled economy or an anarchistic one where the first-use of force and fraud are *not* outlawed. What happens to one's options for obtaining or retaining his values then?

The essential economic characteristic of societies which accept force and fraud is that markets do not have to be earned, merely *taken*. Consider monopolies. Monopolists can both gain and secure their markets by compulsory laws of all types forbidding others from selling or dealing within a specified territory or in a

specified category of goods and services—or, in the case of anarchies, by intimidation (“Buy from us—or else!”)!

This internal protectionism favoring the force-wielders' business friends drastically restricts one's market opportunities and his options for minimizing the possibility of losing his values—for minimizing risk.

Because in controlled societies most if not all categories of economic activity are restricted, openings for entrepreneurs are severely constrained. One cannot initiate new economic action when nearly every field of endeavor is locked up and coercively protected for the politically favored and powerful.

Now under such conditions, because nearly everyone is also “guaranteed” a job (or forced to take one), it may appear that most men are working under risk-minimized conditions. But that is illusion. There is no greater risk to a man than to be totally at the mercy of coercive masters. The illusion of risk reduction masks the reality of absolutely enormous risk—the risk of being found “out of favor” with the state and thus deprived of means of self-support, a deprivation which can amount to a sentence of slow death, or at best, abject poverty.

The only persons who operate at minimized risk in a controlled society are the controllers—but only so

long as they hold the reins. The beast of coercion is difficult to ride. That is why a controlled economy is characterized by a constant, deadly power struggle—a *truly* “dog-eat-dog” society!

In judging risk, it is crucial to distinguish between risk *magnitude* and risk *diversity*.

Risk magnitude is highest in compulsion-based economies where the state lowers not only the responsibility but the opportunity for preserving life itself. Risk diversity is greatest in a free economy where each man is accorded not only the most options for success, but for failure as well. The difference is that failure under freedom is followed by the same opportunities for success which existed before the failure. In a controlled economy, failure is punished by total loss of opportunity—one is “locked out” of the system and perhaps permanently marked as a failure; in a free economy, failure means only that one has failed *this* time—while the door remains open to all future options for achievement.

Another way of putting this point would be that in heavily regulated economies there may be fewer risks to take, but each risk is more dangerous.

Of course, it is also possible to take dangerous risks in a free society—but the dangers are *cushioned*: (a) One is not forced to take such risks;

(b) he can often earn high rewards for severe risks; (c) he can (although sometimes at substantial cost) buy insurance in order to ease the impact which failure might have on himself or his family; (d) except for death, he will never be completely locked out of further opportunities to better himself.

Thus, a free economy’s dangerous risks are voluntary, compensatory, insurable, and limited; in unfree economies the same level of risk is “built-in” to the system—involuntary, not justly compensated, uninsurable, and unlimited (except by death).

How Attitudes Are Affected

Naturally, these differences of dangerous risk magnitude depend greatly on *how* free or controlled an economy is. We live in a system which, like many modern ones, is a mixture of both. However, for the sake of clarity, let us briefly examine the “human” effects of the two faces of risk, risk in a fully free society and risk in a totally controlled one—i.e., how does each type of risk affect individual attitudes and behavior?

First the bad news.

The attitude toward risk in a controlled economy is, “Don’t take chances!” One can see why. To take a chance is to take one’s life in his hands—to risk losing all of the benefits of society if his superiors frown

upon his thoughts, decisions, or actions. In effect, the *price* of risk in a controlled economy goes far too high for most people to afford. As a result, except for the risks which the state mandates on the individual (such as compulsory employment), he is either prone to stagnation—or enters politics, the only arena in which the high price of risk may appear justified in society's "approved" channels of operation.

(The underground economy, the primary unapproved channel, is almost always a third option. But it, too, is dangerous, sometimes penalized by execution, and almost always carrying stiff prison or labor camp terms. It is not uncommon for the average citizen to dabble in the underground economy—but most do not choose steady or deep involvement because the risks are too dangerous. This is especially true in controlled economies where the state has "turn in your neighbor" spy systems—as in the modern Soviet state.)

If the citizen chooses the political road to success, he must, in effect, choose between being dominated or dominating. To use the vernacular, he must either "go with the flow"—or control the flow. The important point here is that in either case—whether one chooses to play serf or master—he will encounter much greater repercussions for risk-taking than will the citizen of a free nation.

High risk magnitude results in the controlled citizen being a less productive one. Risk-taking is essential to productivity because innovation requires risk. Only innovation leads to new machinery and other labor-saving technology which can improve productivity. Raise the price of risk too high and you also prohibitively raise the price of productivity. (This, incidentally, is one reason why controlled societies bribe, steal, and cajole to obtain new technology—their systems effectively inhibit the native risk-taking necessary to produce their own high technology.)

The burdensome cost of risk in a controlled economy also limits the variety of jobs available to the average citizen. When innovation and productivity are stifled, the state economy must employ more people fulfilling the "basic" needs (food, clothing, shelter, energy)—which necessarily decreases the number of people employable in other lines of work. And because low-productivity jobs (often called "labor intensive" in American political circles) on balance require less knowledge and less mental challenge, these jobs involve more drudgery.

When risk is constantly too severe, a terrible thing also happens to the spirit of a people—they lose their buoyancy, their lust for life. They become victims of a perpetual undercurrent of fear and apprehen-

sion—which in turn erodes their self-esteem. Without self-esteem, without the feeling that life is worth living because one can take risks with a good chance of being rewarded, no nation's citizens can maintain a truly human spirit. Their psychology becomes a twisted thing, defeated and deformed, the kind of spirit that views life not as a series of opportunities—but as a minefield. (This is perhaps why a common foreign observation about the freest citizens of the world, Americans, is: "They are so optimistic—and so unafraid!")

Personal Initiative Stifled, Anxiety Takes Control

There are other effects of the heavy risk level in controlled economies—such as fewer consumer products, a lowering of the quality of all goods and services, an increased driving of economic activity underground with attendant official corruption, and so on—but the two most important effects are to stifle personal initiative and breed anxiety.

The good news, of course, is that the free society type of risk does all of the opposite things:

(1) It encourages people to take risks, to "Go for it!"—to progress rather than stagnate; and because the rewards for private market risk-taking are so great, it discourages power-seeking. (After all, when one is already his own master, what real incentive does he have to dominate

others in order to enhance his self-preservation?)

(2) It generates productivity to the greatest degree because people *want* to innovate in order to maximize personal satisfaction and material gain—i.e., happiness.

(3) It creates a fantastic variety of jobs and business opportunities because the risk-taking-induced productivity frees so many people from working in the basic needs industries. (As a dramatic illustration of this, look at the gargantuan size of the U.S. entertainment industry—films, video tapes and games, books and magazines of all types, television and radio, cable, music, sports, and on and on—as compared to the almost nonexistent entertainment industry of the Soviet Union.)

(4) And, as earlier touched upon, it nurtures a love of life, an optimism, a sense of self-esteem, and a spirit of opportunity-seeking.

So, to answer our original question—as we move toward a less-regulated economy, should we expect risk to increase or decrease?—there are two parts: First, the sheer *numbers*, the variety, of available risk will be more. But, second, the *severity*, the dangerous magnitude, of risk will be less. As our society becomes more free, there will be more opportunities to fail, but we will broaden our opportunities to rise again when we fail—and risk will become less risky!

Henry Hazlitt

Economic Forecasting: How Good Is It?



A professor of one of the physical sciences at a large university recently wrote me to ask whether “scientific” prediction, precise and certain, is possible in economics. My reply follows:

The answer is No. And from the very nature of the science it never will be.

The main purpose of economics is not to predict the future, but to learn what policies are likely to improve that future. Sound economists already know a good deal about those policies, and have known much of it ever since the appearance of Adam Smith’s *Wealth of Nations* in 1776.

Henry Hazlitt, a frequent contributor to *The Freeman*, has a long and distinguished career as an economist, journalist, editor, and literary critic. Best known of his numerous books is *Economics in One Lesson*, originally published in 1946 and translated into ten languages with sales of more than 700,000 copies. The recently revised edition is once more available in inexpensive paperback.

The best policies for a country are to maintain a sound currency system (which historically has meant the gold standard), to keep the politicians from inflating and printing inconvertible paper money, and to keep the government from interfering in the economy except to prevent violence, theft and fraud.

Yet we are all individually obliged, in every action we take—whether choosing a career, applying for a job, marrying, having children, buying a house, buying a car, making an investment—to speculate on the future. And the more informed and sensible we are, the better our guesses are likely to be. But we must resign ourselves to living in a world of uncertainty. We can never eliminate the gambling element, the element of sheer chance.

Economics is a science, but it is a science with its own special nature,

purposes, and methods. It is a common error to dismiss it as a pseudoscience because it does not employ the same methods or produce the same results as the physical sciences. The physical sciences have been built up partly by deductive reasoning, but mainly by observation, by induction and statistics, and by actual experiment. Economics has been built up mainly by deductive reasoning, though of course it requires observation and detailed knowledge of business processes and of what people do to make a living. Isolable economic experiments, in any scientific sense, are impossible and unnecessary. Economics is the study of human action and human choice.

The Possibility of Dependable Prediction

Let us come now to the possibility of dependable prediction. Such prediction is usually most explicitly made in the choice of an investment. The future of the stock market, and attempts to predict it, make an ideal microcosm for study.

The prices on today's New York Stock Exchange represent the composite estimates of millions of stockholders all over the world concerning the individual values of the more than 2,000 issues listed there. These estimates do not necessarily reflect the most recent reported earnings of the corporations concerned, but the

assumptions and individual fragments of knowledge of the millions of different stockholders, and above all their composite *expectations* regarding the future of these corporations.

(As to the number of people involved daily in the stock market, there are more than 30 million holders of American stocks, the daily transactions on the New York Stock Exchange averaged 65,000,000 shares in 1982, and the average transaction was 1,306 shares. So on the assumption of at least two persons involved in each transaction—a buyer and a seller—there were some 100,000 persons in the market each day. Of course this figure is something of a stab in the dark, because one broker may on the one hand make a transaction in the name of a bank, a brokerage firm or a mutual fund as well as of an individual, and on the other hand an individual broker may make more than one transaction.)

Putting aside such events as investing new income, and such contingencies as forced sales, to sell is in effect to bet that a stock is selling higher than it will be in the future, and to buy is to bet that a stock is now selling lower than it will be in the future (at least as compared with other stocks). Each of us, when he buys or sells stock, is in effect betting his own knowledge and judgment against the composite knowl-

edge and judgment of millions of other stockholders.

So instead of all of us agreeing on one scientific prediction about the future, probably no two of us precisely agree about it. Stock prices fluctuate every hour of every day, because the knowledge of each of us is limited and the unexpected is always happening—we live in a world of daily surprises. Some investors and speculators can do better than others, because they are wiser or luckier, but nobody can have a perfect record. Not even the best professional forecaster.

Let us remind ourselves that the economic future itself is only a part, and an inextricable part, of the total future of all of us. To ask anyone to predict that economic future exactly is to ask him to predict the total future.

Conditions Constantly Changing

“Scientific” economic prediction would only be possible in the purely hypothetical situation that economists of a past generation called “the stationary state,” that most of them now call “equilibrium,” and some “the evenly-rotating economy.” As a tool of thought, this hypothetical assumption can be often useful; but the condition itself never in fact exists. It would be a state in which nothing unexpected ever happened—no erupting volcanoes, no earthquakes, no tornadoes, no floods, no droughts,

no revolutions, no sudden outbreaks of war, but also no progress, no discoveries, no major advances in technical knowledge, no inventions. The future could be predicted, because there would be no changes to predict—no decline, no growth, no recession, no boom. Every industry would retain the same size relative to every other. And so ad infinitum.

But in the fluctuating, capricious, erratic and dynamic economy in which we actually live, the factors to be put into a possible predictive formula or equation are practically without limit. We don't know what relative weights to give each of them, and we don't even know what some of the factors are. We are not even dealing, as so many so-called economists unfortunately imagine, with measurable objective quantities, but mainly with *subjective* elements, with *expectations*, with *wavering values*. And we can only measure these at any given moment *comparatively*, not absolutely. An automobile *exchanges* today for so many dollars and cents, but tomorrow either the value of the car or the value of the dollar may be different.

(This points to the fallacious and misleading nature of so many government statistics—the “national income,” for example. A short crop of wheat or corn usually sells for a greater dollar total than a bumper crop, so a short crop can make the national income go up. If everybody

once had as much of everything as he wanted, the national income would be zero, because nothing could command a price.)

Yet, to repeat, we are all unavoidably speculators. We are all obliged to make our own forecasts once in a while. And in making them there are a few factors we must keep in mind.

One of them is that our predictions must commonly be based on what we expect other people to do. When we attempt, in this inflationary era, to predict the future rate of inflation (which is crucial in every economic decision), we must keep in mind the recent history of Congressional spending and deficits, as well as what appears to be the complete absence of any sense of fiscal responsibility on the part of most of the members of Congress. If we do keep this in mind, we will certainly expect a higher rate of inflation both in the next few months and the next few years than is currently being estimated by any of the government economists. Such considerations won't enable us to say precisely what the rate of inflation will be in any given month or year, or how long it will continue at that rate, but they

will make our guesses better than otherwise.

Another factor to be kept in mind (and one which certainly does not apply in predictions of purely physical or chemical changes) is that our expectations of the economic future themselves act to change that future. Let us suppose that a very wealthy man, call him John Smith, decides that a certain stock, say that of the Widget Company, is probably going to go up some 30 points in the next thirty weeks. He starts buying; and if his resources and faith are strong enough, he may bid up his final purchases almost the full 30 points today.

To sum up: No professional forecaster can always be right, but some, with superior knowledge and expert analysis, can be right more often than others. With the future so uncertain, each of us, every investor and every businessman, is compelled to be a speculator. But fortunately, it is not necessary that any of us turn out to be always right. As Ludwig von Mises has pointed out: "It is not correct foresight as such that yields profits, but foresight better than that of the rest." ☉

Ludwig von Mises

IDEAS ON



LIBERTY

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.

Why Socialism Fails—

WHY MARKETS SURVIVE

THE other morning I had the opportunity to view a child's lesson in socialism. While my six-year-old daughter and I curled up on the couch, the popular Saturday cartoon show gave to us in story form a recitation on how self-interest corrupts while mutual community sharing in a commonly-owned system brings peace and happiness.

Please don't misunderstand me. I have nothing against young persons—or even older persons—sharing their possessions. Indeed, unselfishness is a positive unifying force for social cooperation. But the message of the cartoon went far beyond just being generous with one's own property; it said this: self-interest leads to conflict and strife, but the road to wealth, happiness and equality comes from the proper motive of sharing one's things with others—by force, if necessary.

If we think carefully, we will realize that this kind of social sermon is not unusual. We hear such exhortations almost daily, whether they be from the minister's pulpit, the politician's speech, the editorial pages of our nation's newspapers or the evening news. Public (and most private) school curricula are often de-

Mr. Anderson has taught social studies in junior high school and currently is enrolled at Clemson University in the master's program in economics.

signed with such a message. Even many of our most successful businessmen declare that they seek nothing more than to further the common good of humankind; profit, they say, is not their main motive. Humanity is.

Why Are We Unsociable?

So be it. But, with all the urging to be good socialists, or at least socially-minded creatures, why are we not good socialists? Why do we as individuals continually seek our self-interest, and why do most of our actions reflect a desire to maximize our own satisfaction? From the cradle to the grave, we are exhorted by those around us to act in a manner that we believe will bring satisfaction and happiness to "humanity," yet many of our actions mirror our own needs and our own desires. In short, in spite of many "socialized" particulars of our upbringing, most of us act in a manner deemed by intellectuals and other observers of the social scene to be unsociable.

It would seem, given what we are told about ourselves, that such a condition is intolerable. For example, the environmentalist biologist Dr. Paul Ehrlich believes that human beings must curb their desire to have children "hopefully through a system of incentives and penalties, but by compulsion if voluntary methods fail."¹ Our birthrate, he says, must "be brought into balance with

our deathrate" if humanity is to survive on this planet.² Harvard psychologist B.F. Skinner declared that "we need to make vast changes in human behavior" to solve our economic and social problems.³ His solution, of course, mirrors that of Harvard economist John Kenneth Galbraith: intellectuals, members of the academic and scientific community and the state must play the dominant role in making all of us behave in a "proper" social manner.⁴

Vast efforts have been made in that sphere in the United States since the New Deal era in the 1930s; other nations, especially the communist ones, have gone much further, both with external stimuli designed to educate persons in the proper socialist mold and, when that failed, brute force and terror. Have such efforts worked? If these socializing attempts have been successful in the communist countries, then perhaps we can espouse a philosophy of life in which self-interest can be eliminated and replaced with service for the common good. But, on the other hand, should such methods be lacking in their effectiveness, we must either question their modus operandi or their very validity itself; for if these behaviorist ideas fall way short of the mark in their theory of human action, we must draw the conclusion that free markets, though they be stifled and harassed, cannot be eliminated from human relation-

ships. Why? Because most behaviorist theories, when applied to the general population, are geared to the elimination of self-interest, and it is self-interest that fuels the free market.

Last year I visited a nation in which a certain amount of financial success is guaranteed by the state. Medical care was "free," each person is guaranteed a job and a place to stay, good athletes and talented arts performers are heavily subsidized by the government and pensions are provided to the elderly people. I saw no emaciated people on the streets, no beggars and (from my vantage-point) no prostitutes.

The Other Side

"Where is this paradise?" some readers may be asking by now. "How can I become a citizen of that country?" However, before you renounce your citizenship, let me tell you a few other things about this wonderful nation. To enter, I had to travel through a breach in an impregnable wall, a barrier guarded with barbed wire, tank traps, steely-eyed guards with machine guns, vicious dogs and buried land mines. The wall exists not to keep travelers like me from entering but rather to keep people from leaving this "workers' paradise." On the other side of the wall, numerous crosses served as reminders of the many who had been gunned down by their countrymen while

trying to leave without their government's permission. The barrier is the famed Berlin Wall and the nation, the world's most prosperous communist country, is the German Democratic Republic, known better as East Germany.

Compared with West Germany, the GDR's standard of living is quite low, and that difference between the two nations is assumed to be the cause of persons' risking their lives to cross from East to West.⁵ But such an explanation of why people are willing to take a chance at being ingloriously gunned down at the border is, at best, incomplete. After all, the GDR offers what many intellectuals and politicians believe the people *really* want: bread, jobs, and circuses (or, to be more accurate in the GDR's case, bread, jobs, and operas).

And, in keeping with what Dr. Ehrlich believes is the proper role of government, the East German state dictates a lifestyle for each citizen. Birth control—sometimes enforced with required abortions for women who might become pregnant at what the government regards as an inopportune time—is a must. An intellectual and political elite tries to determine the lives of each person living in the GDR, exchanging the promise of lifetime security for an implicit agreement that the people do what the government tells them. And still they risk their lives; if the wall were suddenly removed, many

more would stream across the border.

Something is clearly amiss in someone's social theories. The intelligent and efficient East German leaders have used the best-known techniques of mind control and stimulation. But, judging from the high number of defectors from that nation and the increased amounts of "underground" economic activity in the GDR, numerous Germans from behind the Iron Curtain still practice officially *verboten* self-interest.

The Chinese Story

Perhaps the East Germans are an exception; after all, many of those citizens had been previously "contaminated" by capitalism before World War II. A decade ago, many western intellectuals journeyed to the Far East and, upon their return home, gushed forth the praises of the Communist Chinese nation that had seemingly trained its citizens to be happy, cheerful, socialized people. Chairman Mao had urged his subjects to be "willing to integrate yourselves with the broad masses of the workers and do so in practice."⁶ The people, according to the intellectuals and members of the western media, proclaimed the glories of socialism with "evangelistic moral fervor."⁷

And even though the Chinese state is officially atheistic, missionary David H. Adeney enthusiastically

trumpeted what he felt were the government's real achievements.

Many of the great economic problems of the past have been solved. The terrible inequalities between rich and poor have disappeared. No longer does a large segment of the population live under the threat of natural disasters such as flood and famine [In contrast to Adeney's claims, reports have filtered out from China that tell of millions dying at periodic times in the past three decades, both from famine and disaster]. There are none of the glaring inequalities which are to be found in a city like Hong Kong with its great contrast between the very rich and the very poor. Many have been impressed by the clean streets, disciplined living and the absence of prostitution, sordid sexy advertisements and commercialism which are found in other parts of the world. Even though living standards may seem to be very low, the communists have at least been able to provide for the basic needs of the largest national population on earth.⁸

Yet, many Chinese still flee to Hong Kong, risking their lives to swim across a shark-infested bay or sneaking through a no-man's land, hoping to avoid border patrols that will send the would-be escapees back to China.

The situation is puzzling. On the one hand, intellectuals and religious leaders tell us that what people believe to be a horrid social evil—disparity of incomes—has been eliminated in China. On the other hand, people still want to leave that land.

What about Mao's exhortations to "serve the masses"? Adeney says, "He (the individual) is sent to the place where his gifts can be used to serve the masses . . . the communist state does not allow a man to choose the place of work where he can obtain the maximum benefit for himself."⁹ It is clear, from reading Adeney's description of China, that the communist system works with success.

Yet, a contrasting account comes from a man who lived for a year in the Chinese city of Zhengzhou:

The slogan "Serve the People" is laughed at . . . The overwhelming worry in students' lives is their future job assignments. They are seldom consulted about their interests or desires. The theory is that one should serve the state in whatever capacity the state wishes. This means giving the cushiest jobs to party members and their friends. For society as a whole, the result is bus drivers who wish they were postal clerks, electricians who wish they were metal workers, and shop clerks who wish they were bus drivers . . . With so little personal freedom it is unutterably difficult for a person to discover what his potential might be, let alone fulfill it in the service of the state. The policies of control make the control necessary, and by exercising them so encompassingly, the government cheats itself of the abilities of its own people while it cheats people out of their abilities.¹⁰

The reports of individualism are not endemic to either the GDR or China. Such stories accompany tales of human action from nearly every

totalitarian nation on the globe. Something in the human condition makes us act as individuals. Governments using the most sophisticated and most terrible methods of control have failed—and will continue to fail—to create the socialist man en masse. What they have created, instead, are austere, grim societies in which the individual, to reach any sort of self-fulfillment, must often break the law or leave the country.¹¹

The Socialist Paradox

This does not mean, due to past failures of socialist experiments, that social visionaries will stop trying to create the collectivist utopia. A glance at the world scene today will dispel any such notion. But all these social experiments are doomed to failure because a collective cannot act; only individuals act. They may work with one another in a collective effort, but that output is only the sum total of individual action. Walter Lippmann understood this condition well when he wrote of the Nazi experiment in the 1930s:

The success of this experiment would seem to depend upon the fulfillment of a paradox. All Germans must sink into docile but eager resignation, accepting the decision of the *Führer* as the fellaah accepts the will of Allah; and then out of this conforming mass must arise brilliant, adventurous, and supremely intelligent leaders.¹²

Within the socialist framework, only the collective (read that, “people”) has importance and yet, as Lippmann so aptly pointed out, the kind of leadership needed within a society must come from that same mass that has been told that individual initiative is evil. One cannot be a leader without exerting individual initiative; likewise, as Israel Kirzner has noted, a growing, dynamic economy is impossible if the entrepreneur does not have freedom to act (in the Soviet Union and a scattering of other socialist nations, to engage in entrepreneurship for profit is to commit a capital offense punishable by death.)¹³ This might account for the reason numerous western visitors to communist lands have remarked that the countries seem economically and socially frozen in time, a condition that certainly applied to East Germany when I saw it last year.¹⁴ People in the GDR have tremendous pressures upon them to conform, and the penalties for nonconformity make it extremely unattractive for people to risk imprisonment and even death just to improve one’s financial state (one can also place political dissidents and artists who refuse to succumb to “Socialist Realism” in their work in this category of risk takers). Thus, to reduce the risk, would-be entrepreneurs must often engage in bribery and stealing in socialist nations; as one recent exile from the

Soviet Union writes, the socialist system is greased by corruption.¹⁵

Why the Urge to Be Free?

We have examined reasons why socialist systems work so poorly, but have not explained why human beings cannot be totally socialized. After all, we can say that human beings act from their own desires and perspectives, but we have not said why this is so. We ask: “What is it in the human condition that does not allow us to be totally absorbed in the collective? Why do we as human beings act first from our own perspective and not the perspective of everyone else? And why do we want to be free?”

A glib answer that comes from some of the intellectual elite in religion and social sciences is that most people are not enlightened and need to be herded into doing right by members of the elite, be they a B.F. Skinner or a David Adeney who declares that it is “tragic that only a few Christian professionals demonstrate true dedication to the needs of society and victory over self-interest. Many would bitterly complain if deprived of freedom and compelled by the state to serve where the need is greatest rather than where the salary is most attractive.”

In one sense, perhaps, the intellectuals are right. We *are* unenlightened in many aspects and truly limited in what we can accomplish. Most

religious (and secular) dogmas admit that sin and suffering exist in this world; people become ill, make mistakes and often fail to show proper respect for their fellows. We live in a world fraught with error. Such is a given condition of life as we know and experience it.

But imperfection is a trait of *all* of us, not just *most* of the population. To say that a few of the elite can by force or persuasion rearrange the world into a utopia is to vastly misunderstand the human condition. Writes Thomas Sowell:

For some, the world is envisioned as a place that needs only their superior virtue and wisdom to achieve happiness and fulfillment. This might be called the vision of the anointed. To others, the problems inherent in man and the cruel choices of nature can only be imperfectly resolved, and even this modest goal requires great efforts by all, not inspired salvation by a few messiahs.¹⁶

The Division of Labor

It is vitally important to understand that all of us are vastly limited in many respects. A man thoroughly skilled in metaphysics may have almost no knowledge of economics; likewise, a highly-regarded economist may be totally ignorant of the processes in a nuclear fission reaction. People may gain expertise in some areas, but few, if any, persons are extremely competent in all disciplines. And there are probably none

among us who can truly predict the future, least of all, economists.¹⁷

Because of our limitations, we can barely master our own circumstances, let alone the circumstances of others. The best guide we can have for dealing with situations that face us is self-interest, flawed and racked by evil as it may be. As Sowell points out:

The problem with experts is that they don't know and can't know. They may have a lot of theories and second-hand information at their fingertips. But the hard, specific knowledge needed to make decisions is usually scattered among millions of laymen. The layman is the real expert on his own particular situation and has every incentive to change his decision when the results don't turn out the way he wants. . . True, an expert may know more than one layman. But neither of them knows enough to try to control a whole economy or society of millions of other human beings.¹⁸

It is in the best interest of the individual to learn from his or her own errors. Granted, all of us repeat our mistakes from time to time, but the negative results from those mistakes give us incentive to correct our errors.

This is not always true, however, for those in positions of governmental power and authority. Take education, for example. For more than a decade the "new math" was foisted on public school children, even though many educators had serious misgivings about that curriculum.

The result was that mathematics skills of children involved in “new math” were found to be far below those students taught a more conventional form of math. To the layman, the only sensible thing seemed to be to drop this pseudo-math like a hot potato; but to the experts whose jobs depended upon continuation of the “new math,” changes in the mathematics curriculums across the nation became a threat to their livelihood. Therefore, they organized and worked with an amazing amount of success to keep “new math” in schools for many years, to the detriment of many youngsters who became unwilling victims of this educational malpractice.¹⁹

There seems to be an unsolvable contradiction in my thesis on self-interest, however. First, I point out that self-interest is, given our very real limitations, the best guide for human action. But then, I show how self-interest on the part of some educators has proven disastrous in the field of education. Either self-interest is good or it is bad, one may say, and if it has such awful effects, then perhaps society should work to eliminate self-interest from the individual. (Of course, that last phrase is a self-contradiction itself, since it implies—if one believes the whole (society) is a sum of its parts (individuals)—that it is in the self-interest of all individuals to eliminate self-interest.)

Acting Voluntarily

The key word in all of this discussion, however, is *coercion*. When an individual follows his own self-interest and has little, if any, power to coerce his or her neighbor into doing what he wants, then *that* self-interest can serve others. For example, take the baker of Adam Smith's *The Wealth of Nations*. Smith wrote that the baker did not bake bread because he was necessarily a benevolent man, but rather because he wished to make a living. He was following his own self-interest—he could make money plus he may have enjoyed the feeling of accomplishment when he produced an excellent product—and his neighbors received benefits in the form of bread and pastries.

It is important to remember that the baker had no power to *coerce* his neighbors to buy his bread, at least in Smith's example. All the exchanges were voluntary, and both the baker and the buyers benefited from the exchange.

However, to show how coercion may distort the picture, let us give the baker the same power as, say, the public educator. First, the baker has the local government pass a law that only he can bake bread within certain limits, and those trying to start a bakery without his permission will be subject to imprisonment or fines or both. Next, he has the government decree that people in the

neighborhood *must* buy their bread from his shop; they cannot manufacture their own bread in their homes. This condition is known as compulsory bread buying (he may even press for a law that requires people from another neighborhood to be bused to his bakery). Some time later, people begin to discover that the bread is moldy and the pastries are hard and tasteless, but the baker, backed by his political friends, manages to keep the compulsory bread-buying law on the books. The law, they solemnly declare, is in the public interest.

The people in the neighborhood, while obeying the law at first, may take to less-than-lawful means to obtain bread as the quality of "public interest" bread deteriorates. They may secretly bake bread in their own homes; perhaps a disgruntled resident may set up an "underground" bakery in the back of a hardware store. Maybe a brave soul will openly set up his own "uncertified" bakery in hopes that the unjust law will be repealed (unfortunately, he is arrested and jailed and his illegal bakery padlocked).

In all three cases, people are following their own self-interest, but only in the first instance, when buyers and sellers are involved in voluntary exchanges, can self-interest truly serve the public good. In the second case, when the baker was able to convince the legislators to give him a legal monopoly, what was in the

baker's self-interest was not at all in the interest of his customers. In the third situation, the underground market, while providing much-needed services to people, involved corruption and dishonesty to stay afloat. Yet, people who might think of themselves as law-abiding and decent citizens, will turn to such unlawful tactics if they feel their rights to pursuit of their vital interests are either being stifled or taken away.

The Underground Economy

The corruption that accompanies underground economic activities in many socialist nations is a good case in point. To quote a troubled Soviet official, "It's hard to imagine the extent to which theft and corruption have become expected. The assumption that 'everybody steals' is erasing the whole nation's sense of right and wrong."²⁰ Yet, at the same time, such underground economic activity is necessary to keep the Soviet economy afloat. The Soviets face a dilemma; they can either admit that socialism works poorly, a move that would discredit their entire political structure, or they can continue to speak of the glories of socialism and tolerate the black market, knowing full well that such activity, accompanied by corruption, is tearing the soul of that nation apart.

Because people will ultimately follow their own self-interest, markets, be they legal or illegal, will in-

evitably spring up. However, there is more to the human condition than just sin and self-interest. As human beings, each of us desires to be significant. Each of us desires purpose for living; most, if not all, of us aspire to something beyond what we have today.

Because of their makeup, markets enable us, at least in part, to pursue our goals. Says Kirzner, "The market system runs on purposefulness."²¹ That purpose may be monetary profits to improve our own standard of living or profits to improve someone else's life. People may seek power, as in the case of a politician, or influence, as in the case of a journalist or teacher.

The psychologist Abraham Maslow claimed human beings have a priority of needs, beginning with basic physiological needs such as food, clothing and shelter. People without those basic items will center their lives on obtaining them. Once those needs are met—or, *if* they are met—people seek more abstract goals such as safety and security, belonging and social needs, esteem and status and, finally, self-actualization and fulfillment.²²

For example, an entrepreneur may risk his life savings on an enterprise because he believes success will bring riches. Twenty years and millions of dollars in profits later, however, the entrepreneur, once motivated by making money, now seeks to be

known not as a "cut-throat businessman," but rather as a philanthropist or, perhaps, a "friend of arts." Such was the process of many of America's self-made men like John D. Rockefeller or Andrew Carnegie (whose descendents now often engage in anti-capitalist activities).

Ways of Self-Expression

Whatever the motivation, people will seek avenues to fulfill their dreams. The market is one of those avenues, though not the only one. Hitler, Stalin and Lenin sought other paths to power besides noncoercive markets (although Hitler was, at first, chosen in a free election—he later seized absolute power in Germany by brute force). And some people who gain wealth and prestige through free market activities may later turn on the market because they feel such action advantageous to their own position.

Yet, for those who spend much of their careers working against the market system, numerous others use it because they have no other avenues to success. A man who lacks literary talent and thus cannot make millions skewering private enterprise in books and articles may have abilities in making and selling better mousetraps. The Soviet citizen who, because of his lack of position or party membership, cannot shop at the special "yellow-curtain" shops which offer goods not available in

regular stores may turn to the underground market to satisfy his needs and desires. That same citizen, disgusted at the low pay he receives from his guaranteed, state-run job, may illegally moonlight as a repairman or taxi driver. Again, he turns from government-run activity based on coercion to private—though illegal—activity based on free exchange. He lacks the power to coerce; therefore, he must seek other means to fulfill his needs.

There is one other reason that free markets exist in the face of hostility, that being the need for interpersonal cooperation. Of course, to the anti-capitalist mind, such a claim may seem self-contradictory. After all, we have been brought up on the notion that competition, not cooperation, is the basis of the market system. In one sense, this is true. Competition helps provide the incentive people require to do a job well.

But, on the other hand, market systems are also dependent upon free exchange. Buyers must cooperate with sellers and, within a business enterprise, individuals must cooperate with other individuals. Notes theologian Michael Novak, "What constitutes capitalism is an organizing ethos, a corporate enterprise, a collective effort. Capitalism is far more social in character than its enemies—or its friends—have yet grasped."²³ Businesses, unless they have the power of government be-

hind them, cannot coerce customers into buying from them. Their only other avenue to success is through incentive and cooperation. (This does not mean that businessmen are immune from using fraud and trickery in their activities—it just means that in the absence of coercion, businesses must be able to attract potential buyers into voluntarily cooperating with them.)

We Are Interdependent

When we speak of free markets and self-interest, the idea of "rugged individualism" comes to mind. Yet, self-reliance is a myth.²⁴ We must all cooperate and interact with others if we are to survive; all of us are interdependent upon the skills and services of others. The same goes for nations. As the French economist Frederic Bastiat once said, "If goods don't cross borders, armies will." For the cause of peace, there is a need for free exchange.

Markets have existed and will continue to exist because there is a pressing need for them. As Kirzner puts it, "The market is the substitution for the absolute knowledge of truth."²⁵ We are imperfect and shortsighted people. In a real sense, we are all blind to absolute truth and knowledge. We need incentives, and we can only act at any time with partial knowledge. With that in mind, we should remember that no central authority can or should have

near-absolute control over actions of others; the result—and we see it in totalitarian states—is the blind forcing the blind to follow. What was originally sought in those nations was economic order; what has emerged is economic chaos.

Not only are we dependent upon self-interest to help us in solving our problems, we are also forever finding that new and pressing problems needing solutions continue to force their way into our lives. We cannot live without continual replenishment of the basic necessities of life; nor can we exist without self-expression. Notes William Winter, "Self-expression is the dominant necessity of human nature."²⁶ And because most of us lack the legal power to coerce others into serving us, we must turn to the cooperation of the market system to fulfill our needs.

As Sowell writes: "The institutions that bring out the cooperation of numerous and very different people—the family, the Constitution, the market, traditions—are all sacred to believers in the vision of social processes as the way to make the best of the tragic human condition."²⁷

Yet, the market will always have its enemies, and by blocking the free activities of the market, the enemies of capitalism have succeeded and will continue to succeed not in their cherished aims of bringing social order and harmony, but rather in creating chaos and poverty. The record

of collectivism in this century, from Stalin's gulags to Mao's hellish communes to the Pol Pot massacres, is one of coercion and failure. Yet, the failures of socialism do not sway those who seek to impose more socialist orders on humankind. As Sowell points out, what believers in social processes see as ways to deal with the problems of humanity, many intellectuals and government leaders scornfully view as obstacles to their own imposed "solutions."²⁸

Markets Will Survive

But for all the anti-capitalist mentality that exists, we can be assured that markets in one form or another will survive. True, by blocking—or attempting to block—market processes, many social leaders stifle legitimate human action and aspirations, but they cannot completely immerse the human spirit in the sea of collectivism.

The only way that socialism can succeed is for an elite to have total knowledge of what is good for others (who are assumed not to know what is good for themselves), and then to be able to force their will on that less-than-enlightened population. And as long as human beings remain in their imperfect state, we can assume socialism will never be successful. Therefore, free markets—though stifled—will exist as long as human beings inhabit the face of the earth. And markets can best serve

the public interest when they are permitted to be practiced in the open without government harassment and extensive regulation. ④

—FOOTNOTES—

¹Paul R. Ehrlich, *The Population Bomb* (New York, 1968), Prologue.

²*Ibid.*

³B.F. Skinner, *Beyond Freedom and Dignity* (New York, 1971), p. 2.

⁴Francis A. Schaeffer, *Back to Freedom and Dignity* (Downers Grove, Illinois, 1972), p. 22.

⁵Because of the social and economic makeup of communist nations like East Germany, accurate comparisons of standard of living are hard to measure. A suit bought in East Germany may cost the same percentage of income as a suit bought in West Germany. But the West German suit may be of a higher quality. It is simply difficult to measure all variables in such a comparison. In the case of people escaping communist nations to enter free ones, standard of living may be only a partial reason. Freedom of worship or speech may also enter in the picture. Again, it is hard to measure motives. We must simply accept the fact the people escape from communist nations, not to them.

⁶Quoted from David H. Adeney, *China: Christian Students Face the Revolution* (Downers Grove, Illinois, 1973), p. 119.

⁷*Ibid.*, p. 116.

⁸*Ibid.*, p. 114.

⁹*Ibid.*, 120.

¹⁰James Kenneson, "China: Reality Revealed," *Reader's Digest* (Oct., 1982), pp. 90-91.

¹¹We have seen time and again "illegal" activities in communist lands from black markets to secret manuscripts written in those countries then smuggled out to be published in the West.

¹²Walter Lippmann, *The Good Society* (Boston, 1937), p. 60.

¹³But even the threat of torture, imprisonment and death does not deter people in those countries from carrying on capitalist or "speculative" activities.

¹⁴For further descriptions of this phenomenon of communist lands, read Lawrence Elliott, "Berlin Beyond the Wall," *Reader's Digest* (January, 1979), and Robert Poole, Jr., "Inside Cuba Today," *Reason* (October, 1981).

¹⁵For a detailed examination of the underground market in the Soviet Union, read Konstantin M. Simis, *USSR: The Corrupt Society* (New York, 1982).

¹⁶Thomas Sowell, *Pink and Brown People and Other Controversial Essays* (Stanford, Calif., 1981), vii.

¹⁷For more on this, read Lawrence W. Reed, "Economists and the Future," *The Freeman* (May, 1983).

¹⁸Sowell, p. 36.

¹⁹To see this malpractice in reading classes, read Samuel Blumenfeld, "The Victims of 'Dick and Jane,'" *Reason* (October, 1982).

²⁰George Feifer, "Russian Scenes, Russian Voices," *Reader's Digest* (October, 1980), p. 213.

²¹Taken from a lecture Israel Kirzner gave in Chattanooga, Tenn., in June, 1983.

²²A.H. Maslow, "A Theory of Human Motivation," *Psychological Review*, vol. 50, 1943, pp. 370-396.

²³Michael Novak, "The Economic System: The Evangelical Basis of a Social Market Economy," *The Review of Politics*, vol. 43, July, 1981, p. 375.

²⁴Bill Anderson, "The Myth of Self-Reliance," *The Freeman* (December, 1981).

²⁵Kirzner, *op. cit.*

²⁶Quoted from Dale Carnegie, *How to Enjoy Your Life and Your Job* (New York, 1970), p. 94.

²⁷Sowell, viii.

²⁸*Ibid.*

THE IRONY OF ETERNAL VIGILANCE

COMMON political folklore advises citizens mulcted by the persistent mirror evils of entitlement and regulation to "become involved in the governmental process in order to hold your own" and thus maintain their lives, liberties, and properties against the ravages of the avaricious state and its propelling plunderers. I protest: no one should be compelled to take up cudgels to defend and protect his God-granted rights against onslaughts perpetrated by envious, greedy, power-seeking panjandrum. Each person should enjoy a sanctuary devoid of unwanted intrusion by the state or its minions.

Those who offer the well-meaning advice concerning political involvement recognize but a single facet of reality: The dynamics of modern

pressure-group politics result in a cacophony of quests for unearned largess and control over the destiny of others. A multitude of special interest conglomerates secure enactment and enforcement of rules and orders designed to employ the coercive force of the state to the end of self-betterment at the expense of other, less influential or well-organized, individuals. The exhortative activists suggest like action: Use special interest activity to combat the existing wicked ambiance permeating the halls of government. Thus witness the formation of taxpayer unions, public interest law firms, and freedom lobbies crafted to promote "free enterprise," a balanced budget, judicial restraint and a whole host of superficially laudable notions.

Unfortunately, such conduct overlooks the shopworn but honest ad-

Mr. Foley, a partner in Schwabe, Williamson, Wyatt, Moore & Roberts, practices law in Portland, Oregon.

age that those who cannot read history are damned to relive it. Almost three thousand years ago, the Psalmist David warned us to "put not your trust in Princes, nor in the son of man in whom there is no help." Lobbyists, legislators, and jurors represent the current crop of "princes," and the "son of man" equates with those sinister individual and aggregate attempts to coerce compliance with niggling norms motivated to limit creativity and to restrain the enhanced moral life. Simply put, one who adheres to the admonition to achieve political involvement will receive disappointment, not absolution; such persons who trust princes and serfs will find the proposed solution wanting.

Eternal Vigilance

Since we have been alerted by John Philpot Curran that eternal vigilance constitutes the price of freedom, it appears appropriate to investigate the reasons that deny efficacy to such a proposal for a political solution. A several-fold rationale divides into two categories of justification undergirding the conclusion.

In the first place, political activity (even that formed for high purpose) will not prove competent to achieve the desired result. In the instant case, counselors recommend the formation of political action groups to encourage proper governmental stands

upon such causes as the liberation of business from the bonds of constraint, the inculcation of fairness and restraint into the system of taxation, the limitation of expensive entitlement or transfer payment programs and the like. They champion such tactics as flooding Congress and the President with petitions, raising funds to elect compliant legislators or to defeat recalcitrant ones, employing proctors to adjudicate the legality of governmental behavior, and similar department.

Such efforts will prove unfruitful for two simple, cogent and related reasons: (a) The doctrines of regulation and entitlement, with their appeal to mankind's malevolent side, always appear more desirable and harmonious than the path of right; and (b) the purveyors and seekers after booty can and will always outvote and politically overwhelm the remnant who merely wish to be left alone, never once pausing to contemplate Ayn Rand's seminal question of "who will the looters loot when the victims are vanquished?"

In the second place, it is morally repugnant to enlist force to achieve the ends of liberty. Coercion begets coercion, restraint begets restraint. As Leonard Read was fond of noting, "the bloom pre-exists in the seed, the ends pre-exist in the means." Political action—however properly conceived—still consists of the application of legal constraint upon creative

human endeavor. Given the dark side of mankind, well-intentioned conduct invoking governmental action naturally deteriorates into coercive conduct resulting in the deprivation of human freedom. Treatment thus aimed at saving voluntary action soon succumbs to the disease sought to be cured.

Furthermore, contemplation of the ineffectiveness of political counteraction ignores the fundamental wrong: An unwilling individual ought not be drummed into the service of the freedom fight against his will. Justification of such an enlistment operates on the same premise as "might makes right." Consider the basic proposition: "A" lives an upright life, never treading upon another's freedom, always producing and trading desirable goods, services, and ideas in a market; by what moral principle should "A" be compelled to expend his share of his rightful acquisitions in thwarting legalized theft?

One may deduce a quintessential duty to join the community defense against outlaws, but one may not

distend the principle to compel such an obligation against brigands who use the law for wrongful purposes. Those who exhort common political activity essentially contend that a person who lives decently and properly should nevertheless engage in distasteful activity at his own expense to prevent illegality by the very state which is supposed to act as the eternal policeman for the citizenry.

On What to Do

One inquiry remains: What course of conduct should be followed by one who eschews political behavior yet aspires to freedom? An answer requires the height of presumptuousness, for no actor can effectively direct another in this type of endeavor. Suggestions, not commands, follow. Refuse to recognize impolitic politics. Resist tyranny in all forms by every peaceful means and by adherence to ethical principle. Recognize and avoid coercion and rebuke those who apply it to your life. Read, write, discourse, listen and learn the elemental postulates of truth and live by them always. Reveal your light to those who wish to see. ☉

Raise a Standard

IDEAS ON



LIBERTY

If to please the people, we offer what we ourselves disapprove, how can we afterwards defend our work? Let us raise a standard to which the wise and honest can repair. The event is in the hand of God.

ATTRIBUTED TO GEORGE WASHINGTON

William H. Peterson

KICK A BUSINESSMAN TODAY



THE BEAT GOES ON—i.e. the daily beat-up of the businessman on the Boob Tube. Not physically but psychically: in the perception of the businessman and the role he plays in our society.

Scheming oilman J. R. Ewing of "Dallas" is the prototype. Recently three George Washington University researchers—Linda Lichter, S. Robert Lichter and Stanley Rothman—spent eight weeks in front of the Tube and reported their findings in *Public Opinion*. They identified 226 fictionalized business men and women in Televisionland. A lopsided 60 per cent of them, they found, were Bad Guys—and of these, one out of three (or 21 per cent of the total) was an out-and-out criminal. Worse, this criminality stemmed not so much from character failings,

home background and the like but rather from the nature of the business environment itself.

Thus in "The Jeffersons" we witness a hotel executive get sadistic pleasure in firing employees and express ardent dislike for blacks. In "Three's Company" we observe a "lady" diner-owner fire her cook when he rejects her sexual advances. In "Lobo" we watch a bank manager plot the robbery of his own bank. In "BJ and the Bear" we see the owner of a corporate conglomerate deal in illegal explosives and try to sabotage a company ship in order to collect the insurance.

Rarely, if ever, does free enterprise get bouquets on television. But brickbats, yes. In one segment of "Taxi," for example, the drivers gripe about dangerous deterioration of their cabs and put it to management to make the needed repairs. Louie, the manager, proposes instead to fix the company records so manage-

Dr. Peterson, who was chief economist for U.S. Steel, is director of the Center for Economic Education and the Scott L. Probasco Jr. Professor of Free Enterprise at the University of Tennessee at Chattanooga.

ment could not be blamed. Naturally, the drivers object to Louie's devious scheme. Louie, however, explains away his guilt by informing them, "Every great businessman has done it."

Similarly, in "Diff'rent Strokes," a couple of kids start up their own brownie business. When their business becomes too successful for them to handle alone, their sister asks to become their partner in exchange for her help. The two boys offer her instead a meager salary as their employee. They explain: "That's what business is all about. You do the work and we get the profits."

Concluded the Lichters and Rothman: "If American business has redeeming social values, they rarely turn up on prime-time television. Rather, businessmen are cast as evil and selfish social parasites whose efforts to secure 'more' are justly condemned and usually thwarted. Television has blurred the important distinction between selfish and self-interested behavior. According to television, what is good for business is not likely to be good for American society."

These conclusions tie in with Ben Stein's earlier study of TV's top sitcom and soap opera writers and producers. In his *The View from Sunset Boulevard*, Stein interviewed the creators of TV's hit series and found them condemning business as part of "a dangerous concentration of

power." Business people, he was variously told, are "lepers . . . dinosaurs . . . cannibals . . . sons of bitches." Douglas Benton, who has written or produced for "Police Woman," "Ironside," "Columbo" and many other shows, conceded that business is economic democracy at work. But he added: "It's the strong smart people who get all the money and the weak dumb people who suffer."

Stein recorded his similar revealing dialogue with Bob Weiskopf, a co-producer of "Maude," as follows:

Q. Why are people poor in America?

A. Because I don't think the system could function if everyone was well off.

Q. What do you mean?

A. I think you have to have poor people in a capitalist society.

Q. Why?

A. To exploit. The rich people can't exploit each other. Consequently they always exploit the poor.

Granted, business people, as in every other walk of life, have their share of scalawags and ne'er-do-wells. But TV's distorted perception of business people does a profound disservice to American democracy. This one-sided perception is, I submit, hardly calculated to aid our economy in its struggle to recover. Or to assist young people in high

school or college on choosing a career in business. Or to provide understanding to our legislators to fashion intelligent economic policy.

Moreover, the perception, which is furthered on network news programs, promotes the idea that not free enterprise but far-seeing humanitarians and political crusaders are responsible for America's well-being. It advances the idea that income essentially flows from Washington and only secondarily from Rural America, Main Street, Wall Street, and Factory, Laboratory and Office Row.

In addition, the perception squelches the highly strategic marketplace role of the entrepreneur who, aided by the saver and investor, competitively applies our limited resources to where they'll do society the most good—creating jobs and wealth, including our daily bread, and thereby boosting our living standards.

For, after all, it is the entrepreneur—no matter how denigrated—who continuously seeks out business opportunities and accordingly combines land, labor and capital into fresh and hopefully profit-making, wealth-creating and job-inducing situations in an ever risky, uncertain and dynamic world. And no matter if the entrepreneur is a farmer, undertaker, gas station owner, fast-food restaurant operator, construction contractor or head

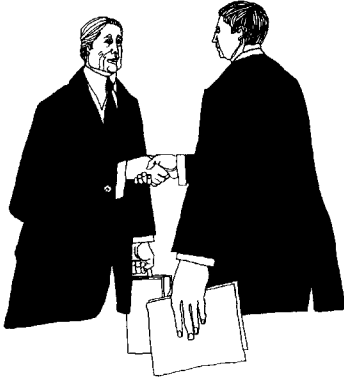
of a giant conglomerate, the message for our free enterprise system in this critical recovery phase of the business cycle is the same: No entrepreneurship means no economic growth. Worse, it ultimately means no jobs. No wealth. No freedom. Only decay and social breakdown. The entrepreneur, in other words, is the unsung and most unappreciated and much needed hero of our times.

But the Tube proclaims, in effect, that the public sector sustains the private sector instead of the other way around, that Congress or this or that President somehow crushed poverty by redistributing wealth and by regulating and planning (read "fine-tuning") the economy. Business—the fountainhead of our wealth, our tax revenues, the source of 80 per cent of our jobs—gets short shrift.

As black Stanford economist Thomas Sowell puts it in his new book, *Pink and Brown People*:

It was not our enlightened crusaders who brought light to the masses. It was Thomas Edison. It was not our intellectuals who ended the insularity of isolated communities. It was Henry Ford and the Wright Brothers. For the man in the street, Kodak did more to make him aware of pictures than Rembrandt and all the museums put together. More people hear Beethoven as a result of recording than ever heard him in his own time.

Sunset Boulevard, please copy. ☉



Business and Ethics

Mr. X manufactures gismos in a plant which uses the varied skills of a thousand employees. These people might cheerfully acknowledge that they'd rather be sailing, or fishing, or whatever; but when it comes to supporting themselves they have chosen to work with Mr. X in preference to any known alternative. They are free to leave whenever a better opportunity offers, and many have indeed "graduated" into other forms of employment, to be replaced by people who have chosen to work with Mr. X as the best opportunity available to them. A lot of people find gismos useful, and they are offered for sale at a price consumers can afford. So people buy, and Mr. X prospers.

The Reverend Mr. Opitz is a member of the staff of The Foundation for Economic Education, a seminar lecturer, and author of the book, *Religion and Capitalism: Allies, Not Enemies*.

The relations between Mr. X and his employees are amicable; they are completely non-coercive and all arrangements are voluntary. Likewise all arrangements with customers. Mr. X is wholly dependent on willing customers, over whom he has no leverage except the appeal of his product, plus the persuasiveness of his advertising. Mr. X has a profitable business, and his customers profit too; owning a gismo makes life more pleasant. There is an overall upgrading of the level of human satisfactions on the part of everyone involved: Mr. X, his employees, and the users of his product. By any definition of the term, Mr. X is performing a public service; everybody profits, nobody is coerced.

Mr. Y manufactures thingamajigs. There was once a brisk market for this gadget, but times have changed and the item is no longer

fashionable. Sales decline steeply and the firm slumps into the red. Mr. Y's firm is on the verge of failure. Now, no one likes to go down the drain, although in the profit and loss system of the free economy—usually called “capitalism”—some firms are bound to fail; customers simply stop buying, an act of free choice on their part, consumer sovereignty in action.

Mr. Y, although he has lost most of his former customers, has friends in Washington; so he lobbies for a handout. The politicians and bureaucrats respond by bailing him out with taxpayers' money. What does this mean to the average citizen? People who had refused to voluntarily pay their hard-earned dollars for one of Mr. Y's thingamajigs now have a portion of their earnings confiscated by the taxing authority in order to keep Mr. Y and his company afloat. Doesn't seem right, does it?

As long as Messrs. X and Y operated in the private, voluntary sector of society they had no power to coerce anyone. Neither man could force anyone to work for him or buy his products. The rules of the marketplace forbid this. Under these rules Mr. Y faced failure, so he entered into an arrangement with government, and now the law forces every taxpayer to spend a fraction of his time working for Y, and another fraction to subsidize the sale of Y's product.

There are many real life situations that parallel the case of Mr. Y. Most recently in the news, and therefore fresh in our memories, is the Chrysler caper. The firm is a large one, and its products have merit. But for a complex set of reasons the American public turned to other makes of automobiles. The free market—which is the playing field where the rules of business hold sway—began telling Chrysler to go into some other line of business, or fail.

This adverse business judgment on its products turned Chrysler toward politics. The several hundred thousands of people who make up Chrysler—management, labor, and stockholders—refused to accept the verdict of consumers, who chose to buy other makes of cars. Instead, they turned to Washington and got help. They got a political remedy for economic failure, as have countless others.

Unbusinesslike Conduct

A business or industry endures only so long as it pleases customers. When a business ceases to please customers it ceases to exist as a business. At this stage of the game it may succeed in pleasing politicians, who have the power to force taxpayers to support the new operation. This is a different ball game. A failed business propped up by a government handout is no longer a business; it's a hybrid which de-

serves criticism as an unethical raid on the public treasury. It doesn't matter much what you label this politicized industry, so long as you realize that it operates in defiance of the rules which define a business or industry in a free society.

A businessman *per se* operates within the framework of rules laid down by "the market"; when he operates outside this framework, and by a different set of rules, he is something other than a businessman. "The market" describes the process of social cooperation under the division of labor, where free and virtuous people specialize in a complex variety of tasks in anticipation of a consumer demand for the goods and services they produce. This is stage one of the market, and it is followed by stage two—multiple voluntary exchanges of these goods and services where people give over something they value for whatever it is they value more. The end they have in view is maximum satisfaction of creaturely needs for food, clothing, shelter, recreation, or whatever.

Most of those involved in business, industry, and trade operate within the framework laid down by "the market." They have a genuine desire to serve consumers; they take a craftsman's pride in the honest workmanship embodied in quality products which make the life of all of us safer, healthier, or more pleas-

ant. And they feel a moral obligation to give value for value received; they have adopted and try to live up to a code of "business ethics," a praiseworthy effort, at which most businessmen succeed far better than many in other walks of life.

I was discussing this ethical point with a friend who had taught economics to a generation of students at a fine midwestern college, where he also served for some years as Dean. We were talking about our two professions—teaching and preaching—some of whose seamier sides we had experienced from the inside. "You know, Ed," he said to me, "a thoroughly dishonest man can last longer as a professor or a preacher than as a used car salesman!" I had to admit that there was more than a grain of truth in Ben's cynical observation; and further, that these same intellectuals have a tendency to look down their noses at business, industry, and trade, as if the people involved in commercial activity are a lesser breed—a mean and mistaken opinion which I reject completely.

The Customer Is Boss

In a genuinely free society, a *laissez faire* society in the early sense of this much abused phrase, the businessman is a mandatary of consumers; the customer is boss. Consumer sovereignty! Is this the way the businessman likes it? Of course not. Our businessman would like to

think of himself as the man in charge, hands on the reins, running a tight ship. But who is he kidding? He doesn't have even the power to set wages in his own factory, or fix the prices he'll charge for his products! His competition, his employees, and his customers make those decisions for him. If he tries to lower wages he will lose his best workers to his competition who pay the going rate or more. If he tries to raise prices people buy elsewhere. He's stymied, and that's why he's tempted on occasion to persuade some politician to bend the rules in his favor, just enough to give him a little "fair advantage." But when a businessman yields to this temptation he forfeits his standing as a businessman and becomes something else—a branch of the government bureaucracy with a status similar to the postal service.

Wealth has a universal appeal, but wealth production is a dull affair. There's nothing about work to make the adrenalin flow or the heart to leap; there's no poetry, dash, or glamour about commercial transactions—which is why the literacy tribe turns its back on the realm of trade. John Ruskin, for example, admired the buccaneer and freebooter type, calling him the Baron of the Crags—the knight with his castle atop a hill. The modern man of wealth Ruskin referred to contemptuously as the Baron of the Bags—money bags, that

is. The businessman tends to accept this caricature of himself and his function, vainly trying to conceal it under a false, and somewhat ridiculous image.

If only business radiated some of the magic that invests royalty, or reflected some of the panache of the military! So dreams the man of business, who then finds wish fulfillment, of sorts, in assuming titles such as The Spaghetti King, The Chewing Gum Czar, The Fast Food Tycoon, and so on. Captains of Industry meet with their Lieutenants at the Admirals' Club to work out the strategy and tactics of the next "trade war." Inside the plant or in the board room our tiger is referred to with affectionate dread as The Boss, or The Old Man.

The Function of the Businessman Is to Serve the Customer

There is an inversion of values here, as well as a gross misunderstanding of the role of the businessman in society, a misunderstanding on the part of the businessman himself, which is shared by friends and enemies alike. Kings and dukes in the precapitalistic ages did not produce or earn the wealth they enjoyed; they seized the wealth produced by others. They lived by "The good old rule, The simple plan, That they should take who have the power, And they should keep who can."

Royalty and the nobility exercised vital functions at the time, but work was not one of them; and the same might be said of the military. As necessary as a military establishment is for the defense of the nation, is it not obvious that military action results in the consumption and destruction of wealth? The businessman appeared on the scene as a different breed altogether; the businessman *earns* whatever wealth he obtains, and the method he employs increases the well-being of others. He is on an ethical par, to say the very least, with those who rule and those who fight!

"I take what I want," said Frederick the Great; "I can always get some pedant to justify my actions." The thief also takes what he wants, and so does the pirate and the racketeer. The king, the crook, the buccaneer and the gangster pursue their naked self-interest directly, operating in terms of a ruthless egoistic hedonism. Bemused by these glamorous figures, apologists for capitalism have explained the motivation of the businessman in terms of the same egoistic hedonism. With friends like this the businessman doesn't need enemies!

It is a truism to say that everyone tries to improve his circumstances, to upgrade his level of well-being. The question is How? Pursuing one's self-interest directly, at the expense of other people, is the way of the

powerful and the crooked. Serving one's self indirectly by advancing the well-being of other people is the operational principle of the free market economy.

To illustrate: the successful buggy manufacturer with a deep personal commitment to this means of transport and pride in his product finds business falling off. Consumer taste is gravitating toward the new-fangled horseless carriage. Our entrepreneur, if he wants to stay in business, must swallow his pride and put his time, talents and capital at the service of those who want automobiles. The ruler of this tiny industrial empire, as he fancies himself, surrenders, and agrees to put himself at the disposal of consumers. Everyone's welfare is upgraded in the only way possible for this to occur.

The Good Society

The latter part of the 18th century marks a watershed in human history. Walter Lippmann, writing about the capitalistic era which opened two hundred years ago, utters an incandescent truth about this startlingly novel way of conducting our economic affairs: "For the first time in human history men had come upon a way of producing wealth in which the good fortune of others multiplied their own." Read that one again, for it is the basic axiom of the free market economy, so fundamental that it is overlooked by friend and

foe alike. Lippmann continues: "For the first time men could conceive a social order in which the ancient moral aspiration for liberty, equality, and fraternity was consistent with the abolition of poverty and the increase of wealth." (*The Good Society*, pp. 193-4.)

This was the social order originally known as Classical Liberalism, built around the conviction that there is an inviolable essence in each person, which it is the function of the Law to protect. When the Law is limited to the administration of justice by securing the life, liberty and property of all persons alike, then people are free to peacefully pursue their personal goals, each respecting the right of every other to do the same. This is the good society operating under the moral law, the only kind of society in which a complex division of labor economy can flourish.

There is a moral law whose mandates are binding on every one of us. The moral law within each person—his individual conscience—instructs us to "injure no man." It obligates us to work for justice and fair play in human affairs; to speak the

truth in charity, keep our word and fulfill our contracts. This ancient code forbids murder, assault, theft and covetousness. These are the most important items in any ethical code, so universal as to seem part of human nature itself, and so compelling that most of us acknowledge them as binding even while we fail to obey them.

There is not a separate ethic or set of moral principles trimmed or adapted to this group or that in society, even though our common speech seems to suggest this. It is improper, strictly speaking, to talk about "legal ethics," "medical ethics," "business ethics," or the like. Lawyers, doctors, businessmen are judged by the same moral law that applies to all the rest of us. Free market rules of business fall well within the moral law; and individual businessmen, large as well as small—so long as they stick to their last—measure up at least as well as members of other trades and professions. Only when a government grant of privilege is obtained is a moral principle violated. But when this happens the violator is no longer a businessman. ☉

Fred De Armond

IDEAS ON



LIBERTY

A MAN OF ACTION, intent on performance which is both successful and ethical, must strive to see that his actions are consistent with the principles he professes. To fail in that respect is the worst form of inconsistency. "What is right?" is always a relevant question.

JAPAN'S "FIFTH GENERATION" COMPUTERS: THREAT TO THE FREE MARKET?

"In my opinion, your contemplated conduct is an unequivocal combination in violation of the antitrust laws of the United States." This was the response of San Francisco antitrust lawyer Joseph M. Alioto to the formation of the Microelectronics and Computer Technology Corporation ("MCC"), a consortium of twelve major high-tech corporations including Honeywell, Motorola, RCA, and Control Data. These American corporations formed the new group in order to pool their research resources for a more effective response to the challenge of the Japanese "Fifth Generation" computer initiative.

Japanese leaders in government, industry, and the universities have mapped out a master plan for the

next decade to catapult Japan into the forefront of the world economy of the 1990s. The Japanese plan calls for a \$100 million, eight-year effort to capture the world lead in the field of "supercomputers," the incredibly fast computers such as the Cray-1 manufactured by Cray Research of Minneapolis, capable of executing 100 million instructions per second. These super-fast machines perform vital functions in weather forecasting, industrial design, and in defense applications.

The Japanese also plan to spend \$500 million in a ten-year effort to achieve world dominance in the strategic area of artificial intelligence, one of the most exciting fields in computer research today.

The Japanese have seen that in the new Information Age economy of the 1980s and 1990s, computer science holds the key to dominance in the world economy. American

Dr. Davis is Associate Professor of Theology at Gordon-Conwell Theological Seminary in South Hamilton, Massachusetts, and author of the forthcoming book, *Your Wealth in God's World*.

computer scientists such as Professor Edward Feigenbaum of Stanford are warning that unless decisive action is taken soon, America could easily find itself as knowledge-dependent on Japan in the 1990s as it was oil-dependent on the Middle East during the 1970s.²

Japanese Lead in Marketing of 64K RAM Chips

The United States has already lost a preliminary skirmish in the global computer wars. The Japanese have now captured 70 per cent of the world market in 64K Random Access Memory chips, the microprocessing devices which are at the heart of the modern microcomputer. These chips were invented in America, by engineers at the Intel Corporation in California, and opened up an entire new world of information processing. They serve as the "brains" of countless devices ranging from microwave ovens to personal computers. With real justification, these silicon chips have been called the "crude oil of the 1980s"—so much new wealth and employment have they created.

Japanese leaders in industry and government were quick to respond to the new economic opportunities created by the microprocessing chip. The Japanese government provided \$300 million for research and development, worked out a cooperative arrangement among five companies,

and Japan proceeded to achieve dominance in the world market for 64K computer chips.³ Their chips had done to American industry what their digital watches had done to the Swiss watch industry.

Is it really the case that the Japanese "Fifth Generation" challenge represents a grave threat not only to the American economy in the 1980s and 1990s, but to the very viability of classical free-market economics itself? How could this be the case? The dilemma arises because there are voices which are now calling for *massive government initiative* as the only way for America to successfully respond to the Japanese computer threat: Only if government takes the initiative, coordinates the planning, and sets the goals, and provides massive financing, can America's economic survival be assured.

According to Prof. Feigenbaum, "America needs a national plan of action, a kind of space shuttle program for the knowledge systems of the future."⁴ Are we really left with the dilemma of a choice between the classical free market and economic ruin, or massive government intervention and economic survival? The new realities of the Information Age do challenge classical free market principles, but before it can be seen how this threat has been exaggerated, it is important to appreciate more fully the new developments

that are on the horizon in the "Fifth Generation" of computers.

The Promise of the Fifth Generation

The phrase "Fifth Generation" refers to stages in the evolution of computer technology. The first generation of computers was based on vacuum tube technology; the second, on the transistor; the third on the integrated circuit, which combined many transistors on a single circuit board; the fourth, on microprocessor chips with large-scale integration (LSI) and very large-scale integration (VLSI) of the components. Each "generation" saw an increase in speed and computing power, together with a reduction in size and cost.

Computers that in 1960 filled entire rooms and could only be afforded by government, industry and universities can now be matched by desk-top and portable models that are affordable to the consumer. Between the years 1946 and 1960, the number of computers increased from zero to ten thousand; between 1960 and 1980, the number of computers exploded from ten thousand to *ten million*, and continues to expand at a phenomenal rate.⁵

The "Fifth Generation" will see the development of *artificial intelligence*, "computers that think." This means not merely another quantitative improvement in computing

technology, with all the economic implications which that has entailed, but a new *qualitative* leap for human civilization and the world economy.

Already computer scientists have developed such "expert systems" which mimic the reasoning processes of experts in medicine and engineering. The *Caduceus* system developed by scientists at the University of Pittsburgh assists doctors in performing intricate diagnoses in internal medicine, at times with a degree of accuracy surpassing even the most experienced human diagnosticians. The *Dart* system developed at Stanford can diagnose computer system malfunctions in the field, thus saving costly "down time." The *Programmer's Apprentice* developed at M.I.T. assists human operators in the design and debugging of complex computer programs.⁶

These "expert systems," and many others like them which are already in use or presently under development, combine vast stores of relevant information, together with detailed programs which mimic the reasoning processes used by experts in the field. These programs are constructed by "knowledge engineers" who interview the experts, "pick their brains" for their valuable knowledge, and translate this into a form that the computer scientist can use in writing a program that emulates

the reasoning of the human expert.

The development of "computers that think"—in contrast to machines that merely respond to pre-programmed instructions—has vast implications for the world economy. It scarcely seems an exaggeration to predict that the widespread diffusion of artificial intelligence will have an impact on human society comparable to, if not greater than, the invention of the automobile or the printing press.

The Industrial Revolution magnified the power of human muscle with the introduction of the steam engine. The Fifth Generation will mean a new post-industrial revolution, where the power of the *human mind* itself will be magnified by the new computer technology. Just as the steam engine raised the standard of living in the industrialized nations, so the new generation of "thinking computers" promises a new plateau of economic well-being for those nations that are alert enough to seize the opportunities.

The Fifth Generation: No Real Threat to the Free Market

While the Japanese Fifth Generation project represents a real challenge to American leadership in the world economy, it by no means signals the end of classical free-market principles. Such alarmist predictions represent a misreading of the true situation, as well as a failure to

recognize the true resilience and creativity of the American system.

The research and marketing strategies of the Intel Corporation are a good case in point. For the last several years the California computer-chip firm has been reeling under the impact of a recession and the fierce competition from Japanese manufacturers. Having lost the battle for the 64K chip, Intel is not giving up and acquiescing to a place of permanent inferiority in the world of microelectronics. Even though its 1982 profits were down 25 per cent from the previous year, Intel is planning to invest \$130 million in research and development and \$150 million in new plants and equipment in an effort to regain its competitive edge.⁷ According to some estimates, Intel has succeeded in capturing 70 per cent of the market in the new 16-bit chip technology—a design that can process information more quickly than the eight-bit designs that characterize most personal computers in use today.

According to industry sources, IBM, the giant of the world computer industry, has quietly formed a team of 25 scientists to counter the Japanese Fifth Generation project.⁸ Last year IBM's gross income reached a record \$34 billion dollars, and profits surged more than 20 per cent. After the Justice Department dropped a thirteen-year long antitrust suit in January of 1982, IBM executives

began to map out an aggressive new strategy for leadership in every field of computer technology: biomedical systems, factory automation, educational systems, telecommunications, and artificial intelligence. As of 1982 IBM had increased its research and development budget to a massive \$2.6 billion—numbers which far exceed the Japanese efforts. Even without government help, "Big Blue," as IBM is known in the trade, would represent by itself a formidable threat to the Japanese plan. Any predictions of assured Japanese dominance would at this point be quite premature.

Suggestions that the government-subsidized Japanese computer challenge make free-market principles obsolete also overlook the new context of the *globalized* economy. International trade is nothing new, of course, but the growing extent of the interdependence and interpenetration of national economies does appear to be a genuinely new factor in the world scene. Ford's new car, the Escort, is assembled in the United States, Britain, and Germany from parts manufactured in Japan, Brazil, Britain, Spain, and Italy. Volkswagen provides the engines for the Dodge Omni and Horizon cars, and Mitsubishi of Japan the engines for the Dodge Colt, the Plymouth Champ, the Dodge Challenger, and the Plymouth Sapporo. Volkswagen builds commercial vehicles with parts

made in Brazil and Mexico.⁹

The point here is that in the new *globalized* economy, many of the antitrust laws dating all the way back to the nineteenth century, and which focused on the problems of a *national* economy, need to be rethought in light of the new economic realities. A cooperative research venture such as the Microelectronics and Computer Technology Corporation does not eliminate competition; it is merely a rational response to the realities of *international competition*.

As long as government does not unfairly favor or subsidize one corporation over another, such cooperative research ventures should be encouraged by government in order to keep American industry competitive. Neither is *free cooperation* between government, industry, and the universities inconsistent with free-market principles, so long as government does not favor or exclude some corporations at the expense of others. Such cooperation is essential in areas such as computer technology which affect both the United States' economic future and its national security.

The Future Is Bright

The free-market tradition has nothing to fear from the revolutionary advances that are on the horizon in computer technology. The computer has opened a new frontier for

entrepreneurship and personal creativity that promises to surpass the discovery of petroleum and the invention of the automobile in its potential for creating new forms of employment and higher standards of living for all.

Sirjang Tandon of India worked in restaurants as a busboy in order to pay for his American engineering education. After working for IBM and Memorex, Tandon decided to start his own computer-components business in his garage. Today the Tandon Corporation is one of the leading manufacturers of disk drives, the vital components which store information in a computer. The net worth of the Tandon Corporation is \$1.5 billion, with sales projected at \$270 million this year. Says Tandon, now an American citizen, "Every time I travel around the world, I like this country better."¹⁰

On the global level, the new computer technology presents a test of strength not merely of Japan vs. the United States, but even more broadly, a crucial test of controlled, socialistic economies and economies where the private sector remains the prime mover. Analysts such as Professor William Griffith of M.I.T. predict that in this race the Soviet Union will fall further and further behind the United States and Japan. The Soviet system is a system without free competition and a rational pricing system, and one which places a

premium on political orthodoxy rather than technological efficiency. Consequently, the Soviet system is really an "anti-management system," according to Griffith, "doomed to finish last."¹¹

Rather than being a fatal threat to the free market system, the Fifth Generation of computer technology will, in the long run, demonstrate the superiority of the initiative, risk taking, and creativity characteristic of a free economy. The benefits will not be automatic, however; the United States, if it is to maintain its leadership in the global economy, must rise to this new challenge as it has met the challenges of the past. ☉

—FOOTNOTES—

¹"The Race to Build a Supercomputer," *Newsweek*, July 4, 1983, p. 61.

²Edward A. Feigenbaum and Pamela McCorduck, *The Fifth Generation: Artificial Intelligence and Japan's Computer Challenge to the World* (Reading, Mass.: Addison-Wesley, 1983), pp. 2, 3 and jacket.

³Bernard J. O'Keefe, "We Did It to Ourselves," *Boston Globe*, July 5, 1983, p. 44.

⁴Feigenbaum, *op. cit.*, p. 3.

⁵*The Futurist*, February 1983, p. 11.

⁶Feigenbaum, *op. cit.*, pp. 244-50.

⁷Marilyn Chase, "The Chip Race," *Wall Street Journal*, February 4, 1983, pp. 1, 13.

⁸"The Giant Takes Command," *Newsweek*, July 11, 1983, p. 57.

⁹John Naisbitt, *Megatrends* (New York: Warner Books, 1982), p. 65.

¹⁰"Still the Land of Opportunity?" *U.S. News & World Report*, July 4, 1983, pp. 37, 38.

¹¹William E. Griffith, "High-tech Charging Onto World Scene," *Boston Globe*, June 27, 1983, p. 2.

Can Capitalism Guarantee Right Answers?

ARGUMENTS for government controls often begin with a series of practical-sounding questions designed to make freedom appear impractical and utopian in light of impending crises. Prior to each new regulation by the state, questions are posed by professors, journalists, legislators, and interest-group spokesmen. "How can our free market system solve this particular problem? Might not government action be more expedient in this case?"

In essence, the interventionists seize upon a pressing problem for which there seems to be an obvious right answer, at least in the eyes of a vocal minority. For example, most reasonable people will agree that energy conservation is wise, that killing whales is inhumane, and that racial discrimination is illogical and cruel. And so we agree.

Now, they say, the free market

carries no guarantees of infallibility. Competition does not always give the correct answers, at least not as quickly as can be gotten by direct state action. While the government is not creative, it does offer one advantage: It is definite. The state has arrived at a good plan of action, recommended by experts, and backed by public consensus. Why must we leave this problem in the uncertain realm of the free market?

To put the issue more broadly, take any problem where there exists some state plan, and you can ask: "Can the free market promise a better answer, or even one that is correct?" The same applies to any scientific controversy where there are funds for research available from government agencies. The challenge is: "Can capitalism solve problems well enough and soon enough?"

There is no correct answer to this question, because the question itself is invalid.

It does no service to the concept of

Dr. Schwartz is a psychologist, a free-lance writer, and a teacher at Empire State College in White Plains, N.Y.

freedom to argue that capitalism solves problems more efficiently than does socialism. The whole argument assumes a collectivist premise: that problems are solved by social systems rather than by individuals.

Discoveries and solutions to problems are accomplished by individuals, not by social systems. Political-economic systems merely define the conditions under which creative individuals are either rewarded or brutalized for their efforts.

Reason Is Released

Capitalism is the economic expression of individual rights. When force is removed from the marketplace of ideas and production, the reasoning power of the individual is unchained. Since individual reasoning power is the only kind in existence, the result of establishing individual rights is an explosion of time-saving, life-saving inventions recognized later on as wealth.

In any civilization, whether under primitive or advanced conditions, the power of reason belongs to the individual, and the seeds of progress are planted in the privacy of a thinking mind. Progress has never worked by command, nor could it be predicted in detail. The great advances of the 19th and 20th centuries under near-capitalism were made possible by scientists and industrialists in pursuit of their own interests. The Edisons, Carnegies, Rockefellers, and

Einsteins were not brought forth by government edict in recognition of pressing national problems. There was no way to predict, for example, prior to John D. Rockefeller, that the development of petroleum exploration and refining would ultimately be the salvation of the remaining whale population; or that the inventions of the transistor and computer would constitute a means of energy conservation, and contribute to an improvement in air quality by saving fuel and transportation costs.

Creative work requires tolerance for error and the chance to succeed in the competition of the new and untried against the old, the accepted, and the routine. It is no accident that America, the land of individual rights, is also the land of inventors and industrialists: creative and productive men from around the world who were Americans by choice. Consider the disproportionate numbers of American Nobel laureates, men with surnames of every nationality, who are refugees or second- or third-generation Americans.

Capitalism Nourishes Genius

Capitalism was not asked to solve the problems that interested these thinkers and producers. But, with the guarantee of individual rights, force was kept from interfering with their creativity. Capitalism does not solve problems. It nourishes genius.

It doesn't take technological hind-

sight to debunk the interventionists' mistrust of competition. The impulse to turn to government authorities in defense of "right answers" did not originate in the mixed economy of the 20th century. Thomas Jefferson saw the threat, and wrote about it with his accustomed clarity and fire, "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."¹

Against the statist's mistrust of freedom in the realm of religious beliefs, Jefferson wrote: "Reason and free enquiry are the only effectual agents against error. Give a loose to them, they will support the true religion, by bringing every false one to their tribunal, to the test of their investigation."

What Jefferson saw in the realm of personal philosophy he knew to apply to the realm of scientific controversy: "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 as 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.

¹All quotes are from Jefferson's *Notes on the State of Virginia*, first published in 1787 (New York: W. W. Norton, Co. 1954).

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 make it an article of necessary faith. Reason and experiment have been indulged, and error has fled before them."

And, in one classic sentence, Jefferson weighs force against reason: "It is error alone which needs the support of government. Truth can stand by itself."

Confidence in the free competition of ideas is not blind faith about the ability of the market to solve any particular crisis. It is instead a certainty about the fundamental conditions needed to protect creative and productive minds from brutality and confiscation.

Hobbes Feared Freedom

Far from being an expression of "scientific" social planning, the statist's mistrust of the marketplace is much more in the spirit of Thomas Hobbes, the 17th century statist, who feared that freedom would produce chaos. Hobbes recommended a social system which would invest a king with complete authority over the lives of the people, not because the

king would be wise, but because his actions would be definite and predictable. Hobbes, being a skeptic, did not believe that the "unaided power of reason" could function as a basis for individual action or for benevolent cooperation. Mistrust of reason implied mistrust of the individual. Society was, for Hobbes, in the person of the king, more reliable than the mass of individual people.

Naturally, today's interventionists would chafe at any comparison with Hobbes, the totalitarian and skeptic. They do not champion skepticism, they advocate science. And they do not want to establish a king: they advocate only a mixed economy, with the greatest latitude possible for freedom. Each intervention by government is to be made only in those areas where they see the marketplace as having left a gap, in the form of an important and unsolved problem. It is only these gaps which the interventionists would fill with the expedient of government action.

The Consequences of Force

A broader view would show them that all of the unsolved problems of man fit into these gaps. Once force is preferred to competition, the implications are universal. The results are only a matter of time. It is logically inconsistent to advocate the use of force in one area of production and thought, and to demand that it be kept from other such areas. If gov-

ernment coercion can be justified in banking, why not in publishing?

Those who favor the mixed economy are less consistent than their neo-Hobbesian contemporaries, who rule over today's totalitarian states. These modern-day kings regard the individual as inconsequential and unworthy in the grand scheme of state action. The idea that individuals are made capable by the power of reason and cooperation is regarded a dangerous and fallacious bourgeois prejudice, to be eradicated by state censors. They must jealously guard all areas of thought against the intrusion of private initiative, especially in the presses and in the schools. They know, by experience, that there is no telling when one side of a free controversy will discover the idea of liberty.

Impatience with private competition of ideas in favor of government enforced solutions reveals a mistrust of reason and its sole proprietors: the individual citizens. If government controls are believed necessary to find answers to problems, then the individual's capacity of reason, persuasion, and competition has been judged to be incompetent. Then, the government must become the caretaker to all. There is no middle ground in this controversy: a mixture of freedom and statism is no more viable than a mixture of persuasion and coercion. Freedom is indivisible. ☉



ON LABOR UNIONS

UNEMPLOYMENT can be a dreadful condition. The inability to find a needed job is a heart-rending experience for anyone. For those with young children to feed and clothe, it is a terrifying predicament. It gnaws at and destroys the spirit and self-confidence of even the strongest souls. With nerves on edge, family harmony too often flies out the window.

In addition to the deep mental anguish, there are also physical and financial losses. An adult's health, as well as his spirit, may suffer irreparably. A child's growth may be permanently stunted. The loss of the family car can reduce both the hope

and the possibility of getting another job. The foreclosure of a mortgage on the family home can liquidate the savings of a lifetime. In short, a prolonged period of unemployment can wreck a person's life.

Then, too, the unemployed are not the only sufferers. With millions of able-bodied persons searching for a source of income or twiddling their thumbs in frustrated idleness, the potential quantity of goods and services available in the market place is greatly reduced. This means higher prices and lower living standards for everyone. Government programs to provide a floor for the unemployed also mean higher taxes and/or still higher prices as a result of the political creation and distribution of unearned dollars. Actually, mass unemployment and its aftermath is probably the greatest single driving

Mr. Greaves, economist, lecturer, and author of numerous articles and books, served with the U. S. House of Representatives Committee on Education and Labor during the preparation and passage of the 1947 revisions of the National Labor Relations Act, popularly known as the Taft-Hartley Act.

force behind our politically sponsored inflation.

So solving the problem of mass unemployment is a major task of our time. Before we can solve it, we must locate the root cause. There was no unemployment at Plymouth or Jamestown. There was no mass unemployment during this country's first hundred years of existence. What is different today?

Not a Free Market

One major difference is that there is no longer a free market in jobs and wage rates. There are now laws on the statute books that grant certain groups of workers the privilege of demanding and getting higher wages than they could and would earn in a free market. The unemployed are no longer permitted to compete and thus reduce the higher than free market wage rates of the privileged few. So those shut out from the higher paying jobs must compete for work and drive down the wage rates in unorganized occupations. Then, they face the floor decreed by minimum wage laws which often prevent employment at these reduced market wage rates.

Employers cannot long pay workers the legal minimum wage rate if consumers cannot or will not buy the resulting goods and services at prices that cover costs. As a result, millions are now legally prevented from taking either high paying jobs or low

paying jobs. The free market in jobs and wage rates has been legally destroyed.

It should thus be evident that the remedy for mass unemployment is to repeal the laws which prevent people from competing for the higher paying jobs or taking the lower paying jobs—lower paying, until workers acquire the skill and experience needed to climb the ladder to higher incomes.

Organized Against Whom? The Labor Union in America

by Clarence B. Carson. Published by Western Goals, Alexandria, Virginia, 1983. 114 pages, \$5.00 paper. The book is also available from The Foundation for Economic Education, Irvington-on-Hudson, New York 10533

Historian Clarence B. Carson has written a small book, *Organized Against Whom?*, which tells some of the story of how we strayed from the free market path for jobs and wage rates. It is an ugly story vividly describing the coercion and violence employed by many in the labor union movement in their effort to convince the electorate that they are entitled to special privileges and immunities. They have successfully convinced many that labor unions are

the protectors of downtrodden poorly paid workers who are supposedly at the mercy of greedy all-powerful employers who rob them of their rightful earnings.

Today, thanks to socialist and labor union propaganda, there is little understanding of the fact that employers are merely middlemen operating in a heavily taxed and very competitive market place. Actually, employers have very little to say about wage rates. Employers are compelled by market forces to pay employees in accordance with the value that consumers place on the production of their marginal employees, the last hired. If employers pay higher wage rates than they get back from consumers, they suffer losses and sooner or later cease to be employers. If employers seek to increase their profits by paying lower than market wage rates, competitors soon bid away their employees. Thus, the free market competition of employers is the salvation of workers looking for higher wages.

The Voluntary Way

In a free society, labor unions, like other organizations, would be voluntary groups trying to advance the interests of their members. They would abide by the laws and seek no special privileges or immunities. Unions that offered employers the most competent and reliable workers, who were willing to work for

competitive free market wage rates, would grow and prosper. Labor unions that offered incompetent workers, insisted on featherbedding, or other unnecessary or costly conditions and demanded higher wage rates than competent non-union members would willingly accept would soon fade away. Certainly, in a free society no group should or would resort to violence, coercion or special privileges to obtain what it seeks.

The free market operates according to the Golden Rule. The higher values one contributes to the market place, as valued by consumers, the more one receives in return. Free market operations are always voluntary transactions by which all parties exchange something they have for something on which they place a higher value. Goods and services thus continually move to persons who place a higher value on them. Barring human error or the use of force or fraud, all parties gain from all such transactions. The prevention of the use of force or fraud is a prime function of government.

Dr. Carson tells us how many labor unions now operate, with the help of laws and court decisions, coercing employers to join with them to grant them a monopoly of certain jobs. Such unions are thus able to shut out the competition of competent applicants for those jobs. Then, by demanding still higher wage rates, some unions

further reduce production and employment by pricing some of their own members, those with low seniority, out of their high paying jobs. In short, labor unionism, as now practiced, is not only the enemy of employers, investors and consumers, but it is primarily the enemy of competent job seekers who, as a result of union action, must remain underpaid or unemployed.

Unions Gain Monopoly Status

Today, we live in an economy of political privileges with all kinds of lobbies trying to get for their members what they consider their "fair share" of the political largesse. Unquestionably, labor unions have been one of the first and strongest of these political pressure groups. As Dr. Carson narrates, they won their first great political victory in 1914, when they persuaded Congress to decree: "That the labor of a human being is not a commodity or article of commerce." Congress has great powers, but it did not by this legislation alter the fact that labor is one of the factors of production traded in the market place.

With this law on the books, union leaders waged a propagandea campaign demanding that government help them raise wage rates above those of the free market, which they maintain, falsely, are set too low by the whims of all-powerful employers. Their propagandea campaign was

accompanied with strikes and violence that disturbed the entire nation and contributed to the mass unemployment of the depression period that started in 1929.

As a result of this propagandea and the show of force, Congress and the courts were persuaded in the 1930s to grant these labor union advocates of self-serving coercion most of the special privileges and immunities they sought. Now, we have the results. Employers as a breed are becoming scarce. So are investors willing to place their savings in new or expanded production facilities. The combined result is that the ranks of the unemployed are now reckoned in the millions. Mass unemployment has even caught up with many of the legally privileged union members. The economic laws of the market cannot long be circumvented without eventually producing undesirable consequences.

As Dr. Carson tells us, our constitutionally chosen government has empowered the labor unions to accomplish all this. He may be a bit harder on the unions than they deserve. There can be no excuse for their resort to violence and coercion. However, they can hardly be blamed for taking advantage of the special privileges and immunities from prosecution that Congress and the courts have conferred on them. In taking advantage of existing laws, they are doing no more than many

college kids, lots of old folks and millions of persons in between. Of course, that does not make it right or permanently possible. Neither Congress nor the courts have any power to repeal the laws of economics. They could make us all millionaires, but only by destroying the value of the dollar. A price must be paid for every interference with the inexorable laws of economics.

A Story of Special Privilege

It would seem we are fast losing the freedom for which our Founding Fathers pledged their lives, their fortunes and their sacred honor. As Dr. Carson writes: "The thrust of the American Revolution was in the direction of removing special privileges and legal supports from groups and organizations." For decades now the courts have supported Congressional grants of "special privileges and legal supports" on a wholesale basis. As Carson writes, this has been "a fundamental departure from the principles of good government," not to mention the principles of sound economics.

Our government has permitted, encouraged and even underwritten the power of labor unions to coerce all other elements of our society to bend to their will. This small book tells much of the story of how this came about. In doing so, it exposes many of the errors in the popular fallacies, the acceptance of which has

permitted labor unions to attain their present position of power. This story is one with which every American should be familiar.

The book is not without its faults and contradictions. Some are only the result of an unfortunate choice of words. For example, lawlessness is referred to as the "state of nature." Or, "An ancient union complaint could certainly be disposed of if governments neither recognized, gave status to, taxed, or otherwise noticed private organizations, except as they might disturb the peace." That would mean no legal recognition or taxation of corporations or any other private organizations. In effect, it would repeal the First Amendment. For no press or religious organizations would have any status or right to be recognized in court. Or when Carson writes, "Congress is empowered to make laws regulating commerce." The Constitution carefully limited that power to "interstate commerce," and that is what it meant until the Supreme Court, in 1937, ignored the key word "interstate" in a 5 to 4 decision which upheld the National Labor Relations Act, popularly known as the Wagner Act.

There are some unfortunate contradictions in the book, as when we read, "Let me confess at the outset that I do not know what labor unions are." Then the author proceeds in chapter after chapter to tell what they are and what they do. At an-

other point we read, "Violence is not essential to unionism." That is true, of course, if they operate within the rules and ethics of a free society. However, the thesis of this book is that labor unions are organized against society in general and against other workers in particular. As the author describes so well, they have for years pursued their policies by resorting to violence and coercion. For decades now the government has given its support to their anti-social actions—actions that impede not only full employment and prosperity but also the legitimate activities of many governmental entities.

Criticism might be made of such statements about labor unions as, "They are not economic organizations," and "Nor is the labor union primarily a political organization." If economics is the science of human actions to attain selected goals, then attaining union goals by boycotts, strikes and stopping others from working are certainly economic actions. This book presents many incidents illustrating how labor unions have used both economic and political means to attain their present position of power.

Perhaps this reviewer's greatest disagreement is with the author's assertion that "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." The latter might be so if they sought their legitimate ends by ethical means. However, there is nothing ethical or religious about the use of coercion, be it legal or illegal.

As for labor unions being religious, many economically ignorant labor union members and Congressmen undoubtedly swallow the propaganda and follow the wishes of the union bosses with a "religious" faith and fervor. We may live "in the age of the divine right of majorities," as the author rightly states, but the fact that labor unions are "supported by compulsory tithes and taxes" does not make them religious or "established churches."

Religion pertains to the supernatural—metaphysics. Except for the fact that reason tells us there must have been a Creator, religions deal with matters which cannot be logically proved or disproved. Religions are concerned with the irrational aspects of human life. Consequently, honest people, who are both sane and intelligent, can and do differ on religious matters. The aims and actions of labor unions are certainly neither heavenly nor irrational. They are earthy and concrete. Labor unions seek more for their members. There is nothing wrong with that objective if they pursued

it by ethical means—by voluntary agreements for the mutual benefit of all parties. However, as Dr. Carson has so vividly pointed out, our present problems have arisen from the use of violence, coercion and special privileges which are neither ethical nor particularly metaphysical.

The mass media, which are largely manned and edited by labor union members, constantly present a one-sided favorable picture of union policies, privileges and activities. The

public needs to know more about the antisocial effects of the prerogatives exercised by labor unions. This book strips away much of the veneer that covers the unfortunate deification of labor union activities, activities which, if committed by individuals or other organizations, would be properly labeled as crimes. We need more books which, like this one, expose the root cause of mass unemployment, a major blight not only on economic peace and prosperity but also on the pursuit of human happiness. ⊗

The Labor Monopoly

Do employers in fact possess monopsony power in the labor markets in which they operate? Certainly they would like to do so and often attempt to do so. But I see nothing in the history of wage rates in this country and in comparisons of union and nonunion industry experience that would lead me to conclude that employers in this country do now or have ever exercised significant monopsony power in the labor markets. The weakness of the individual worker in obtaining "fair" wages is one of the most durable and widely-believed myths in the economic folklore of the modern world. Even my hero, Adam Smith, gave it some standing, though it may have possessed some greater validity in his day than in ours. Today's worker, with his far greater physical and psychological mobility, need hardly sit still to be exploited, and a solid core of movable workers will protect even those who have little or no mobility, just as I am protected in buying television sets by those who are shrewd enough to know that it is not magic but easily understood processes which cause them to work.

IDEAS ON



LIBERTY

BENJAMIN A. ROGGE

A Stroll with William James

A Stroll with William James is a thoroughly misleading title for Jacques Barzun's voluminous book about the psychologist and philosopher whom Whitehead called "that adorable genius" (Harper and Row, 344 pp., \$19.95). The word "stroll" connotes something light and airy, but this study of the works and influence of the American thinker who picked the word "pragmatism" (from the Greek word "pragma," meaning "the thing done") to describe the test of truth is more like a safari, with beaters whacking the circumambient bush in eight or nine different directions to track down all manner of fascinating quarry.

The book begins simply, with a bit about the man. But Barzun doesn't tarry very long with the bare facts about William James's most cosmopolitan upbringing. As the son of

Henry James Sr., the Swedenborgian philosopher, and brother to the younger Henry, the novelist who worshipped all things English, William grew up on a "transatlantic shuttle." This "typically American philosopher," as he is usually called, was learned in four languages. At one point he decided he wanted to be a second Delacroix, his favorite French painter. He drew and he drew as a child, and after perfecting his French in Geneva and picking up a reading knowledge of Italian he joined John La Farge as an art apprentice in William Morris Hunt's studio in Newport, Rhode Island.

One year's painting produced work that was far from amateurish, but once William was convinced that he was no genius in oils he switched to science at Harvard preparatory to medical school. There was a blessed

interlude in his medical training when he hiked off to the Brazilian jungle to study the fauna of the Amazon with the naturalist Louis Agassiz. Barzun treats all this background in hop-skip-jump fashion, and is then on to a most intensive study of James's pioneer work in psychology. Reading everything that follows is a dense but fascinating and rewarding experience. What Barzun has done is to provide us with a treatise on the origins of the modern mind, using James's books as the guiding line to an understanding of every last current of thought that has taken us out of the Victorian world into the permissive present.

Pragmatic Pluralism

Barzun doesn't admire many manifestations of the world that has been built on the shifting sands of pragmatic choice, but he blames our shortcomings—the collapse of our educational system, for example—on misguided disciples whose theories definitely do not stand up to any intelligent definition of what “works.” As a psychologist James had first called attention to the stream of consciousness. He had, in his work on “radical empiricism,” disposed of the “heart-and-mind dichotomy.” The ancient quarrel of the nominalists and the realists had no meaning for him; in his world both the chair and the idea of the chair were equally parts of nature. In religion he was

personally inclined to a vague form of Deism, but he cherished both the right and the will to believe. Though he was no Freudian, he explored the subconscious mind, hoping for disclosures that would tell him more about religion, genius and psychopathology. He was a pluralist for quite practical reasons in a world that had witnessed entirely too many atrocities stemming from monists who thought they had unique access to the truth.

Jamesian pluralism is well-adapted to democracy, which presupposes that no right balance can be struck between diversity and unifying authority by rule. As for pragmatism, he did not intend it as a philosophy in itself. He thought of “pragma” as providing an attitude that would test philosophies by their consequences. But consequences must have values to be useful to human beings, so we are led in a circle back to ideas of worth. What is immediately practical may have dangerous long-term consequences, and the “pragmatic” politician who confuses opportunism with statecraft is no real Jamesian.

The Educational Debacle


As an educator Barzun is particularly concerned with what has happened to our schools as a result of what he regards as a perversion of pragmatic or instrumentalist ideas. As a teacher James thought it was

the pedagogue's job to "make the pupil ashamed of being scared at fractions." But the whole business of bringing "the softer pedagogies" into the classroom took a stupid turn with the disciples of John Dewey. "Dewey's effect on schooling," says Barzun, "was to dethrone subject matter and replace it by techniques, the main one being aimed at teaching 'problem-solving' regardless of subject." On the surface this may appear to be a Jamesian idea. But the "adaptation to 'life' is not to be engineered in the classroom . . . contrived situations fool only the teachers and undermine their authority by silly make-believe."

Barzun doesn't even blame John Dewey for our educational debacle. Dewey's ideas, he says, "were exploited by ignorant and irresponsible people—veritable Smerdiakovs—and impressed upon children, parents, and teachers alike. Anything less 'pragmatic' than the ineffectiveness of public schooling would be hard to imagine." The permissive, "relaxed," "at-your-own-pace" needs of instruction have paradoxically resulted in a notably tense atmosphere. "James," says Barzun, "had no reason to imagine that schools would turn into places where death by violence, the drug habit, rape, and teen-age pregnancy would count as educational problems."

It is often said that William James was the "psychologist who wrote like a novelist," whereas his brother Henry was the "novelist who wrote like a psychologist." Whatever may be the truth of this cliché of criticism, it is certainly true that William James's prose is utterly unlike that of the usual professional in any of the social sciences. Barzun remarks on James's "sinewy, lucid, vernacular prose, full of its own varieties to match the varying subjects . . ." Many of James's best effects have passed into the common speech. We all know of the distinction between "tough-minded" and "tender-minded" people, but how many would be aware that the phrases were first used by James?

"The moral equivalent of war," a Jamesian elaboration, has been used by more than one politician, the most recent being Jimmy Carter, who trivialized it by applying it to lowering the thermostats in a time of oil shortage. James spoke of the stream of consciousness before novelists built literary careers out of it. It was Pierre Janet who coined the word subconscious, but it was James who provided the inspiration for it.

James loved concreteness. If our pedagogues had followed him stylistically, we would have been spared most of our "life adjustment" teachers college rot. 

Index

THE FREEMAN—Volume 33, January-December 1983

Prepared by BETTINA BIEN GREAVES of the Foundation staff

NOTE: In page references, the number preceding the colon designates the month, those following refer to pages. All articles have at least three entries—author, subject, and title—except in a few cases when title clearly indicates subject matter. Books reviewed are listed on page 768.

A

- ABUNDANCE and scarcity (Barker) 6:369-376
ACADEMY versus the market place (Hospers) 6:339-357
AGRICULTURE
Farm policy—now what? (Peterson, W. H.) 7:420-422
Lasers, harobeds, and world hunger (Baetjer) 8:482-486
Trouble with farming (Carson) 5:286-298
ANDERSON, Bill
Boom and bust. 1:29-42
Virtues of the free economy, The. 4:225-235
Why socialism fails—why markets survive. 12:716-728
ANTIBUSINESS, anticapitalistic ideology
Academy versus the market place (Hospers) 6:339-357
Criminal liberty and civil liability (Orient) 5:259-265
Democratic freedoms vs. collectivist newspeak (Douglas) 3:169-174
How "obscene" are profits? (Hazlitt) 10:630-634
Is there a moral basis for capitalism? (Dykes) 8:474-481
Kick a businessman today (Peterson, W. H.) 12:732-734
Stranglehold of "big business" (Dykes) 6:323-327
Virtues of the free economy (Anderson) 4:225-235
Why anticapitalism grows (Hazlitt) 7:409-412
Why socialism fails—why markets survive (Anderson) 12:716-728
ARMOR of Saul (Williams) 2:84-92

B

- BAETJER, Howard, Jr.
Lasers, harobeds, and world hunger. 8:482-486
BARGER, Melvin D.
Free riders face a rocky road. 4:205-212
BARKER, Ben
Abundance and scarcity. 6:369-376
BEARCE, Robert
Your freedom—what about it? 7:387-394
BECHARA, Dennis
Is forced sharing a panacea? 8:470-473
Rising protectionist tide, The. 9:545-550
BELIEVING, magic of (Read) 11:690
BENEFIT mandates cause unemployment (Sennholz) 7:423-439
"BIG business," stranglehold of (Dykes) 6:323-327
BILLINGS, Donald B.
Moral case for competitive capitalism, The. 7:413-419
BOOM and bust (Anderson) 1:29-42
BUSINESS and ethics (Opitz) 12:735-740

C

- CAN capitalism guarantee right answers? (Schwartz) 12:747-750
CAPITAL, deficits and full employment (Hawkins) 3:175-181

CAPITALISM

Can capitalism guarantee right answers? (Schwartz) 12:747-750

Computers and capitalism (Davis) 10:594-600

Is there a moral basis for capitalism? (Dykes) 8:474-481

Moral case for competitive capitalism (Billings) 7:413-419

Virtues of the free economy (Anderson) 4:225-235

Why anticapitalism grows (Hazlitt) 7:409-412

CARSON, Clarence B.

Constitution and paper money, *The*. 7:399-408

Crisis of the welfare state, *The*. 4:213-224

Dilemmas of public education, *The*. 9:515-525

General welfare, *The*. 8:487-494

George Washington on liberty and order. 2:67-75

Judicial monopoly over the Constitution: Jefferson's view. 10:605-615

Meaning of federalism, *The*. 1:12-23

Primitivism: the thrust of government intervention. 6:328-338

Trouble with farming, *The*. 5:286-298

CHAMBERLAIN, John. *See* Book reviews

CHARITY, voluntary

Importance of the obvious (Peterson, D.) 8:502-507

CHINA

Hong Kong's future uncertain (Vanderleest) 5:266-269

Why socialism fails—why markets survive (Anderson) 12:716-728

CITIES, problems of

Crisis of the welfare state (Carson) 4:213-224

CIVIL liability, criminal liberty and (Orient) 5:259-265

CLITES, Roger M.

Through others' eyes. 1:56-59

COHN, Michael B.

Maritime subsidies: overregulation. 3:182-184

COLONIAL America, education in (Peterson, R.) 9:551-560

COMMARE N'Ciuzza and the loan shark (Doti) 8:495-501

COMMUNISM. *See* Russia; Socialism

COMPUTER revolution

From caves to computers (Greaves, B. B.) 10:587-593

Japan's "fifth generation" computers: threat to the free market? (Davis) 12:741-746

Robot protectionism (Ross) 4:248-253

Workers and robots (Sennholz) 4:236-247

COMPUTERS and capitalism (Davis) 10:594-600

CONSTITUTION and paper money (Carson) 7:399-408

CONSTITUTIONAL restraints, the market economy, and individual freedom (Shannon) 1:45-55

CONSUMER "protection"

Criminal liberty and civil liability (Orient) 5:259-265

Myth of self-regulation (Foley) 10:621-629

CRIME, ethics of (McGath) 10:616-620

CRIMINAL liberty and civil liability (Orient) 5:259-265

CRISIS of the welfare state (Carson) 4:213-224

D

DAVENPORT, John A.

Pilgrimage among the scribblers. 1:3-7

Why not deregulate labor? 10:601-604

DAVIS, John Jefferson

Computers and capitalism. 10:594-600

Japan's "fifth generation" computers: threat to the free market? 12:741-746

DEMOCRATIC freedoms vs. collectivist newspeak (Douglas) 3:169-174

DIETZE, Gottfried. *See* Book reviews (Flower)

DILEMMAS of public education (Carson) 9:515-525

DISTANT voice speaks to us today (Williams) 3:162-168

DOTI, James

Commare N'Ciuzza and the loan shark. 8:495-501

DOUGLAS, Jack D.

Democratic freedoms vs. collectivist newspeak. 3:169-174

DYKES, Charles

Is there a moral basis for capitalism? 8:474-481

Stranglehold of "big business," *The*. 6:323-327

E

ECONOMIC development/progress

Abundance and scarcity (Barker) 6:369-376

From caves to computers (Greaves, B. B.) 10:587-593

ECONOMIC forecasting: how good is it? (Hazlitt) 12:712-715

ECONOMIC malinvestment & depressions

Boom and bust (Anderson) 1:29-42

Make-work won't work (Semmens) 9:561-569

Capital, deficits and full employment (Hawkins) 3:175-181

ECONOMIC recovery (Summers) 1:43-44

ECONOMISTS and the future (Reed) 5:302-312

EDUCATION

Academy versus the market place (Hospers) 6:339-357

Dilemmas of public education (Carson) 9:515-525

From the mouths of babes (Peterson, D.) 5:299-301

EDUCATION in colonial America (Peterson, R.) 9:551-560

EDUCATION, price of (Ross) 2:107-112

EGALITARIANISM and envy

Academy versus the market place (Hospers) 6:339-357

Ethics of crime (McGath) 10:616-620

ENTREPRENEURSHIP

Computers and capitalism (Davis) 10:594-600

Economists and the future (Reed) 5:302-312

Essence of Americanism (Read) 11:645-658

ETERNAL vigilance, irony of (Foley) 12:729-731

ETHICS, business and (Opitz) 12:735-740
 ETHICS of crime (McGath) 10:616-620
 EVERY person should be free (Read) 11:676

F

FARM policy—now what? (Peterson, W. H.) 7:420-422
 FARMING, trouble with (Carson) 5:286-298
 FEDERALISM, meaning of (Carson) 1:12-23
 FLIGHT from integrity (Read) 11:670-675
 FOLEY, Ridgway K., Jr.
 Irony of eternal vigilance, *The*. 12:729-731
 Myth of self-regulation, *The*. 10:621-629
 FOOTE, Frederick C.
 No nukes—no consistency. 8:460-461
 FOUNDATION for Economic Education, Inc., Board of Trustees
 Memorial resolution to Leonard E. Read 11:643-644
 FREE enterprise, free markets
 Business and ethics (Opitz) 12:735-740
 I, pencil (Read) 11:691-696
 Importance of the obvious (Peterson, D.) 8:502-507
 Primitivism: the thrust of government intervention (Carson) 6:328-338
 Privatization: is it the answer? (Pasour) 8:462-469
 Through others' eyes (Clites) 1:56-59
 Until shrimp learn to whistle (Smyth) 9:526-529
 FREE enterprise in space (McGath) 3:157-161
 FREE riders face a rocky road (Barger) 4:205-212
 FREE trade and foreign wars (Husbands) 4:195-204
 FREEDOM and utopias (Hospers) 9:530-544
 FREEDOM/liberty, essence of
 Armor of Saul (Williams) 2:84-92
 George Washington on liberty and order (Carson) 2:67-75
 Thinking about freedom (LeFevre) 2:113-121
 Your freedom—what about it? (Bearce) 7:387-394
 FREEDOM of speech/thought/religion
 Can capitalism guarantee right answers? (Schwartz) 12:747-750
 Democratic freedoms vs. collectivist newspeak (Douglas) 3:169-174
 Dilemmas of public education (Carson) 9:515-525
 FROM caves to computers (Greaves, B. B.) 10:587-593
 FROM the mouths of babes (Peterson, D.) 5:299-301

G

GENERAL welfare (Carson) 8:487-494
 GOVERNMENT controls/regulation/intervention
 Benefit mandates cause unemployment (Sennholz) 7:423-439

Constitutional restraints, the market economy, and individual freedom (Shannon) 1:45-55
 Criminal liberty and civil liability (Orient) 5:259-265
 Crisis of the welfare state (Carson) 4:213-224
 Free enterprise in space (McGath) 3:157-161
 Freedom and utopias (Hospers) 9:530-544
 Is forced sharing a panacea? (Bechara) 8:470-473
 Minimum wages (Sennholz) 5:270-281
 Myth of self-regulation (Foley) 10:621-629
 Primitivism: the thrust of government intervention (Carson) 6:328-338
 Privatization: is it the answer? (Pasour) 8:462-469
 Siren of partnership (Ross) 7:440-444
 Trouble with farming (Carson) 5:286-298
 Unemployment in Puerto Rico (Sennholz) 6:358-368
 Workers and robots (Sennholz) 4:236-247
 GOVERNMENT, limited
 Essence of Americanism (Read) 11:645-658
 General welfare (Carson) 8:487-494
 Judicial monopoly over the Constitution: Jefferson's view (Carson) 10:605-615
 Legal system for a free society (Sparks, B.) 3:135-150
 Meaning of federalism (Carson) 1:12-23
 GOVERNMENT spending and subsidies
 Academy versus the market place (Hospers) 6:339-357
 Farm policy—now what? (Peterson, W. H.) 7:420-422
 Make-work won't work (Semmens) 9:561-569
 Maritime subsidies: overregulation (Cohn) 3:182-184
 Where figures fail: measuring the growth of big government (Higgs) 3:151-156

GREAT BRITAIN

Thatcher revolution (Murray) 8:451-459
 GREAVES, Bettina Bien
 From caves to computers. 10:587-593
 See also Book reviews (Simis; Tolstoy)
 GREAVES, Percy L., Jr.
 On labor unions. 12:751-757
 GREEK history
 Distant voice speaks to us today (Williams) 3:162-168
 GROSECLOSE, Elgin
 Manning the sea walls. 1:24-28
 Prescription for economic health. 7:395-398

H

HAWKINS, William R.
 Capital, deficits and full employment. 3:175-181
 HAZLITT, Henry.
 Economic forecasting: how good is it? 12:712-715
 How "obscene" are profits? 10:630-634
 Market prices vs. communist commands. 2:93-97
 Why anticapitalism grows. 7:409-412

HIGGS, Robert.

Where figures fail: measuring the growth of big government. 3:151-156

HONG KONG'S future uncertain (Vanderleest) 5:266-269**HOSPERS, John.**

Academy versus the market place, *The*. 6:339-357

Freedom and utopias. 9:530-544

HOW "obscene" are profits? (Hazlitt) 10:630-634**HUSBANDS, Sam H., Jr.**

Free trade and foreign wars. 4:195-204

INTEREST rates

Commare N'Ciuzza and the loan shark (Doti) 8:495-501

INTERNATIONAL trade/finance/banking

Free trade and foreign wars (Husbands) 4:195-204

Japan's "fifth generation" computers: threat to the free market? (Davis) 12:741-746

Manning the sea walls (Groselose) 1:24-28

Rising protectionist tide (Bechara) 9:545-550

World debt crisis (Sennholz) 2:76-83

IRONY of eternal vigilance (Foley) 12:729-731

IS forced sharing a panacea? (Bechara) 8:470-473

IS there a moral basis for capitalism? (Dykes) 8:474-481

I**I, PENCIL (Read) 11:691-696****IDEAS, importance of**

Armor of Saul (Williams) 2:84-92

Crisis of the welfare state (Carson) 4:213-224

From the mouths of babes (Peterson, D.) 5:299-301

Looking out for yourself (Read) 11:663-669

IDEAS, innovation, invention

Abundance and scarcity (Barker) 6:369-376

Can capitalism guarantee right answers? (Schwartz) 12:747-750

Computers and capitalism (Davis) 10:594-600

From caves to computers (Greaves, B. B.) 10:587-593

I, pencil (Read) 11:691-696

Japan's "fifth generation" computers: threat to the free market? (Davis) 12:741-746

Looking out for yourself (Read) 11:663-669

Two faces of risk (Ross) 12:707-711

ILLEGAL aliens (Sennholz) 3:131-134**IMPORTANCE of the obvious (Peterson, D.) 8:502-507****INDIVIDUAL effort/initiative/responsibility**

Magic of believing (Read) 11:690

Through others' eyes (Clites) 1:56-59

Flight from integrity (Read) 11:670-675

On that day began lies (Read) 11:677-689

INDIVIDUAL freedom/variety

Constitutional restraints, the market economy, and individual freedom (Shannon) 1:45-55

Every person should be free (Read) 11:676

Thinking about freedom (LeFevre) 2:113-121

INDIVIDUAL rights

Distant voice speaks to us today (Williams) 3:162-168

Essence of Americanism (Read) 11:645-658

Legal system for a free society (Sparks, B.) 3:135-150

Meaning of federalism (Carson) 1:12-23

See also Private property

INTEGRITY, flight from (Read) 11:670-675**J**

JAPAN'S "fifth generation" computers (Davis) 12:741-746

JEFFERSON, Thomas—ideas of

Can capitalism guarantee right answers? (Schwartz) 12:747-750

Judicial monopoly over the Constitution (Carson) 10:605-615

JUDICIAL monopoly over the Constitution (Carson) 10:605-615

JUSTICE, law and (Sennholz) 1:8-11

K**KEYNES, John Maynard—ideas of**

Capital, deficits and full employment (Hawkins) 3:175-181

Robots (Shannon) 5:282-285

KICK a businessman today (Peterson, W. H.) 12:732-734

L**LABOR unions**

On labor unions (Greaves, P. L.) 12:751-757

Robot protectionism (Ross) 4:248-253

Unions and violence (Reynolds) 2:98-106

LABOR, wages, employment

Benefit mandates cause unemployment (Sennholz) 7:423-439

Free riders face a rocky road (Barger) 4:205-212

Illegal aliens (Sennholz) 3:131-134
 Make-work won't work (Semmens) 9:561-569
 Minimum wages (Sennholz) 5:270-281
 Unemployment in Puerto Rico (Sennholz) 6:358-368
 Why not deregulate labor? (Davenport) 10:601-604
 Workers and robots (Sennholz) 4:236-247
See also Technological change
 LASERS, harobeds, and world hunger (Baetjer) 8:482-486
 LAW and justice (Sennholz) 1:8-11
 LeFEVRE, Robert
 Thinking about freedom. 2:113-121
 LEGAL system for a free society (Sparks, B.) 3:135-150
 LETTER from the paper planet (Ross) 10:579-586
 LIES, on that day began (Read) 11:677-689
 LOOKING out for yourself (Read) 11:663-669

M

MAGIC of believing (Read) 11:690
 MAKE-WORK won't work (Semmens) 9:561-569
 MANNING the sea walls (Groselclose) 1:24-28
 MARITIME subsidies: overregulation (Cohn) 3:182-184
 MARKET prices vs. communist commands (Hazlitt) 2:93-97
 MARX, Karl—ideas of
 Computers and capitalism (Davis) 10:594-600
 Market prices vs. communist commands (Hazlitt) 2:93-97
 Robots (Shannon) 5:282-285
 MATTHEWS, Buddy. *See* Book reviews (Lindsell; Nash, R.)
 MCGATH, Gary.
 Ethics of crime, The. 10:616-620
 Free enterprise in space. 3:157-161
 MEANING of federalism (Carson) 1:12-23
 MIGRATION
 Illegal aliens (Sennholz) 3:131-134
 Through others' eyes (Clites) 1:56-59
 Unemployment in Puerto Rico (Sennholz) 6:358-368
 MINIMUM wages (Sennholz) 5:270-281
 MONEY, inflation, credit expansion
 Boom and bust (Anderson) 1:29-42
 Constitution and paper money (Carson) 7:399-408
 Economic recovery (Summers) 1:43-44
 Letter from the paper planet (Ross) 10:579-586
 Manning the sea walls (Groselclose) 1:24-28
 Prescription for economic health (Groselclose) 7:395-398
 Those things called money (Read) 11:659-662
 World debt crisis (Sennholz) 2:76-83
 MONT Pelerin Society (1982 meeting)
 Virtues of the free economy (Anderson) 4:225-235

MORAL case for competitive capitalism (Billings) 7:413-419
 MORAL/religious principles
 Armor of Saul (Williams) 2:84-92
 Education in colonial America (Peterson, R.) 9:551-560
 George Washington on liberty and order (Carson) 2:67-75
 Importance of the obvious (Peterson, D.) 8:502-507
 Is there a moral basis for capitalism? (Dykes) 8:474-481
 On that day began lies (Read) 11:677-689
 Virtues of the free economy (Anderson) 4:225-235
 MURRAY, John T.
 Thatcher revolution, The. 8:451-459
 MYTH of self-regulation (Foley) 10:621-629

N

NO nukes—no consistency (Foote) 8:460-461

O

OCCUPATIONAL Safety & Health Administration (OSHA)
 Freedom and utopias (Hospers) 9:530-544
 Why not deregulate labor? (Davenport) 10:601-604
 ON improving the world (Read) 11:697-699
 ON labor unions (Greaves, P. L.) 12:751-757
 ON that day began lies (Read) 11:677-689
 OPITZ, Edmund A.
 Business and ethics. 12:735-740
 See also Book reviews (Kirk; *Modern Age*; Nock)
 ORIENT, Jane M.
 Criminal liberty and civil liability: can free enterprise survive? 5:259-265

P

PAPER planet, letter from the (Ross) 10:579-586
 PASOUR, E. C., Jr.
 Privatization: is it the answer? 8:462-469
 PENCIL, I (Read) 11:691-696
 PERICLES of ancient Greece
 Distant voice speaks to us today. (Williams) 3:162-168

- PETERSON, Dennis L.
From the mouths of babes. 5:299-301
Importance of the obvious, *The*. 8:502-507
- PETERSON, Robert A.
Education in colonial America. 9:551-560
- PETERSON, William H.
Farm policy—now what? 7:420-422
Kick a businessman today. 12:732-734
See also Book reviews (Brozen)
- PILGRIMAGE among the scribblers (Davenport) 1:3-7
- POLITICAL action
Flight from integrity (Read) 11:670-675
Irony of eternal vigilance (Foley) 12:729-731
On improving the world (Read) 11:697-699
- PRESCRIPTION for economic health (Groseclose) 7:395-398
- PRICE of education (Ross) 2:107-112
- PRICES/pricing
Market prices vs. communist commands (Hazlitt) 2:93-97
Price of education (Ross) 2:107-112
Trouble with farming (Carson) 5:286-298
- PRIMITIVISM: the thrust of government intervention (Carson) 6:328-338
- PRIVATE property
Ethics of crime (McGath) 10:616-620
Law and justice (Sennholz) 1:8-11
- PRIVATIZATION: is it the answer? (Pasour) 8:462-469
- PRODUCT liability
Criminal liberty and civil liability (Orient) 5:259-265
- PROFITS/LOSSES and consumer sovereignty
How "obscene" are profits? (Hazlitt) 10:630-634
Armor of Saul (Williams) 2:84-92
- PROTECTIONISM vs. open competition
Free trade and foreign wars (Husbands) 4:195-204
Rising protectionist tide (Bechara) 9:545-550
Siren of partnership (Ross) 7:440-444
- PUERTO RICO, unemployment in (Sennholz) 6:358-368

R

- READ, Leonard E. (1898-1983), FEE founder and president. Memorial issue, 11/83
Essence of Americanism, *The*. 11:645-658
Every person should be free. 11:676
Flight from integrity. 11:670-675
I, pencil. 11:691-696
Looking out for yourself. 11:663-669
Magic of believing, *The*. 11:690
On improving the world. 11:697-699
On that day began lies. 11:677-689
Those things called money. 11:659-662

- REED, Lawrence W.
Economists and the future. 5:302-312
See also Book reviews (Savas)
- REYNOLDS, Morgan O.
Unions and violence. 2:98-106
RISING protectionist tide (Bechara) 9:545-550
RISK, two faces of (Ross) 12:707-711
ROBOT protectionism (Ross) 4:248-253
ROBOTS (Shannon) 5:282-285
ROBOTS, workers and (Sennholz) 4:236-247
ROGERS, Tommy W.
See Book reviews (Dicey; Krauss; Novak; Paul & Lehrman; Sowell; Williams)
- ROSS, Ernest G.
Letter from the paper planet. 10:579-586
Price of education, *The*. 2:107-112
Robot protectionism. 4:248-253
Siren of partnership, *The*. 7:440-444
Two faces of risk, *The*. 12:707-711
- RUSSIA
Freedom and utopias (Hospers) 8:530-544
Market prices vs. communist commands (Hazlitt) 2:93-97
No nukes—no consistency (Foote) 8:460-461
Why socialism fails—why markets survive (Anderson) 12:716-728

S

- SAVINGS and investment
Capital, deficits and full employment (Hawkins) 3:175-181
Economic recovery (Summers) 1:43-44
- SCARCITY, abundance and (Barker) 6:369-376
- SCHWARTZ, Barry J.
Can capitalism guarantee right answers? 12:747-750
- SELF-EDUCATION
Looking out for yourself (Read) 11:663-669
On improving the world (Read) 11:697-699
- SELF-INTEREST
Until shrimp learn to whistle (Smyth) 9:526-529
Why socialism fails—why markets survive (Anderson) 12:716-728
- SELF-REGULATION, myth of (Foley) 10:621-629
- SEMMENS, John
Make-work won't work. 9:561-569
- SENNHOLZ, Hans F.
Benefit mandates cause unemployment. 7:423-439
Illegal aliens. 3:131-134
Law and justice. 1:8-11
Minimum wages. 5:270-281
Unemployment in Puerto Rico. 6:358-368
Workers and robots. 4:236-247
World debt crisis, *The*. 2:76-83
- SHANNON, Russell
Constitutional restraints, the market economy, and individual freedom. 1:45-55
Robots. 5:282-285

- SIREN of partnership (Ross) 7:440-444
 SMYTH, David
 Until shrimp learn to whistle. 9:526-529
- SOCIAL security
 General welfare (Carson) 8:487-494
- SOCIALISM, controlled economies
 No nukes—no consistency (Foote) 8:460-461
 Thatcher revolution (Murray) 8:451-459
 Two faces of risk (Ross) 12:707-711
 Until shrimp learn to whistle (Smyth) 9:526-529
 Why socialism fails—why markets survive (Anderson) 12:716-728
- SOCIETY, social cooperation
 I, pencil (Read) 11:691-696
 Legal system for a free society (Sparks, B.) 3:135-150
 Looking out for yourself (Read) 11:663-669
 Thinking about freedom (LeFevre) 2:113-121
- SPACE, free enterprise in (McGath) 3:157-161
- SPARKS, Bertel M.
 Legal system for a free society, A. 3:135-150
- SPARKS, John A.
 See Book reviews (Holzer)
- STATES rights
 Meaning of federalism (Carson) 1:12-23
- STATISTICS (GNP, CPI, NI, etc.)
 Economic forecasting: how good is it? (Hazlitt) 12:712-715
 Economists and the future (Reed) 5:302-312
 How "obscene" are profits? (Hazlitt) 10:630-634
 Prescription for economic health (Groseclose) 7:395-398
 Where figures fail (Higgs) 3:151-156
- STRANGLEHOLD of "big business" (Dykes) 6:323-327
- SUMMERS, Brian
 Economic recovery. 1:43-44
 See also Book reviews (Sennholz)

T

- TAXES, taxation
 General welfare (Carson) 8:487-494
 Primitivism: the thrust of government intervention (Carson) 6:328-338
- TECHNOLOGICAL change & productivity
 Lasers, harobeds, and world hunger (Baetjer) 8:482-486
 Robot protectionism (Ross) 4:248-253
 Robots (Shannon) 5:282-285
 Workers and robots (Sennholz) 4:236-247
 See also Computer revolution
- THATCHER revolution (Murray) 8:451-459
- THINKING about freedom (LeFevre) 2:113-121
- THIRD world
 Manning the sea walls (Groseclose) 1:24-28
 World debt crisis (Sennholz) 2:76-83
- THORNTON, Robert M.
 See Book reviews (Clark; Nock)

- THOSE things called money (Read) 11:659-662
- THROUGH others' eyes (Clites) 1:56-59
- TRADE. See International trade
- TROUBLE with farming (Carson) 5:286-298
- TWO faces of risk (Ross) 12:707-711

U

- UNEMPLOYMENT in Puerto Rico (Sennholz) 6:358-368
- UNIONS and violence (Reynolds) 2:98-106
- U.S. CONSTITUTION, principles of
 Constitution and paper money (Carson) 7:399-408
 Essence of Americanism (Read) 11:645-658
 General welfare (Carson) 8:487-494
 George Washington on liberty and order (Carson) 2:67-75
 Judicial monopoly over the Constitution: Jefferson's view (Carson) 10:605-615
 Meaning of federalism (Carson) 1:12-23
- U.S. MERCHANT Marine
 Maritime subsidies: overregulation (Cohn) 3:182-184
- UNTIL shrimp learn to whistle (Smyth) 9:526-529
- UTOPIAS, freedom and (Hospers) 9:530-544

V

- VANDERLEEST, Henry W.
 Hong Kong's future uncertain. 5:266-269
- VIRTUES of the free economy (Anderson) 4:225-235

W

- WAR/peace
 Free trade and foreign wars (Husbands) 4:195-204
 No nukes—no consistency (Foote) 8:460-461
- WASHINGTON, George, on liberty and order (Carson) 2:67-75
- WELFARE state, crisis of (Carson) 4:213-224
- WHERE figures fail: measuring the growth of big government (Higgs) 3:151-156
- WHY anticapitalism grows (Hazlitt) 7:409-412
- WHY not deregulate labor? (Davenport) 10:601-604
- WHY socialism fails—why markets survive (Anderson) 12:716-728
- WILLIAMS, John K.
 Armor of Saul, The. 2:84-92
 Distant voice speaks to us today, A. 3:162-168
- WORKERS and robots (Sennholz) 4:236-247
- WORLD debt crisis (Sennholz) 2:76-83

Y

- YOUR freedom—what about it? (Bearce) 7:387-394

BOOK REVIEWS

(Reviewer's name in parentheses)

- ARNOLD, Ron. At the eye of the storm (Chamberlain) 6:377-379
- BARZUN, Jacques. A stroll with William James (Chamberlain) 12:758-760
- BENNETT, James T. (co-author) See Johnson
- BROZEN, Yale. Concentration, mergers, and public policy (Peterson, W. H.) 2:125-127
- CAPEK, Karl. Rossum's universal robots (Shannon) 5:282-285
- CARSON, Clarence B. Organized against whom? the labor union in America (Greaves, P. L.) 12:751-757
- CHAMBERLAIN, John. A life with the printed word (Davenport) 1:3-7
- CLARK, Ronald W. Benjamin Franklin (Thornton) 9:574-576
- CORNUELLE, Richard. Healing America: what can be done about the continuing economic crisis (Chamberlain) 10:635-637
- DICEY, A. V. Introduction to the study of the law of the constitution (Rogers) 3:191-192
- FLOWER, Milton E. John Dickinson: conservative revolutionary (Dietze) 5:316-318
- FOUNDATION for economic education. Essays on liberty (Chamberlain) 11:700-703
- HELDMAN, Dan (co-author) See Johnson
- HOLZER, Henry Mark (ed.). Government's money monopoly (Sparks, J. A.) 2:127-128
- JOHNSON, Manuel; Bennett, James T. & Heldman, Dan. Deregulating labor relations (Davenport) 10:601-604
- KAHN, Herman. The coming boom (Chamberlain) 1:60-62
- KIRK, Russell (ed.). The portable conservative reader (Opitz) 3:192
- KRAUSS, Melvyn B. Development without aid: growth, poverty and government (Rogers) 6:382-383
- LEHRMAN, Lewis (co-author) See Ron Paul
- LINDSELL, Harold. Free enterprise: a Judeo-Christian defense (Matthews) 9:573-574
- MCKENZIE, Richard B. Bound to be free (Shannon) 1:45-55
- MODERN AGE. Summer/fall 1982 (Opitz) 3:192
- NASH, George. Herbert Hoover, the engineer (Chamberlain) 7:445-447
- NASH, Ronald H. Social justice and the Christian church (Matthews) 9:573-574
- NOCK, Albert Jay. Mr. Jefferson (Opitz & Thornton) 10:638-640
- _____. Our enemy, the state (Opitz & Thornton) 10:638-640
- NOVAK, Michael. The spirit of democratic capitalism (Rogers) 1:63-64
- NUSSBAUM, Bruce. The world after oil: the shifting axis of power and wealth (Chamberlain) 9:570-572
- NUTTER, Warren. Political economy and freedom: a collection of essays (Chamberlain) 8:508-510
- PARKER, Robert (co-author) See Sinclair
- PAUL, Ron & Lehrman, Lewis. The case for gold: a minority report of the U.S. Gold Commission (Rogers) 3:188-190
- SAVAS, E. S. Privatizing the public sector: how to shrink government (Reed) 6:383-384 See also Pausour 8:462-469
- SENNHOLZ, Hans F. Death and taxes (Summers) 7:447-448
- SIMIS, Konstantin M. USSR: the corrupt society (Greaves, B. B.) 6:380-382
- SINCLAIR, James E. & Parker, Robert. The strategic metals war (Chamberlain) 5:313-315
- SOWELL, Thomas. Pink and brown people and other controversial essays (Rogers) 8:511-512
- TOLSTOY, Nikolai. Stalin's secret war (Greaves, B. B.) 5:318-320
- TUCKER, William. Progress and privilege: America in the age of environmentalism (Chamberlain) 4:254-256
- WATTS, Emily Stipes. The businessman in American literature (Chamberlain) 3:185-188
- WILLIAMS, Walter. America: a minority viewpoint (Rogers) 8:511-512
- _____. The state against blacks (Chamberlain) 2:122-125