

the Freeman

VOL. 34, NO. 1

• JANUARY 1984

**A Lesson in Socialism—
A Page on Freedom**

Thomas J. Shelly 3

A classroom application of the Marxian formula.

The Wisdom of King Canute

John K. Williams 4

The powers of government have limits, the yearning for liberty survives.

Creating Future Poor

Roger M. Clites 20

Compulsory redistribution of wealth assures future poverty for all.

**The Supreme Court
(Economically Speaking)**

Hal F. Watkins 22

The law of the land, as implemented in the market place.

The Need for Political Theory

Clarence B. Carson 27

Tracing the origins and debasement of political theory in the United States.

**Thoughts on "Being Our
Brother's Keeper"**

James W. Harris 39

Examining the utilitarian and moral aspects of the issue.

**Casualties of the War
on Poverty**

Bill Anderson 44

The antipoverty programs tend to aggravate the problem.

Book Reviews:

56

"My Own, My Country's Time: A Journalist's Journey" by Vermont Royster

"American Political Writing During the Founding Era: 1760-1805"

Edited by Charles S. Hyneman and Donald S. Lutz

"The Mystery of Banking" by Murray N. Rothbard

"The Original McGuffey Readers" by William H. McGuffey

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the Freeman

VOL. 34, NO. 2 •

FEBRUARY 1984

On Minding One's Own Business— A Page on Freedom	William Graham Sumner	67
We best help others by attending to our own affairs.		
Big Lessons for a Little Boy	Dennis L. Peterson	68
A youngster learns the principles of labor and management.		
The Secret of Swiss Prosperity	Dean Russell	74
Prosperity occurs when there is a favorable economic and political climate.		
Evading the Issue	Clarence B. Carson	84
How Marx and Freud have contributed to the breakdown of reason.		
Equality, Justice, and Liberty	John K. Williams	89
How friends of freedom may reclaim terms the socialists had usurped.		
Live Long and Prosper	Ernest G. Ross	100
Concerning the individual's right to grow older at his own expense.		
Ideological Roots of Unionism	Hans F. Sennholz	107
The political power of labor unions traces back to the misconceptions of early economists.		
Capitalism and Human Nature	Richard H. Crum	121
The vital difference between competitive enterprise and the welfare state.		
Book Review:		126
"Bernard Baruch: The Adventures of a Wall Street Legend" by James Grant		

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

the Freeman

VOL. 34, NO. 3

MARCH 1984

Unemployment—

A Page on Freedom, No. 4

Hans F. Sennholz 131

The cure is to restore freedom in the labor market.

Natural Liberty: A New Version

Perry E. Gresham 132

The spell of Marxism still hangs over us, but must give way to man's natural love of liberty.

The Early History of FEE

Henry Hazlitt 143

One of the original Trustees recalls the origin in 1946 and the early history of The Foundation for Economic Education.

Our Fair Share

Ridgway K. Foley, Jr. 147

Our fair share consists of that which we create and acquire in non-aggressive manner.

Dime Store Economics

Jerry Ellig 156

A helpful example of productive activity to serve consumers.

The Case of the Stock Market:

Freedom vs. Regulation

S. David Young 159

A look at the market alternatives to SEC rules and regulations.

How to Reduce Crime

Morgan O. Reynolds 168

Make punishment swift, sure, and severe under a firm but limited government.

Unions and Government Employment

Dennis Bechara 175

Coercive "bargaining" versus keeping the peace.

Book Reviews:

184

"The Case for Character Education" by Frank Goble and B. David Brooks

"Nation, State, Economy: Contributions to the Politics and History of Our Time" by Ludwig von Mises

"Natural Resources: Bureaucratic Myths and Environmental Management" by Richard L. Stroup and John A. Baden

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

the Freeman

VOL. 34, NO. 4

• APRIL 1984

Social Responsibility—

A Page on Freedom, No. 5

Brian Summers 195

Profits are earned through responsible business behavior.

What Killed Ma Bell?

Melvin D. Barger 196

A bureaucratic structure gives way to competition.

The Public Be Damned . . . Again!

**Thomas E. Schaefer and
Sid Streicher** 205

Both customers and suppliers will gain from competition.

Unionism Revisited

Clarence B. Carson 209

Correcting some possible misconceptions concerning the nature of labor union policies and practices.

Does Welfare Diminish Poverty?

Howard Baetjer Jr. 219

Never use the law to benefit some at the expense of others.

Women, Work and Wages

Hans F. Sennholz 225

Why women are better served, paywise and otherwise, in a free economy than under socialism.

To Save the World

Edmund A. Opitz 239

Concerning the importance of keeping the peace but otherwise letting things alone.

Book Reviews:

249

"America by the Throat: The Stranglehold of Federal Bureaucracy"
by George Roche

"The Economics and Politics of Race: An International Perspective"
by Thomas Sowell

"Idols for Destruction: Christian Faith and Its Confrontation with
American Society" by Herbert Schlossberg

"Double Crossing" by Erika Holzer

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first-class mail in care of THE FREEMAN for forwarding.

the Freeman

VOL. 34, NO. 5 • MAY 1984

Government and Taxes— A Page on Freedom, No. 6	Lemuel R. Boulware	259
Government spends what it has taken from taxpayers.		
Who Counts? You Do!	William Noland	260
A plea for constructive individualism.		
The Market Economy and Its Life-Support System	Edmund A. Opitz	266
The containment of power allows the individual to emerge.		
The Entrepreneur— Death and Resurrection	William H. Peterson	276
The entrepreneur has come back into recognition.		
Socialists Argue About Labor Unions	Hans F. Sennholz	279
Socialists use the exploitation theory to gain union support.		
The Role of the American Political Party System	Raymond Polin	290
A helpful step on the way toward freedom.		
The Cheapest Means of Payment	Joseph Fulda	295
Why money is the best way to pay for things.		
Wealth, Socialism and the Free Market	Helga Malloy	297
Enlightened self-interest shows the better way of freedom.		
The "Unproductive Investment" Prejudice	Ernest G. Ross	304
Proponents of fiat money continue to attack gold.		
Free Enterprise—for All	Robert Bearce	308
The case for economic freedom and the measures to preserve it.		
Book Reviews:		317
"The Coercive Utopians: Social Deception by America's Power Players" by Rael Jean and Erich Isaac		
"Power and Privilege: Labor Unions in America" by Morgan Reynolds		

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

the Freeman

VOL. 34, NO. 6

• JUNE 1984

Private Ownership— A Page on Freedom, No. 7	Robert G. Anderson	323
Ownership relates to self-control and freedom.		
Capitalism versus Comte	Ernest G. Ross	324
Different ways of viewing "altruism" and "sacrifice" and the market.		
Freedom and Democracy	John Hospers	331
A philosophical study of the uses and abuses of democracy.		
The Davis-Bacon Act	Hans F. Sennholz	345
Tracing the beginning of minimum wages in 1931 in the construction industry.		
George Wythe of Williamsburg	Robert A. Peterson	352
"Teacher of Liberty" and "The Father of American Jurisprudence."		
The Increasing Abundance of Resources	David Osterfeld	360
A more hopeful view of the prospects for plentiful resources in a market economy.		
Book Reviews:		378
"Behind Enemy Lines" by Mickey Edwards		
"From Bretton Woods to World Inflation: A Study of Causes and Consequences" by Henry Hazlitt		

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

the Freeman

VOL. 34, NO. 7

JULY 1984

Don't Overdo It—

A Page on Freedom, No. 8

Lao-Tze 387

Govern lightly, and leave the people free.

The Collectivist Fallacy

Clarence B. Carson 388

The individual outranks the group he helps to empower.

Danger: A Lesson from Language

Ian Ravenscroft 396

The change from "lordship" to "the threat of harm."

Concessions and Givebacks

Hans F. Sennholz 400

Deregulation allows market pricing of labor.

In the Name of Protection

Ridgway K. Foley, Jr. 411

Unseen damages by those who profess to help.

Italian Lemonade

James Doti 416

How government takes over business ventures.

The Constitutional Crisis:

An Historical Perspective

Barry W. Poulson 424

Personal liberty under the Constitution.

Greed, Envy and Justice

Steven E. Daskal 433

The urge for "social justice" tends to backfire.

If We Want Reindustrialization

Charles R. La Dow 438

The Industrial age stems from sound money and a free market.

Book Reviews:

445

"Tyranny of the Status Quo" by Milton and Rose Friedman

"The Railroaders" by Stuart Leuthner

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

the Freeman

VOL. 34, NO. 8

AUGUST 1984

Morals and the Welfare State—

A Page on Freedom, No. 10

F. A. Harper 451

Private property undergirds freedom.

Leave the Pricing to the Market

Russell Shannon 452

The market solution of the Greyhound conflict.

Stewards of the Candle, Keepers of the Flame

Ridgway K. Foley, Jr. 455

The stewardship of property and its transfer.

Myths of Employment Protection

Ronald M. Ayers 465

Harmful restrictions on imports and capital flow.

Robber Barons and the Real Gilded Age

Edmund A. Opitz 468

"Rugged individualists" in cahoots with government.

Orwell's 1984—and Where We Stand

Ronald Larson 475

Is America the victim of the poison mind?

The Drift of Modern Psychology

Ivan Thorn

A critical appraisal.

William K. Kilpatrick 478

An Experience on the Mount of Olives

Herbert V. Prochnow 488

We know not what we may be.

Marxspeak—Marxthink

William H. Peterson 490

A 1984 review of some ideas of Marx.

The Market and Scarce Resources

Joseph S. Fulda 497

The proper way to allocate.

The Effects of Airline Regulation

Christine Chmura 498

The pros and cons of government regulation as a market alternative.

Book Reviews:

505

"The Doomsday Myth: 10,000 Years of Economic Crises" by Charles Maurice and Charles W. Smithson

"Broken Earth: The Rural Chinese" by Steven W. Mosher

"We Must Defend America" by Lt. Gen. Daniel O. Graham

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

the Freeman

VOL. 34, NO. 9 • SEPTEMBER 1984

Legalized Immorality— A Page on Freedom, No. 11	Clarence Manion	515
Government cannot make men good.		
Regulation of Telecommunications	Clint Bolick	516
Shall the market or the state regulate the industry?		
Two Freedoms	Charles Turnbull	526
The underlying freedoms of mind and spirit.		
Women in Economic History	Harry Lee Smith	529
Their contributions to civilization.		
Getting Governments Out of Debt	Kenneth McDonald	535
Using the market to lighten taxes.		
The Meanings of Freedom	John Hospers	539
With emphasis on freedom-from and freedom-to.		
The Consummate Role Player	Ridgway K. Foley, Jr.	549
He does his job, and does it well.		
The Fruits of Independence	Clarence B. Carson	552
For limited government, personal freedom, free trade, and the voluntary way.		
The Broken Dream	Joseph S. Fulda	566
Why the United Nations has failed.		
Socialism Is Legal Plunder	Dean Russell	569
Bastiat foresaw the fruits of intervention.		
The Religion of Statolatry	Victor Aguilar	573
Testimony to the audacity of would-be rulers.		
Book Reviews:		574
"The Rise of the Right" by William A. Rusher		

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

the Freeman

VOL. 34, NO. 10 • OCTOBER 1984

Self-Reliance—		
A Page on Freedom, No. 12	J. Ollie Edmunds	579
"That something" special in American character.		
The Debt: Catastrophic Urgency,		
Little Concern	Jeff Van Drunen	580
The problem of the Federal debt and how to cope with it.		
Freedom of the Press	Gary McGath	590
Not so much a privilege as a responsibility.		
The Supply of Labor	Hans F. Sennholz	594
Factors that affect entrance to or withdrawal from the labor force.		
Tariffs Are Legal Plunder	Dean Russell	613
Protectionism is as harmful today as in Bastiat's France of 1850.		
Churchpeople, Socialism, and Capitalism	John K. Williams	620
A further study of Biblical references to economic affairs.		
Book Reviews:		635
"My Years With Ludwig von Mises" by Margit von Mises		
"Free Banking in Britain: Theory, Experience, and Debate, 1800–1845" by Lawrence H. White		
"Pieces of Eight: The Monetary Powers and Disabilities of the U.S. Constitution" by Edwin Vieira, Jr.		
"Overdrive" by William F. Buckley, Jr.		

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the Freeman

VOL. 34, NO. 11 • NOVEMBER 1984

Liberty Means Responsibility— A Page on Freedom, No. 13	Betty Knowles Hunt	643
Are we morally strong enough to be free?		
The "Natural" Rate of Unemployment	Hans F. Sennholz	644
It is unnatural to be unemployed.		
Preferential Hiring Revisited	William Noland	651
Is reverse discrimination now justified by earlier discrimination?		
Stability and the Free Market	Dennis Bechara	658
The road to peace and stability follows the market.		
The Source of Rights	Dean Russell	661
Bastiat's rationale for personal and collective rights.		
The Illusion of Certainty	Ridgway K. Foley, Jr.	669
Among fallible beings, certainty is forever an illusion.		
Why Not Private Charity?	Robert Awenius	680
Let the government keep the peace.		
Of Obligation and Transfer Taxation	Howard Baetjer Jr.	685
Concerning who owes what to whom?		
Demand Side Economics in Medicine	Jane M. Orient	691
What happens when the market process is abandoned.		
Herbert Spencer: Freedom's Philosopher	Jerry Millett	694
Proponent of limited government.		
Book Reviews:		700
"Opportunity or Privilege: Labor Legislation in America" by Charles W. Baird		
"The Philosophic Thought of Ayn Rand" edited by Douglas J. Den Uyl and Douglas B. Rasmussen		

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

the Freeman

VOL. 34, NO. 12 • DECEMBER 1984

Who Is to Blame?

A Page on Freedom, No. 14

Dean Russell 707

We ask government for security instead of freedom.

Education: State Coercion or Free Choice?

Dennis L. Peterson 708

Are we expecting too much of the government?

To Help the Poor

Kenneth McDonald 715

How the creation of wealth is hampered.

A Second Face of Justice

Ridgway K. Foley, Jr. 717

Reconciling individual and universal aspects of justice.

What the Government Takes

Daniel Klein 725

Up 50 per cent in the past thirty-seven years.

A Year That Will Live in Infamy

Miller Upton 727

Will we lose our constitutional liberty in our drive for psychological freedom?

Legal Plunder:

Origin and Consequences

Dean Russell 737

How welfare programs harm those they are supposed to help.

The Freeman: The Early Years

Charles H. Hamilton 744

The *Freeman* of the early 1950s, a journal of conservative political opinion.

Book Reviews:

754

"Losing Ground: American Social Policy 1950-1980" by Charles Murray

"The Evolution of Cooperation" by Robert Axelrod

"Free Market Energy: The Way to Benefit Consumers" edited by S. Fred Singer

"The Resourceful Earth" edited by Julian L. Simon and Herman Kahn

Index for 1984

761

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A Lesson in Socialism

AS A TEACHER, I speculate with the pupils as to the probable results if I used the socialistic theory for grading—downgrading the better and upgrading the poorer papers.

First, the highly productive pupils—and they are always a minority in school as well as in life—would soon lose all incentive for producing. Why strive to make a high grade if part of it is taken from you by “authority” and given to someone else? Why work for something if you know you won’t be permitted to keep it?

Second, the less productive pupils—a majority in school as elsewhere—would, for a time, be relieved of the necessity to study or to produce. This socialist-communist system would continue until the high producers had sunk—or had been driven down—to the level of the low

producers. At that point, in order for anyone to survive, the “authority” would have no alternative but to begin a system of compulsory labor and punishments against even the low producers. They, of course, would then complain bitterly, but without understanding.

Finally I return the discussion to the ideas of freedom and enterprise—the market economy—where each person has freedom of choice, and is responsible for his own decisions and welfare.

Gratifyingly enough, most of my pupils then understand what I mean when I explain that socialism—even in a democracy—will eventually result in a living-death for all except the “authorities” and a few of their favorite lackeys. ☉

—Thomas J. Shelly



The Wisdom of King Canute

HISTORY has dealt unkindly with King Canute. For many he has become the very symbol of a pretentious ruler's folly. What, after all, could be more absurd than a monarch attempting to stem the tide by sitting on a beach and raising his royal hand?

The original legend, however, testifies to the wisdom of this sadly maligned monarch. The king was surrounded by courtiers given to extolling their ruler's powers in grandiose terms. To demonstrate their foolishness and to illustrate how limited his powers were, King Can-

ute engineered the confrontation between a royal edict and the laws of nature governing the rise and fall of the tides. The courtiers, not their ruler, were the fools. Indeed, it is probably because rulers with the good sense to recognize their limitations are so rare that the story of King Canute ordering the tides to stand still has been so unfairly distorted over the centuries.¹

A leap from King Canute to contemporary critics of a free market economy might seem, *prima facie*, a leap bringing envy to the heart of a Rudolf Nureyev. So let me state my thesis boldly and baldly: contrary to the diagnoses of the bedside attendants of an allegedly dying capitalist economic system, no radical surgery is called for. What we confront is not market failure but govern-

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.

This paper is from an address at the Fall meeting of The Board of Trustees and guests, Foundation for Economic Education, November 18, 1983.

ment failure: specifically, a failure of governments to acknowledge, as did King Canute, what they in fact cannot do.

The Death of Capitalism

Capitalism has been a long time dying. As noted by two Australian defenders of the free market in a free society, Greg Lindsay and Gary L. Sturgess,² "Utopian socialists pronounced it dead at birth, and during the nineteenth and twentieth centuries death notices have, with boring frequency, been posted by Karl Marx and his lesser imitators." Some critics cited malnourishment as the cause of death, capitalism allegedly being less efficient than centrally planned economic systems. Other critics cited obesity and a consequent strain on the system's heart, capitalism allegedly, like the sorcerer's apprentice, having unleashed forces beyond control which produced a bloated affluence. According to some, capitalism had fulfilled its function, having ushered in a "post-scarcity" age. In the gentle words of *Ecclesiastes*,³ "For everything there is a season. . . , a time to be born, and a time to die," hence, having overcome the problem of scarcity, the time for a dignified death had arrived. Others suggested that, greedily gobbling up finite resources, capitalism's demise was due to the imminent worldwide scarcity it itself had brought about. The dis-

enchanted ex-Marxian philosopher Jean François Revel puts it well:

The most active department of socialist thought for the past century can be seen as an undertaking establishment that keeps itself occupied, indeed over-employed, fidgeting over the details of capitalism's funeral arrangements. All is ready for the imminent delivery of the mortal remains. A cloud of witnesses goes to and fro, bringing news from the bedside, where the patient is forever about to expire, to the public outside, where the socialist funeral procession awaits only the final signal to get under way.⁴

Inasmuch as Revel uses the word "capitalism," I have also used it. The late Leonard Read, in company with many scholars, tended to avoid the word: it has so many connotations that it can jeopardize rather than facilitate communication. In *The Fontana Dictionary of Modern Thought*⁵ two definitions of capitalism are proffered: one in terms of the private control of means of production and objects of consumption in markets which "are free in the sense that, subject to the constraints of law" individuals are "at liberty to enter or depart, to expand or contract, and . . . to buy or not to buy"; the other in terms of a "set of arrangements in which one class, the capitalists or bourgeoisie, owns the factories and other tools of production, while a second class, the workers or proletarians, possesses only its labour power. . . ."

I do not wish to invest much time

debating definitions. I merely suggest that a consideration of the complex economic and political structures constituting mercantilism, the economic and political system Adam Smith so vigorously attacked, leads one, by contrast, to think of the capitalist era in terms of free domestic markets, free international trade, an absence of government patronage, and a society of contract as against a society of status and fixed relationships. I further submit that, unlike socialism, capitalism is not to be thought of as an ideology. The British historian and ex-editor of the *New Statesman* Paul Johnson makes this point tellingly: "I do not believe," he writes, "that capitalism is an ideology at all. Socialism is, because socialism is an intellectual artifact. Capitalism . . . is an absolutely natural human development which inexorably follows from the fact of establishing the principle of freehold property. . . . Capitalism is merely a demonstration of the human spirit at work in industrial society."⁶

It is also, in this context, important to note that, although it is certainly no accident that capitalism and classical liberal democracy entered human history at about the same time and on the same part of the globe, the existence of a free market is not a sufficient condition for the existence of a free society. Essentially free market economies

both can and do exist in authoritarian regimes. What is clear is that without economic liberty, political liberties are difficult to win and even more difficult to maintain. The most that can be said, I suggest, is that while liberal democracies are essentially capitalistic, not all essentially capitalistic nations are democracies. Economic liberty is a necessary, but not sufficient, condition for political liberty.

Is Capitalism Failing?

Is capitalism faltering? Are those who assume that capitalism is dead or dying to be heeded? Are we to take seriously the confident prophecies of Marxian Adventists that the great and final capitalist cataclysm is at hand?

I submit that comparable questions as to the present well-being of socialist regimes must clearly be answered in the negative. Western intellectuals returning from pilgrimages to the U.S.S.R. and proclaiming that the socialist millennium had arrived are, fortunately, an endangered and almost extinct species. Student radicals of the silly 60s and 70s who made China their ideal have had to cope with the revelation that Mao Tse-tung's Dazhai commune was a fraud, propped up by handouts and garbed by falsified statistics. The general consensus of Western Marxians would seem to be that all purportedly Marxian States actually

existing are aberrations of "authentic" Marxist-Leninist principles. While doctrinaire socialists provide compelling evidence for T.S. Eliot's claim that humankind "cannot bear very much reality," one cannot totally ignore the reality of chronic food shortages and a dearth of consumer goods in Soviet Russia, Eastern Europe, Cuba and African States which, once enjoying thriving agricultural bases, listened to Western intellectuals, collectivized these in the name of "agrarian reform," and are now dependent upon foreign aid for the most basic of foodstuffs.

Grim reality, however, can be "accommodated." As a churchman I am both saddened and bewildered by clerical colleagues who sincerely yearn for a day when the hungry are fed, the naked are clothed and the impoverished of the earth raised up from their misery, yet who treat with an irrational abhorrence the very system that, to date, has done best what they value most. The very notion that the miserable failure of socialist regimes to satisfy the material needs of their people might testify not to the indifference or incompetence of central planners but to the inherent limitations of central planning, is, it would seem, for many literally unthinkable. The suggestion that maybe, just maybe, empirical facts have confirmed the conclusion of Ludwig von Mises' argument⁷ that economic calcula-

tion in a socialist State is literally impossible, falls, unfortunately, upon deaf ears. For these people *know* that capitalism is dead or dying, and they are quick to proffer evidence for this seemingly unshakable conviction. What evidence do they cite?

Symptoms Cited

The most obvious and probably most widespread symptom of capitalism's death or terminal illness today referred to is the current recession. Recently I squirmed my way through a sermon delivered by an Episcopalian bishop I greatly admire. According to him, however, "No one with eyes to see can look at the queues of men and women desperately seeking employment in capitalist nations and not perceive that capitalism's days have ended. Anyone whose eyes do not weep when they behold the human misery this system generates, is without a heart." I must admit that I felt like weeping—weeping over a good and intelligent man's economic ignorance. He unintentionally atoned for this ignorance, however, by later giving expression to a significant half-truth: "Governments have discovered," he observed, "that they are unable to create full employment."

In one sense he was in error: governments have, in our century, provided full employment for the unhappy occupants of Auschwitz and the Gulag Archipelago. In another

sense, however, he was correct: governments literally *cannot* simultaneously tolerate the use of coercion by privileged workers to prevent downward movements of real wages in some areas of employment; stimulate demand for labor sufficient to prevent involuntary unemployment; and avoid inflation and the further misallocation of resources, including labor, such inflation generates.⁸

A Scenario for Disaster

Lord Keynes' insistence that government could, by regulating aggregate demand through monetary policy, control employment, and the effective capture by trade unions of legalized power to force individuals to withhold their labor from potential employers, have together created a scenario for disaster, a disaster as inevitable as the rise and fall of the tide. Yet what is being considered is the result of a *departure* from the economic and political structures defining the free market in a free society, and should lead us to challenge this departure from the rules rather than the rules themselves. The locus of our present problems is found not in any market failure, but in governments which, unlike King Canute, do not recognize their limitations and foster, rather than discourage, the false beliefs of their fawning admirers.

Such a response, however, today

invites and usually receives a rebuttal referring to technological change. An Australian politician, Mr. Barry Jones, has argued in a quite fascinating volume entitled *Sleepers, Wake!*⁹ that "the 'post-industrial revolution' is . . . a fundamental break with previous economic history" and that "the adoption of new technology (involves factors which) have no precedent in economic history." While not echoing the confident 1949 prediction of Norbert Wiener¹⁰ that developed nations faced "a decade or more of ruin and despair" as cybernation and automation decimated employment opportunities, Mr. Jones clearly is convinced that what an Australian newspaper called "the computer holocaust" marks the end of the free market in a free society. What he at least argues, many simply assert.

Past Evidence of the Fear of Technological Change

It is salutary to note in this context that advocates of what one might call the "discontinuity thesis *vis à vis* modern technology" themselves display, in their fear of technological change, a quite remarkable *continuity* with the past. In the late 1700s the loom and spinning jenny were perceived as omens of impending disaster. In the 1870s and 1880s mechanization signalled the last days. In the early 1900s electrification was hailed as a sure and certain

sign that capitalism faced its final judgment.

I have no doubt that modern technology *will* result in massive changes in employment patterns. I do doubt, however, that our situation is without precedent. It is not so long ago that the vast majority of men, women and children worked long hours to eke out a bare living from the soil. Had those people been informed that one day in the United States of America a mere four per cent of the working populace would produce sufficient food to feed an entire nation and a great deal of the rest of the world as well, they would have anticipated a future characterized by massive involuntary unemployment. Yet the seemingly random acts of people "chanced" upon new activities which became components of economic exchange. No "experts," however clever, could have anticipated that many ladies would discover in the act of painting other ladies' toe-nails one such activity! *The greater one believes the impact of modern technology upon employment patterns will be, the more vital becomes the existence of an economic system dependent upon the liberty of the masses to experiment. Only thus can the probability of the rapid discovery of new activities becoming components of economic exchange be maximized.*

The year 1973 was a good one for connoisseurs of explanations of the

free market's demise. The oil crisis constituted a pleasing blend of such favored elements as alleged market failures via the emergence of cartels, and industry in chaos. John Kenneth Galbraith prefaced a gleeful article celebrating the new crisis facing capitalism by two quotations from Milton Friedman who had predicted a fall in the price of oil and the collapse of OPEC. OPEC had, asserted Galbraith, disproved the claim that "[any] effort seriously to limit supply and enhance prices will . . . be destroyed by the pressure to sell at the higher price. And also by the enthusiastic response of producers who are not part of the control effort."¹¹

Events showed, however, that Friedman was "out" only in his timing. The market responded precisely as predicted. Sources of oil, previously uneconomic, came on stream. Substitutes emerged. Falling demand led to surpluses and some OPEC countries broke rank, selling under official prices. The only "failure" involved was the confidence of all too many in market forces, compounded by the perfectly predictable failure of the ludicrous attempts of many governments which, lacking the wisdom of King Canute, believed they could control matters by price controls, gasoline rationing, lower speed limits, and so on.

One year before the oil crisis of 1973, however, the opponents of

capitalism had been mightily heartened by the publication of the Club of Rome report. The essence of this report, you will recall, was that exponential growth trends in population accompanied by resource depletion would lead to our reaching the limits of global capacity within one hundred years, resulting in catastrophe. While some developing nations perceived in *The Limits to Growth* further evidence of some sort of conspiracy to disadvantage peoples desperately in need of massively increased economic growth, most Western intellectuals interpreted the report as a telling indictment of capitalism. Capitalist nations, after all, were the nations characterized by the economic growth inexorably leading the world to destruction.

This conclusion led, and still leads, to two strategies for action inimical to the survival of the free market in a free society. The first, followed by the Club of Rome itself in embarking upon its "Reviewing the International Order" project, directed by the Nobel-Prize-winning Dutch economist Jan Tinbergen, prescribes a global redistribution of wealth as the means of averting global disaster. The prescription was at one with that recommended by the 1964 United Nations Conference on Trade and Development, which had specified a minimum one per cent transfer of the national income of

developed countries to developing countries and set a target of an annual rate of growth in the developing world of five per cent.

Two Approaches to One End

The major contrast between what one might call "the philosophy of UNCTAD" and that of the Club of Rome is that the former was optimistic, believing that the inevitable destiny of every society is affluence and that a "massive transfer of resources from North to South" will lead to this happy state of affairs. One perceives that prescription as an elixir leading to an earthly paradise; the other perceives the prescription as preventive medicine saving us from an earthly hell. The prescription, however, is the same.

Adequately to explore this response to the myth of finite resources lies beyond the scope of a single paper. This is fortunate, as such exploration leads one into the tangled jungle of Lenin's analysis of imperialism, unpleasant human traits as envy and an irrational guilt bordering upon masochism, the utterly extraordinary economics of the Brandt commission and the much-discussed New International Economic Order, the Law of the Sea Treaty, and an entirely new vocabulary of euphemisms which obscure the central question of precisely who is to do precisely what for precisely whom. I can but urge you to avail yourselves,

should you decide to undertake such exploration, of the services of such admirable guides as Professor P.T. Bauer¹² and Dr. Kenneth R. Minogue.¹³

The other response to the myth of finite resources I deem politically significant and destructive of individual and economic liberty, is that of those people described by Dr. H. Peter Metzger¹⁴ as "the coercive utopians." Their vision of utopia is a radically decentralized, semi-agrarian society composed of small, self-sufficient communes utilizing "soft" energy alternatives and enjoying the simplest of cottage industries. The inhabitants of such communes will rejoice in an unravaged environment, will experience closer and more intimate human relationships than hitherto known, and will have witnessed the passing of enmities spawned by an inequitable distribution of economic goods. According to Ralph Nader, "[We] are going to rediscover smallness. If people can get back to the earth they can grow their own gardens, they can listen to the birds, they can feel the wind across their cheek, and they can watch the sun come up."¹⁵

Mistrust of Industrialism

There is nothing particularly new about such romanticism. Nor is there anything new about a deep-seated mistrust of industrialism. It can be found in such dedicated opponents of

socialism as Belloc and Chesterton, and was articulated by the conservative Prime Minister of the United Kingdom, Stanley Baldwin, when he identified the "real England" with "the tinkle of the hammer on the anvil in the country smithy, . . . the sound of the scythe against the whetstone, and the sight of a plough team coming over the brow of a hill. . . ." What is new is the plethora of self-styled "public interest" groups exerting considerable political clout and supported by alarmingly large numbers of well-intentioned people completely ignorant of the "hidden agenda" informing such groups. Llewellyn King has perceptively described this agenda:

[Its vision] is the decentralized society; its weapon for capitalistic excess is regulation, not nationalization; its means for decentralization are technological. . . . The cutting-edge of this agenda—turning the United States from an industrialized, centralized society into a decentralized, semi-agrarian nation—is to put a tourniquet around centralized energy development . . . and to bring about, through the dispersal of energy sources, a dispersal of decision-making and return power to the people in small, local units.¹⁶

In one sense it is tempting to dismiss this scenario simply as bizarre: indeed a reviewer¹⁷ of a volume elaborating this scenario (Ernest Callenbach's *Ecotopia*¹⁸) dismissed it as a "satire of an environmentalist's daydream." A moment's thought

should be sufficient to reveal its patent absurdity. One cannot help but feel that few of the well-fed, well-housed, well-educated, and perhaps well-intentioned beneficiaries of "high technology" now biting the hand that fed, housed and guided them have ever really contemplated the technology involved in the manufacture of a simple spade. Inasmuch as quite a few spades will be needed in their alternative society that all of us apparently are to enjoy, such contemplation might be salutary! And so might further contemplation on the restricting effects of limited communications upon the sharing of human knowledge, the impact of their semi-feudal socio-economic system on medical and para-medical services, and the "dehumanizing" nature of the many labor-intensive activities their realized ideal would involve.

The Myth of Finite Resources

There are two major points I would make in this context: first, I would simply observe that a free market economy in a free society, an economy emerging from the uncoerced attempts of individuals seeking to improve their situation by reference to their own diverse visions of the "good life" and their own perceptions how best to realize these visions, represents the ultimate form of a *decentralized* economic system; second, I would urge men and women

attracted by the seemingly admirable objectives of many "public interest" groups to make sure that the leadership of such groups is not, in truth, held by elite power brokers in the body politic, creating pressures for anti-free market regulation and busily forging links with the State reminiscent of mercantilism at its worst.

I have twice, in discussing two responses to neo-Malthusian pessimism about the capacity of the earth to sustain high economic growth, used the expression "the myth of finite resources." I am not suggesting of course, that resources are infinite, although I wish individuals referring to finite resources would facilitate discourse by distinguishing between *preservable* resources such as air, *reclaimable* resources such as metals, *renewable* resources such as trees, and *depletable* resources which cannot be preserved unless we do not use them. I am rather drawing attention to the grotesque misunderstanding endemic among many who speak of finite resources without saying what is meant by a *known* resource.

It should be self-evident that no mining company would spend vast sums looking for what is common; it should be equally self-evident that since reserves are defined in terms of what can economically be recovered, their extent is dependent upon prevailing prices. Indeed, the

price system in a free market economy adapts production to more information than any political planners could be aware of, let alone synthesize. Market prices indicate when it is and when it is not economical to recover reserves. It is that economic system which people concerned about the conservation of various resources should be advocating.

Technology Creates Resources

It should also be noted that technology not only consumes but in a very real sense creates resources. Michael Novak has noted, for example, that oil, known in Biblical times and marginally useful in the making of ink and perfume, only really became a "resource" when a use was found for it and a technology devised to extract it. Again, the early Iberians mined the Rio Tinto deposits in Spain for copper, gold and silver. Falling grades and the collapse of the Carthaginian empire caused the mines to be abandoned. The greater organizational and engineering skills of the Romans reopened the mines. Grades fell even further and the mines again were closed. The discovery by the Moors in the Middle Ages of the process of "leaching," made further recovery of copper feasible. Technology, in other words, *created* resources, the mine closing again and opening again as the "roasting process" supplanted

"leaching" and the "flotation process" supplanted the "roasting process."¹⁹

Even unintended and undesired side-effects of new technologies cry out, for their best resolution, for the market. Consider pollution. Historical research on the legal response to pollution in nineteenth-century England reveals not any failure of capitalism, but the failure of courts to enforce the *sine qua non* of capitalism—private property rights—through the tort of nuisance.²⁰ Private entitlements to clean air were transferred to the "public domain" where they were appropriated by industrialists. Once again a departure from, and not the workings of, economic and political liberty compounded the difficulties created by a new technology.

Having referred to a failure of nineteenth century English courts to enforce private property rights, it is, perhaps, appropriate to remind ourselves of the limited but utterly vital function of government. King Canute, in his wisdom, knew what rulers *cannot* do; that knowledge, however, must be placed alongside a recognition of and emphasis upon what rulers *must* do. Economic and political liberty depend utterly upon laws establishing and protecting property rights and enforcing the performance of contractual promises.

Douglas North²¹ has argued elo-

quently and persuasively that the appearance of economic growth in Europe was no historical accident linked to sudden technological revolution: what characterized early modern Europe was a system of property rights making innovative activity more profitable than anywhere else and ever before. If a system of property rights is imprecise, or its protective mechanisms inefficient, behavior informed by short-term considerations is encouraged. A system of property rights defining and protecting people's entitlements to what their efforts create, reduces the risks inherent in production, increases the potential profitability of innovation, and thereby encourages the deferred consumption necessary for capital formation.

Protecting Individuals from Violence, Theft and Fraud

It is vitally important that those who define the essential function of governments in terms of the protection of individuals from violence, theft, and fraud, and seeing to the enforcements of contracts, do not equate limited government with weak government. If private property rights are not efficiently protected, economic liberty and political liberty are at risk.

And it is here that our present situation is precarious. As Friedrich Hayek has consistently argued, "legislatures" which were conceived

by early theorists of representative government to be limited to the making of "laws" in a very specific sense of that word, have expanded the term to refer to everything that elected representatives resolve. As against an understanding of the "rule of law" as the legitimizing of coercion solely to enforce obedience to *general rules of individual conduct equally applicable to all, in an unknown number of future instances*, such rule has become equated with the enforcement of any and every directive issued by elected representatives of the majority, however much such directives discriminate in favor of, or to the detriment of, some groups of individuals.

The "public choice" theorist Allan Meltzer has, like Hayek, concluded that a fundamental conflict obtains between representative democracy as we know it today and the market system. Let me cite here the essence of Meltzer's argument:

The government grows faster than the private sector whenever the costs of government can be diffused and the benefits concentrated. . . . The principal reason is that politicians can organize supporters at lower cost by offering new programs than by offering either tax reduction or elimination of existing programs. . . .

Each time a candidate opposes a program those who benefit from the program have an incentive to vote for the opposition. Some voters will be attracted and pledge their votes. Generally, fewer votes will be gained than lost because

the gain to an average voter from eliminating a program is smaller than the loss to the beneficiaries. . . . If *taxes* were concentrated and *benefits* diffused, a coalition in favour of tax reduction would be organized to eliminate programs, reduce taxes and the relative size of government. . . .

Candidates often run on programs favouring tax reduction, efficiency in government, elimination of waste and the 'crushing burden' of regulation and taxation. Once in office the promises may be repeated, but they are not enacted. Again, the reason is that coalitions in favour of tax reduction or efficiency are costly to maintain The benefits from new programs can be concentrated to help the voters who supported the candidate or promise to support him in the future. Coalitions in favour of benefits are, therefore, more efficient than coalitions in favour of tax-reduction. They can be organized and maintained at lower cost.

A competitive political process sustains efficient coalitions and eliminates inefficient coalitions. The members of a group favouring tax reduction and smaller government can be bid away by finding benefits that reward the members. Such benefits include specific tax reduction, subsidies, regulation of competitors, tariffs, and licensing.

. . . If I am correct, there is a flaw in the operation of representative government. The flaw produces the growth of government. The government grows, faster at times, slower at times. On average, government grows.²²

Adam Smith's "liberal plan of equality, liberty, and justice" can usefully, I suggest, be understood in

terms of his answer *not* to the question political philosophers from Plato onward have asked, namely, "What economic and political structures maximize the good that the best can do, assuming they enjoy economic and political power?" but to a very different question: "What economic and political structures minimize the evil that the worst can do, assuming *they* enjoy economic and political power?" The current wisdom of our age has it that his trust in a free market as a limitation on the evil the worst can do given economic power was in error and his trust in democratic government as a limitation on the evil that the worst can do given political power was sound. But I am suggesting *the converse is the case*.

The essentially philosophical observations of Hayek, and the more empirical observations of the public-choice theorist Meltzer, underscore the same vital point: the free market in a free society is under threat *not* because of market failure but rather because of government failure. The political structures which classical liberals advocated have not proved strong enough to counter or curb the perfectly understandable desire of the politician to improve his situation—maximize his utility if you like—and the equally understandable desire of vested interests to improve *their* situation by the employment of skilled, information-

rich intermediaries whose task it is to bring to the notice of politicians the unfortunate consequences of ignoring the particular cause such intermediaries represent.

Problems of Size in the Free Market Economy

The accuracy of this diagnosis of our problem is confirmed if we contemplate two further common objections to a market economy cited by its opponents: the claim that the development of the modern corporation involves a mutation fatal to the survival of the market, and the claim that monopolistic and oligopolistic structures have supplanted the classical market.

John Kenneth Galbraith's statement of the first claim is concise: "In recent decades there has been . . . [a] shift of power from owners to management within the modern large corporation. . . . The management, though its ownership is normally negligible, is solidly in control of the enterprise. By all visible evidence it possesses the power."²³ The same point, essentially, was made by Marx when he described the joint stock company as "private production without the control of private property."²⁴

The claim collapses. Market forces continue to operate. The decisions of corporate management have an impact on the anticipated cash flow of the corporation, and this is reflected

in share prices. Indirect though this market process may sound, it monitors and directs the behavior of management and prevents the misallocation of resources both Ludwig von Mises²⁵ and contemporary public choice theorists²⁶ ascribe to government bureaucracies.

The second claim under consideration—that oligopoly and monopoly have destroyed the classical market—again finds expression in Galbraith: "[a difference] which invades every aspect of economic organization and behavior, including the motivation to effort itself . . . [exists between] . . . the world of the few hundred technically dynamic, massively capitalized, and highly organized corporations on the one hand, and of the thousands of small and traditional proprietors on the other."²⁷ The same claim is made *ad nauseam* by those who have absorbed the Institute of Policy Studies' Amsterdam-based Transnational Institute's practice of describing transnational corporations as "fascist" and extend it to almost any corporation marked by size and a significant market share.

Size and a significant market share, however, do not constitute monopoly power. While no one has to my knowledge more scathingly described the *inclination* of businessmen to conspire than did Adam Smith, the fact is that unless large corporations *agree* to restrict pro-

duction and thereby maintain high prices market forces continue to operate. Such agreement, however, is not easily achieved. The collapse of OPEC, noted earlier, is a case in point, as is the similar collapse of CIPEC which, in the 1960's, boasted a membership representing some seventy-five per cent of the world's exported copper. Firms, no matter how large, *unless they capture the coercive power of government*, are no more able long to defy market forces than King Canute could defy the laws governing the tides.

The problem is that when government patronage is up for sale businesses both can and do bid for it. And as noted earlier, such patronage is all too often up for sale. Whether purchased by unions or businesses, the resulting symbiotic relationship augurs ill for liberty and for the material well-being of consumers. Yet I underscore my central contention: the flaw is to be located in governments which, unlike King Canute, are oblivious of the laws which limit their powers. The only difference is that whereas the claim that King Canute *could* control the tides was easily and decisively discredited, claims that governments can intervene in the market place without disturbing the processes making for economic efficiency are not so easily refuted. As I have attempted to illustrate, a plethora of excuses exist for inflation or involuntary unem-

ployment or decreasing material prosperity.

Further Study Needed

Those of us committed to economic and political liberty still, as Leonard Read always insisted, have much learning and thinking to do. Maybe the political structures described in volume three of Friedrich Hayek's *Law, Legislation and Liberty*²⁸ point in the direction we should be moving if we are to prevent governments going beyond what they can and must do. Maybe Gordon Tullock's scheme of so-called "vote payment"²⁹ merits thought, and study.

Yet I say "maybe." For in the last analysis, I believe our defense of the free market in a free society ultimately must appeal to the value we ascribe to individual autonomy. We are always, therefore, vulnerable—vulnerable to a process described in the book of *Deuteronomy*:

When you have eaten and had all you want; when you have built fine houses to live in; when you have seen your flocks and herds increase, your silver and gold abound, and your possessions grow great . . . do not forget the Lord your God Who brought you . . . out of the house of slavery.³⁰

Marx was in error when he perceived, in the proletariat, those who would destroy capitalism, rising up in protest against a system which allegedly defrauds and impover-

ishes them. It is the *bourgeoisie*, the children of affluence, who have turned against the very system that delivered them from the "house of slavery" that is material destitution and rule by the whim of a privileged elite. It is they who scripted *Dallas*, created J.R., and thereby gave expression to their irrational abhorrence of the economic and political heritage of which they are the beneficiaries. Maybe you recall Marx and Engels' description of the symptoms they saw as indicative of the death throes of what they so hated: "constant revolutionizing of production, uninterrupted disturbance of all social conditions, everlasting uncertainty and agitation. . . . All that is solid melts into air; all that is holy is profaned."³¹ It is when I read these words and then peruse my daily newspaper that I fear.

Yet at the same time I cling to the hem of hope. As King Canute demonstrated, there are some tasks governments cannot successfully perform. I have concentrated upon the economic and political limitations which, ignored by governments, wreak incalculable damage to all, governed and governors alike. Yet there is an even more fundamental limitation. Governments cannot destroy the capacity of men and women to dream their own dreams and yearn to make them come true, to formulate their own visions of the "good life" and yearn to realize them, to

create their own goals and yearn to work towards them. Some of us call this capacity the *imago Dei*—the "image of God"—but it is the reality, not the words we use when we name it, that matters. The free market in a free society is amoral, informed by no one vision of the "good life" and guided toward no single end. Yet paradoxically undergirding it is a reverence for human autonomy, a reverence for the creative spirit of individual men and women, that no alternative way of organizing a society exemplifies.

The counterparts of King Canute's deluded courtiers are, today, legion. Governments wise enough and humble enough to reveal their limitations to fawning admirers and court chaplains are few. Yet the human spirit and its yearning for liberty survive. Leonard Read, in establishing the Foundation for Economic Education, put his ultimate trust in that spirit and in that yearning. And his trust was not misplaced. ☐

—FOOTNOTES—

¹I owe this illustration to John Passmore's Boyer Lectures, *The Limits of Government*, Australian Broadcasting Commission, Sydney, 1981.

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CREATING FUTURE POOR

A frequent criticism of advocates of the free market is that they do not care about the poor. The critics look about, see that some people are poor, and immediately propose to alleviate that poverty by taking from people who are better off (called "the rich") and giving to the poor. They never stop to consider why some are richer than others.

Throughout history poverty has been the natural condition of mankind. Even today most of mankind lives in poverty. Instead of taking from that small portion of rich so that all may soon become poor, they should be asking how the few became rich and whether such a method might be used to raise the levels of the many poor. After all,

when almost all were poor, it was not possible to take from others to become rich. Insufficient numbers of wealthy existed to make such action possible. Wealth had to be created, not taken from others.

Just as poor people cannot be made permanently better off by continually subsidizing them, poor societies cannot be made permanently better off by taking from richer societies. They must learn to create wealth. At one time there were no rich societies. Rich societies did not develop as a result of foreign aid. They had to create wealth. The only way for either an individual or a nation to continue to be richer over the long haul is to learn to create wealth. Handouts are, as the saying goes, "here today and gone tomorrow."

The real concern which we need

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to address when we consider redistributing income and wealth is the effect on initiative and on capital formation. If we retard capital formation, we reduce the rate of productivity increase and, of course, of economic growth. That means that those who live in the next year, the next decade, the next generation, indeed, the next century, will be less well off than they would have been had capital formation not been sabotaged by short-term attempts to alleviate poverty through redistribution.

Only the most callous among us is truly unaffected by the plight of the present-day poor—be they next door, across town, or on the other side of the earth. But, those who concentrate on taking wealth-creating assets from the “haves” to give consumer goods to “have-nots” overlook the fact that they are creating a poorer society for babes of the future to be born into.

Putting it in another perspective, had the redistribution policies they advocate been in effect a hundred years ago, they and most other rich people alive today would have been born into poverty—if they had been born at all. There would be even more of the present-day poverty which they

decry if economic growth had been held back in the past by the imposition of such policies as they advocate today.

We must not let our concern for present-day poor so impede progress and economic growth that we consign future generations to conditions of even greater poverty. Just as the individual can grow economically only through saving and investing for greater future production, so a society can grow only by engaging in capital formation. Spending all of one's substance in the present leads only to poverty in the future—both for individuals and for a society.

Policies grounded in well-meaning but short-sighted attempts to help present-day poor by taking from those who produce and giving to others discourage current production so that even those alive today are not as well off as they otherwise would be. More important, such policies hold back economic growth so that children of the future will be condemned to live in a poorer condition than they otherwise would inherit from those currently living and enjoying the fruits of the capital formation of their forebears. ☉

THE SUPREME COURT (Economically Speaking)



"The buck stops here," read the plaque on President Harry Truman's desk. He was aware of the fact that much of the machinery of the federal government would not turn a wheel until he "pressed the button" with his signature. In theory, the president is not the court of final appeal, but rather the Constitution is. And, even here, the past few decades have wrought quite radical changes. We now are told that the Constitution means whatever the Supreme Court of the United States says it means.

This conclusion, to say the least, is certainly debatable. Americans in greater numbers are beginning to realize the *Constitution means what*

its framers intended for it to mean. Those men of two centuries past knew human government was a necessity, but they devised a Constitution for the purpose of restricting the powers of government to the bare necessities. In their effort to diffuse power they said the legislative, executive and judicial branches of government should not reside in the same hands. It was their thinking that the law would view all Americans as equals, that is, no man would be granted special privilege by the law. The Supreme Court was to study the Constitution to determine its meaning (what the framers meant), then the Court would measure legislation and execution thereof by the Constitution.

The most famous and popular section of the Constitution contains the

first ten amendments, the laws of the land designed to spell out the rights of an American to life, liberty and property. It would seem that the intent of the Supreme Court would be to see that these rights are not infringed. It should be the duty of these jurists to test every action of government by these uncomplicated statutes, and all of us should be wary of any action by public servants which tends to abridge constituted freedoms.

Ancient Justice

Students of freedom throughout the centuries of recorded history have not been numerous. Impartial justice has been a scarce commodity. In the heyday of the Jewish economy King Solomon established himself early in his career as a just monarch, and quickly the fame of his wisdom spread to other lands, and people of other countries traveled for miles and days to meet him and ask him questions to test his sagacity. One of those making the pilgrimage was the Queen of Sheba, and she was astounded by what she saw and heard. "The report I heard in my own country about your achievements and your wisdom is true. But I did not believe those things until I came and saw with my own eyes. Indeed, not even half was told me; in wisdom and wealth you have far exceeded the report I heard" (I Kings 10:6, 7).

Nine centuries rolled by and Je-

sus of Nazareth arrived on the scene. He found the intervening years had apparently dulled the appetite for wisdom and freedom among his contemporaries. They wanted wonders (miracles) but not wisdom. They wanted security not opportunity. He denounced his generation with these words: "The Queen of the South will rise at the judgment with the men of this generation and condemn them, for she came from the ends of the earth to listen to Solomon's wisdom, and now one greater than Solomon is here" (Luke 11:31). As a mature man Jesus returned to the scene of his childhood, stood up in the synagogue and applied the words of Isaiah to himself: "The Spirit of the Lord is upon me, because he anointed me to preach good news to the poor. He has sent me to proclaim freedom for the prisoners and recovery of sight for the blind, to release the oppressed, to proclaim the year of the Lord's favor" (Luke 4:18, 19). This incident culminated in his being forcibly escorted out of town.

Today it is quite generally agreed that none wiser than Jesus has ever set foot on the earth, and multiplied millions are studying his word every day. They believe the statement of the apostle Paul that Jesus "has become for us wisdom from God" (I Corinthians 1:30).

With qualifications like these we would expect Jesus to give us the right answers to any questions we

might bring to him. Or, putting it another way, if there is a solution to the problem, he would surely have it. In connection with these thoughts, one incident in the life of Jesus caught my attention and made me think of the wide application it has to our lives, personally, nationally and internationally. "Someone in the crowd said to him, 'Teacher, tell my brother to divide the inheritance with me.' Jesus replied, 'Man, who appointed me a judge or an arbiter between you?' Then he said to them, 'Watch out! Be on your guard against all kinds of greed; a man's life does not consist in the abundance of his possessions'" (Luke 12:13-15).

I don't doubt the ability of Jesus to come up with the right solution to the fretting brother's problem. In fact, I think he was quite close to it when he introduced the subject of greed. With all the knowledge and insight possessed by Jesus his perfunctory dismissal of the case told the man: "There are laws, wills and courts. Either you have not explored these, or you are not content with justice."

The man who developed this problem was like too many in our own society. He didn't trust rule by law. He thought his was a special case, and the law should be set aside just for his benefit. He didn't want justice; he wanted privilege. The number of such people in our time is legion. Not only are the courts full of

cases where people are trying to break wills, but there is a steady stream of privilege seekers beating on legislative doors demanding special dispensations, grants, transfer payments, and the like, most of which would put them on easy street. They want to avoid the rigors of work that would be imposed upon them by free and open competition, so they call upon the "authorities" for a judgment in their favor. Often the "authorities" are politicians who think only in terms of the next election, and they are willing to sacrifice justice and principle in favor of expediency.

The Presumption of Rulers

Closer examination of this incident brings another concept into focus. If Jesus did not presumptuously settle a financial problem between two brothers, why in the world should I or any one of the rest of us assume we are so wise we can divide the wealth of the whole human race? Isn't there something wrong with a system that takes a man who has demonstrated no particular proficiency in managing his own financial affairs, elects him to public office, then supposedly endows him with the wisdom to manage the fortunes of all the rest of us? According to our Constitution he was not put into office for this purpose.

But this man, with his cohorts, looks at one segment of our society

and arbitrarily decides it has too great a portion of the available wealth and resources. He sees another group (always a "minority") which has a relatively smaller percentage of the total wealth, so, by means of the police power vested in him, he takes from the first group and gives to the second. This is a rip-off which causes him no pain because he has no direct investment in the exchange beyond political expediency. If he ever had a conscience against stealing, it must have been dulled by the immorality of the past two or three generations. He makes valiant attempts to justify his theft by pleading the cause of the "poor," but like Judas of old, his interest in the poor does not concern their ultimate welfare but rather the bag of votes which he carries.

The whole sorry system is immoral: 1) It is theft at the point of the government gun. 2) It promotes greed or covetousness in the hearts of the "have nots," and this is just the thing against which Jesus cautioned: "Be on your guard against all kinds of greed." 3) It encourages superstition in that it transfers faith from Almighty God to Big Daddy (almighty government). 4) It discourages ambition in the otherwise industrious as they conclude, "What's the use; they will take it away from us anyway." 5) It destroys thrift in the "poor," those who need such schooling so badly. 6) It removes the

members of a large segment of the population from productive pursuits and embalms them in regulatory bureaucracies on high salaries at the expense of the taxpayers. 7) God has never blessed immorality, so the net result of the fiasco is a general decline in everything that has to do with the advancement and welfare of the economic community.

Government Welfare Programs Discourage Personal Charity

Another casualty of this kind of bureaucratic distribution of resources is real charity, a cardinal tenet of the Christian religion. When those who have the means or ability to relieve need and distress see the "needy" coming at them like vultures under the leadership of a vote-hungry bureaucrat, it has a chilling effect on the mercy motive. Jesus said, "The poor you have with you always," and he enjoined compassion toward them. But when the government says, "We will decide just who is poor, who will pay and how it will be done," it leaves little opportunity for the exercise of a vital Christian grace. The real love and charity which are part and parcel of Christianity are not tax-deductible. If you want a government waiver for your gifts, they must be made to approved organizations or foundations, therefore the salutary benefits of a one-to-one relationship between the donor and donee are wiped out.

Many who would otherwise do so just can't afford to help a neighbor any more.

Then what man is wise enough to handle the problem? It would seem that the obvious answer is: *No one*, nor is there any committee of select men having this kind of wisdom. The solution to the problem of the production and distribution of scarce resources lies in the billions of uninhibited decisions of all the producers and consumers, acting according to their own needs, desires and char-

itable instincts. Government can best serve the economic community by leaving it alone and punishing any attempt to thwart this divinely blessed process. The Supreme Economic Court is composed of a jury made up of millions (billions, when taken worldwide) of buyers or customers. They vote in favor of a good or service when they buy it—if they are free to make a choice. They vote against a good or service when they turn it down in favor of something else. In a free and open economy "the buck stops here." ☉

Charity Debased

THE ORIGINAL CONCEPT of charity as an expression of love, now appears to have been largely replaced by a concept of government-guaranteed security. One possible explanation for the development of this concept of charity may be that so many people felt that personal responsibility in the dispensing of charity was too slow and inadequate. Thus they chose to move into the speedier method of the use of public funds.

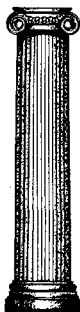
Admittedly, the motives of these people were probably good and charitable. But the method chosen was uncharitable because love was replaced by force. The spirit of charity was debased to "public welfare," and the shift from personal responsibility to grants by the state was on. The flow of state funds for relief and rehabilitation has become greater and greater, and the part that personal responsibility can play has necessarily become less and less.

The element which gives meaning to charity is personal consideration and responsibility, but that element is lost when the edicts of the state are substituted for the voluntary decisions of persons. The means have destroyed the ends.

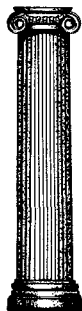
IDEAS ON



LIBERTY



THE NEED FOR POLITICAL THEORY



THAT which constitutes our political being is in approximately the same condition today as the dollar. That is, it has depreciated, is debased, and has come unsprung from the original fount of its value. Nor are the two things unrelated. A good case can be made that the debasement of the currency goes hand in hand with the debasement—departures from, unraveling or violations of—the political constitution. There is much evidence to support this interpretation from American history. If we look at those times in our history when the Constitution has been subjected to the severest strains and has in important respects been debased—the Civil War, World War I, and from the beginning of the New Deal to the present—we can dis-

cover that they are also times of the debasement of the currency.

In the broadest sense, it is not difficult to see why these two developments may occur more or less simultaneously. The United States Constitution restricts and restrains government, restrains it in regard to interfering with the money supply as well as in other respects. When these restraints are loosened and government asserts its power, one of the areas where it is apt to move early is to increase the money supply, i.e., debase the currency.

These things are especially likely to happen together in the midst of war, because the exigencies of war provide a pretext for overriding the Constitution, and the requirements of unusual expenditures provide the occasion for increasing the money supply. Either weak or popular governments are especially prone to raise money by debasing the currency rather than by unpopular tax-

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ation. The juncture of all these conditions leading to the conclusion that might be expected were amply demonstrated in the American War for Independence. The British constitutional restraints on American governments were removed by the Declaration of Independence. The new state governments were attempting to become popular by avoiding heavy taxation or collecting the taxes levied. The Continental Congress was weak, lacking the power even to levy taxes. The outcome was that the country was flooded with paper money; there was runaway inflation, and such money as existed was debased beyond recall.

More deeply, governments whose legitimacy or constitutional authority are in doubt rely increasingly on force to obtain their ends. One of the areas of the application of force is in monetary creation (or attempts to do so) and tender laws. These result in the debasing of the currency.

Debasing the Political Currency

My main point, however, has to do, not with money, but with the debasing of the political currency, so to speak. The references to money are for two reasons mainly: one, the depreciation of the currency is more readily observed and even measured; two, there are some important parallels between them. Our Constitution, the Constitution of 1787, went into operation in 1789.

Our monetary system was firmly defined in 1792.

The dollar is the basic unit of American currency. "Dollar" was apparently an English term to refer to a Spanish silver coin known as the peso or piece of eight. The term is a corruption of the Bohemian term, "thaler," which was widely used in Europe from much earlier times. The Spanish coin was widely circulated in the United States in the early 1780s. In 1782, Gouverneur Morris (most famed for the major role he played in the Constitutional Convention) published a plan for a monetary system based on the decimal system with the dollar as the main unit. His plan was eventually carried into effect. In the same work, he argued against tender laws, and in the Convention he played a leading role in denying the power to the states and the United States to issue unbacked paper money (bills of credit).

In 1792, the dollar was defined as 24.75 grains of fine gold or 371.25 grains of fine silver. The benchmark coin was the silver dollar, though gold coins of \$2.50, \$5.00, and \$10.00 were given equal standing. The dollar went through some minor changes in definition in the course of the 19th century. The bimetallic standard was always troublesome because the market value of the relation between gold and silver changes, causing difficulties in the

circulation of coins of one or the other metals. In 1873, silver coins were demonetized, i.e., became nominal rather than real (weight in precious metals) money. Thereafter, they continued to circulate at full value, since they were redeemable in gold. In effect, the United States had moved to a gold standard, though the waters were muddied for two decades longer by partial moves toward reinstating silver. At any rate, up until 1934 the dollar was defined in terms of a specific weight in precious metals and was ordinarily redeemable in either gold or silver, or both.

The Dollar Devalued

A dramatic change occurred in 1934, one which had been building for nearly a year. The dollar was drastically devalued in 1934. The gold content of the dollar was legally defined as 15 5/21 grains of .9 fine gold. To put it another way, the price of gold in paper dollars was raised from \$20 dollars, approximately, per ounce to \$35. The dollar was severely debased in one fell swoop, so to speak. But that exchange rate was made moot in domestic exchanges. All gold coins and bullion (if any) were called in, and it became illegal for Americans to own any gold except in ornaments. Federal Reserve notes were made legal tender for all debts public and private, and they were no longer redeemable in gold by Americans. Sil-

ver certificates were issued which were redeemable in silver, but silver continued in its nominal role for several decades.

Since 1934, the value of the dollar has generally declined steadily, sometimes precipitately. It declined precipitately after World War II and in the 1970s. There are different ways to measure the decline of the dollar. It can be measured in terms of gold, for example. If the value of a dollar was 100 in 1933, say, its value today is less than 5. To put it another way, an ounce of gold today costs more than 20 times what it did in the early 1930s on the market. Or, the dollar can be measured in terms of what it will buy in goods generally. Measurements in this area are imprecise, however, not only because there are differences from product to product in changes in prices but also because the quality of many products changes over the years. In general, though, one dollar today will probably buy approximately what 10 cents would buy in 1930; in some things more, and in others less. In any case, anyone who has lived for very long knows that the dollar is declining in value.

The dollar has been debased. It had a definite base from 1792 to 1934. That base was defined in grains of precious metal(s), and to assure the base, banknotes (paper money) could usually be exchanged at face value for the specified weight of precious

metal(s). The debasement began in earnest in 1934 and was completed in 1971, after which the dollar was no longer defined by definite amounts of gold on foreign exchanges. As the debasement proceeded, so did the decline in what the dollar would buy.

A Solid Foundation

Americans of foresight and learning in the 1780s and 1790s generally agreed that anything that was to endure for any appreciable length of time must have a firm foundation. It must have a solid base. The base of the government was a constitution. On that point, Americans were in almost universal agreement. The base of the money supply was precious metals. There was not universal agreement on this point, in theory anyway. (In practice, almost everyone preferred coins of precious metals to paper money, unless the latter were readily redeemable in the former.) But those who held to that theory carried the day. If money was to perform its function well it must have a solid base in precious metals. If a government was to be held to its function, it must be based on a written constitution.

Both the United States Constitution and a dollar based on precious metals were undergirded by theories. The economic theory undergirding basing the currency on precious metals can, perhaps, be stated simply. It is desirable that the money

be relatively stable in value. Alexander Hamilton put the reasons this way: "The inducement . . . is to render the unit [the dollar] as little variable as possible; because on this depends the steady value of all contracts, and, in a certain sense, of all other property."¹ Why precious metals? Because they are widely accepted and have proved not to be subject to wide variations. Neither Hamilton nor his peers generally believed that government could give value or stability to money. That was something that could be done only by men acting in the marketplace. It was something that had been done for gold and silver.

Although Hamilton recommended a bimetallic system (apparently in full awareness of Gresham's Law) he did observe that "As long as gold, either from its intrinsic superiority as a metal, from its greater rarity, or from the prejudices of mankind, retains so considerable a preeminence over silver, as it has hitherto had, a natural consequence of this seems to be that its condition will be more stationary."² The complete economic theory undergirding these views is much more extensive, of course, but these examples may serve to suggest something of the whole.

The political theory undergirding the Constitution has to be in considerable degree deduced from what was done. We know, of course, that the political philosophy of the time was

greatly influenced by the natural law philosophy and natural rights doctrine. The idea of having a written constitution was buttressed by their colonial experience, their colonial charters, the covenant idea, and the attitude of Protestants particularly toward the Scriptures. The British, too, had writings in their background which stood above the rest, such as Magna Carta, the Petition of Right, and the Bill of Rights. The Constitution was conditioned, too, by the specific purposes of the Constitutional Convention. The men gathered there had the task of laying the foundation for a general government with limited powers. The powers must be limited both to protect the integrity of the already existing states and the rights of individuals which preceded all governments.

But the idea which informs the whole Constitution is that of a governmental system of balanced tensions. The model for this system was almost certainly the Newtonian conception of the universe with its gravitational pulls, its centrifugal and centripetal forces, all of which kept the planets in their separate orbits and everything in its place. Tension is necessary to the vitality of government, as to every undertaking or operation, even to life itself, but to provide both the tension and to keep it in bounds there must be counterbalancing forces or tensions.

A Balance of Powers

The problem faced by the men at the Constitutional Convention was how to give the general government sufficient power to do its job effectively yet to so circumscribe these powers that they would not come to dominate everything. It can be likened to the problem of our universe: How to give the sun sufficient power to pervade the whole with its light and hold the planets in their orbits so that they do not fly off out of the system by their own centrifugal force and yet not so much power that they are drawn into the sun and absorbed by it.

None who gathered at the convention had a definite plan for achieving such an intricate balance of tensions. They had a political theory by which to achieve it, of course. It was the doctrine of a separation and balance of powers. But how to articulate this doctrine in a new system, none had a clear-cut idea at the outset. Actually, the difficulty was more complex than that. Most were much more concerned with their interests in particulars of what was to be accomplished than with the overall system. A few were so determined to have a strong national government that they would have been willing to make the states into administrative units. More were so concerned with preserving the independence of action of the states that they were reluctant to clothe the government

of the union with power at all. Some wished to make the general government an instrument of the states. Others wished to trace all power in the general government directly from the voters, to have frequent elections, and to make the government much more democratic than the one actually provided.

Yet in the midst of the debates and compromises, the pulling and pushing this way and that, the attempts to vest power or to restrain it, the Convention devised probably the most complex system of balanced tensions that has ever functioned as a government. The solution they arrived at—the Constitution—was a system of separate yet intertwined powers. The federal government was composed of three branches, each sufficiently separate and independent to perform its allotted function. Yet, on the other hand, each branch was more or less dependent upon or restrained by the others so as to limit the exercise of powers. The general government was assigned a limited sphere of operation, and the states retained an independence of operation and their integrity as distinct governments. At the same time, the general and state governments had means of limiting the other. The federal government was made supreme in its realm, and the states retained a check primarily in that state legislatures could elect the members of the Senate.

Offsetting Tensions

There are different ways to describe this system of balanced tension. One would be a step by step analysis of the Constitution. Another would be to describe the powers allotted and show they are counterbalanced in various ways. Unfortunately, any detailed description here would turn this essay into a book. Perhaps, it can be suggested, however, in a few words by reference to the political theory of the Founders. It was generally accepted that one of the prime motives of man is the love of power. That being the case, thoughtful men understood that if men were to be drawn into government service and that if the government was to be activated, it must possess power. But power over men is a dangerous thing. This, too, Americans accepted as a universal truth. Hence, men in power must be restrained in its exercise. To do this, so the Founders thought, they must be pitted against others with power, also seeking to extend or retain their own, so as to be constrained. A system of balanced tensions was the result.

There have been concerted efforts in the 20th century to relieve or remove these tensions in the American system. These efforts have generally been carried on under three distinguishable ideological banners, though, in practice, the movements have often been indistinguishable.

One assault on the balanced tensions has been made under the banner of *nationalism*, another under that of *democracy*, and a third with the tacit goal of *equality*. Actually, the same people and groups have pushed all three, though with varying emphases from time to time. The results of the efforts have not been so much decisive as they have a sustained erosion of the system of balanced tensions.

If we had traced the vicissitudes of the dollar throughout the course of the history of the United States, we would have discovered that it was subjected to erosions in value from time to time. So it has been, too, for the political system of balanced tensions. The thrust to democracy, or popular election, made inroads on the state counterbalance of power in the 19th century, particularly with the popular election of presidential electors (as opposed to election by state legislatures). A much more serious inroad was made on the counterbalance of state to federal power in the early 20th century by the adoption of the 17th Amendment to have direct election of Senators. Theretofore, Senators had represented the state governments, technically at the least, for they were elected by state legislatures.

The thrust to nationalism during the Civil War and Reconstruction was overpowering for a time. Indeed, some historians have held that

nationalism triumphed during the Civil War and has never been headed since. A better case can be made, I think, that by the 1890s the states had reasserted much of their power and authority as well as much of their integrity as independent entities. The thrust to nationalism gained headway once again with the Progressive movement in the early 20th century.

The New Deal

But, as in the case of the dollar, the sustained erosion of the American balanced system became headlong with the New Deal. There is no way to measure with any exactness, of course, the degrees of the distortion or disintegration of a political system of balanced tensions. The conformity of government to the Constitution cannot be measured in grains of precious metals of a certain fineness. Nor do governments behave like clocks, cease to keep correct time when the balancing springs are sprung. The malfunction of governments is a matter of judgment and discernment. Within that framework, the evidence of imbalance can sometimes be nearly as precise as the weight of coins.

At any rate, it became discernible very quickly with the coming of the New Deal that the political system was being moved off center and out of kilter. The President took over the momentum of the government, de-

vising legislation and pushing it through Congress with unprecedented swiftness. Congress acted like a rubber stamp for the President in the first hundred days of the New Deal. Nor did presidential power wane much in the ensuing months and years, though Congress did occasionally "veto" some presidential initiative.

But the New Deal was not simply an aggrandizement of power within the federal government to the President. There was a great extension of the sphere of the federal government, as national power was extended into realms formerly reserved to the states or to the people: relief, regulation of business, labor regulation, agricultural controls and subsidies, and so on. The consolidation of power in the national government proceeded, sometimes abruptly and swiftly, during these years. A peculiarly American nationalism gained ground.

Judicial Restraint

The federal courts attempted for several years to hold the line against this massive assertion of power, to hold the legislation up to the guideline of the Constitution, and to maintain or restore balance to the system. The courts refused to enforce the central pieces of New Deal legislation. President Roosevelt proceeded to attempt to intimidate the courts: charging members of the Su-

preme Court, several of them, with being too old, out of touch with conditions, with legislating rather than doing their judicial jobs, and attempting to impose their prejudices on the country. Moreover, he proposed a plan for packing the courts with his own appointees if the older judges did not see the light and resign.

In making public this proposal, the President gave a curious description of the American system of government. He "described the American form of Government as a three horse team provided by the Constitution to the American people so that their field might be plowed. The three horses are, of course, the three branches of government—the Congress, the Executive and the Courts. Two of the horses are pulling in unison today; the third is not." In short, the courts were not pulling their weight. He answered the charge that he was trying to drive the horses by declaring that "the President, as Chief Executive, is himself one of the three horses."

"It is the American people themselves [he said] who are in the driver's seat.

"It is the American people themselves who want the furrow plowed.

"It is the American people themselves who expect the third horse to pull in unison with the other two."³

What Roosevelt described was not, of course, a governmental system of

balanced tensions such as was provided in the Constitution. What he described was his vision of a nationalized unitary government, all branches of which would be actuated by a common impulse. There would be no counterweight to the popular will of the moment, no counterweight to presidential programs, no counterweight to any acts of Congress, and no counterweight to centralized government power itself. Indeed, it is not at all clear why either the Congress or the courts were necessary in his scheme. If the people were all behind it, the only useful branch would be the executive, to promulgate and implement the programs. That was the tendency of the imbalance during the New Deal and for some years after it.

These notions (though their implications were not usually spelled out) were advanced under the rubric of democracy. Roosevelt used the term over and over in his speeches, and he was certainly relying upon its shadow in referring to the people as the drivers. It would have struck the Founders as a very strange use of the language to refer to presidential government as democratic. On the contrary, they described the position of the President as "monarchical," i. e., rule by one, which it clearly is. Indeed, many at the Constitutional Convention were so averse to any relics of monarchy that they

avored an executive composed of two or three persons, at the least. They referred to the Senate as being "aristocratical," i. e., rule by a few, both because of the small number of its members and the manner of their selection by state legislatures. They referred to the House of Representatives as being "democratical," i. e., rule by the many, both because of the larger number of the members and their direct election.

The Founders did not mean, of course, that they were providing for government that would be either a monarchy, an aristocracy, or a democracy. Instead, they understood that there were elements of all three in it, but that it would be a constitutional federated republic, based ultimately, but indirectly, upon popular decision. What their theory helps to make clear, however, is what the direction would be in any shift of power to one or the other of the branches.

The government was debased by the New Deal and its aftermath. That is, it was moved away from its base, and the political currency was depreciated, so to speak, under the guise of democracy. The facts of American government have moved farther and farther away from the theory on which it was founded.

In 1960, an English professor, Alfred Cobban, published a small book entitled *In Search of Humanity*. He was Professor of French His-

tory at London University, but the book was the result of lectures delivered at Harvard. The thesis of his book is that Western political practice is subsisting on the residues of 18th-century political theory. "For a century and a half," Cobban said, "the Western democracies have been living on the achievements of the Enlightenment, and on the stock of basic political ideas that were last restated toward the end of the eighteenth century. That is a long time." In consequence, "The gap thus formed between political facts and ideas has steadily widened."⁴

The Implementation of Ideas

The spread of ideas takes place in such a way that in a given century it often happens that people are living substantially off the ideas of the preceding century. At any rate, Cobban maintains that the West lived off ideas that had last been restated in the 18th century, and lived well enough, too. But by the 20th century, they still had only the faded remnants of earlier political theories, and their practice had come loose almost entirely from the rational and ethical elements in those. The most obvious result, he thinks, has been "the increasing re-brutalization of contemporary life, particularly, though by no means exclusively, manifested in its politics."⁵ That is a rather hygienic way of referring to the monstrous assertions

of force by governments upon their peoples and others in the 20th century.

And what does the West have to offer instead of the grotesque assertions of political power? "In the absence of rational and ethical discussion," Cobban said, "of the ends of society, political theory has tended to turn into either the analysis of mere power relations, with no attempt at judgment on them, or else the repetition of shibboleths, words like 'peace' and 'democracy' which may mean anything or nothing. . . . They have become at best mere . . . symbols like the old school tie, which can be used alike by those who are and by those who are not entitled to them. Their hollowness is the measure of the problem before us."⁶ The problem, as he saw it then, was the great need for political theory.

At about the same time that Cobban's book appeared, I published an article entitled "The Concept of Democracy and John Dewey." My thesis was that "democracy" had indeed become a shibboleth in the United States, that the more widespread its use had become the more vague and imprecise the meanings attached to it. The body of the article catalogued at least 30 more or less distinct, yet imprecise, meanings in which John Dewey had used the word. He had, of course, used every one of them approvingly. One of my conclusions was that "democracy" was being used as

a word to conjure with and as a substitute for thought. Another was that it stood in the way of much-needed political thought. "All this would not be so important," I pointed out, "if there were not so great a need for new political thought, or at least for re-thinking our assumptions and beliefs." Despite the mounds of evidence of governments running amok, "twentieth-century America is a wasteland so far as political thought is concerned. In part, at least, this absence of thought can be laid to the fact that thinkers have been mesmerized by the pleasing sound of the word democracy."⁷

Whether the use of democracy as a magic word to conjure with has moderated since that time I am not certain, but one thing is clear, at least to me. The United States government has moved even farther off base than it was at that time. The main instrument for this debasement has been the federal courts, especially the Supreme Court. Moreover, it would require an Herculean effort to cover what has occurred with the concept of democracy. Even as Cobban was issuing his call for political theory, the Supreme Court, under the leadership of Chief Justice Earl Warren, was moving toward judicial activism, which became rampant in the 1960s and since. The Court moved with great vigor to relieve all the tensions not only in the government but in the society as well.

Judging by the proliferation of court cases as well as the decisions, both the courts and many people believe they can resolve all questions and relieve all tensions. Far from having a government of balanced tensions, the balance of power has shifted toward the courts; state governments have been permeated with the power of the federal courts and in significant ways deactivated; Congress has stood supinely by; and Presidents await the next court decision to find out what the law now is. The structure still stands, but it has been badly wrenched from its mooring by successive shifts of power and the deactivation of counterbalancing forces.

A Growing Need

I take it, then, that the need for political theory has increased rather than diminished over the years. My point is not that there is necessarily any need for political theorizing, though there may be, and I certainly do not mean that there is a need for mere political speculation. What is needed, rather, is a much broader realization of the role of political theory to political activity. We act on the basis of our assumptions, whether we have brought them to consciousness and are aware of them or not. However vague, imprecise, and inchoate our reigning ideas, they guide us and produce their inevitable consequences.

Over the past century, we have come increasingly as a people under the sway of an ideology, mainly socialist ideology. Socialism neither has nor contains any political theory worthy of the name. It has instead a vision of the future in which man and society have been reconstructed. Gradualist socialism appropriates the existing political institutions and attempts to bend them to its purposes. Government is assumed to be a creative device by which man and society can be reconstructed. Therein lies the socialist justification for the concentration and exercise of large measures of power. It is this "creative" use of power that has virtually destroyed the dollar. It is this "creative" bending of government that has wrenched it from its moorings.

Sound political theory is virtually the opposite of such ideologies. It is based (whether explicitly or by way of assumption) upon the nature of man, the nature of government, and the nature of society. It does not see government as either the fount or end of man, but rather begins, as it always must begin, with the understanding that government operates by force. From that vantage point, political theory can proceed to an elaboration of the limits and legitimate functions of government. But it is not necessary to invent political theory; that task has long since been performed for us. "And if political

theory revives," as Cobban pointed out, "if the idea of purpose is reintroduced into political thinking, we may take up again the tradition of Western political thought. . . ."⁸

To restore the dollar, or whatever a currency may be called, it is necessary to base it on sound economic theory. To restore the governmental system of balanced tensions, it is necessary to have a political theory that supports such a system. When we become sufficiently aware of the need for political theory, we will no doubt turn to it and appropriate that from our past which will be helpful. No doubt much that has happened in the past 200 years could shed new light on government. Hence, new theorizing on the base of the old may make a welcome addition. ☸

—FOOTNOTES—

¹Richard B. Morris, ed., *Alexander Hamilton and the Founding of a Nation* (New York: The Dial Press, 1957), p. 355.

²*Ibid.*, pp. 355–56.

³Ben D. Zevin, ed., *Nothing to Fear: The Selected Addresses of Franklin D. Roosevelt* (New York: Popular Library, 1946), pp. 109–10.

⁴Alfred Cobban, *In Search of Humanity: The Role of the Enlightenment in Modern History* (New York: George Braziller, 1960), p. 241.

⁵*Ibid.*, p. 242.

⁶*Ibid.*, pp. 243–44.

⁷Clarence B. Carson, "The Concept of Democracy and John Dewey," *Modern Age* (Spring, 1960), pp. 186–87. The article was also published in the Appendix of *The Fateful Turn* (Irvington: The Foundation for Economic Education, 1963).

⁸Cobban, *op. cit.*, p. 241.

Thoughts on "Being Our Brother's Keeper"

"We are our brother's keeper!"

Those who argue for individual liberty and economic freedom are often met with this phrase. Frequently it is used to justify government intervention in the economic or personal lives of others, and the taxation that supports such intervention. The list of programs inspired by this concept is almost endless: welfare, social security, victimless crime laws, various trade restrictions, and so forth.

One can attack such programs from a utilitarian standpoint quite effectively. With some research, and a solid grasp of basic free market economics, one can demonstrate convincingly that government anti-poverty and income redistribution

schemes are mostly useless, ineffective, and destructive; and that social reforms effected through the political process inevitably end up encouraging and exacerbating the very problems they are meant to solve.

However, to the ardent and well-intentioned advocate of these programs, a solely utilitarian argument against them simply will not wash. The programs are ineffective? Then even stronger, more drastic programs are needed. The public resists the programs? Then stricter controls on human behavior are called for. Such advocates, after all, are arguing from a *moral* position. They are aware of often very legitimate concerns, and wish to do something to correct what they perceive as intolerable and unnecessary wrongs. Convinced of the moral

rightness of their cause, they are willing to pay—and make others pay—a high price for their attempts. “We are our brother’s keeper,” they reason, “and it is only just to use our political system to correct injustice and help the unfortunate.”

Utilitarian arguments alone, then, cannot effectively combat such reasoning. Instead, a rationally presented *moral* argument against the principles behind this kind of thinking must be put forth. One powerful step in this direction is to show the complexity of the phrase “we are our brother’s keeper,” and to demonstrate the traps that an unthinking or unaware use of this concept can lead to.

Many who so readily use this concept to justify their actions fail to realize that there are actually *three distinct ways* of assuming the role of “our brother’s keeper.” Each of these three ways may seem superficially similar, at first glance. Yet ultimately the differences between them are profound.

Voluntarism vs. Compulsion

The first way of “being our brother’s keeper” is to offer voluntary donations of aid, service, advice, money, goods, and so on to those who are in need. This is the classic definition of charity: voluntary giving. Exhortations to aid the needy and unfortunate in this manner are found in the

teachings of all the great religions of the world, and in the writings of many of the great humane philosophers. Such giving may be motivated by sincere personal concern, by social pressure, by a desire for recognition, or by other factors. But whatever the motivation, the key distinction here is that the giving is *voluntary*.

A second method is to *compel others* to “be their brother’s keepers.” This can be done in our society in several ways, all enforced by government through the political process. People may be taxed, and the resulting money used to fund various welfare programs deemed proper by the government. Some individuals may be compelled to follow various standards in their personal and economic relations with others: they may be forced to pay a minimum wage, to hire someone they don’t wish to hire, or to make business concessions in the “public interest.” Sometimes even more direct compulsion may be used: some may be forced to serve in the military, or (as many have proposed) to spend a few years of their lives in some form of compulsory “public service.” All of these actions and concepts have a common denominator: the use of *force*, through the political process, to compel some members of society to look after others, regardless of their wishes or beliefs.

The third way in which some em-

brace the idea of "being our brother's keeper" is to demand that *they* (or those who share their viewpoint) be given the power to interfere in the lives of others, "for their own good" or for "the good of all." Again, in our society this is generally done through the political process. We may be taxed, so that our money can be spent by politicians and bureaucrats "in our own best interests." We may be prevented from purchasing some items considered harmful to ourselves, such as certain medicines, drugs, books, tools, and so on. Various kinds of peaceful human relations, religious practices, political beliefs, and the like may be prohibited, to "protect us from ourselves." Endless other examples could be culled from our present society. Like the examples in the previous paragraph, the common denominator linking these and similar acts is the use of *force*, through the political process, to thrust the ideas and will of some members of society upon others.

The Power of the Gun

So we see that the concept of "being our brother's keeper" is much more complex than many may at first realize. The first method—voluntary giving—is non-violent, and in accord with widely recognized religious and humane teachings. The second and third methods, though, differ markedly in that they rely

upon the use of *force*, through the political process, to achieve their ends. Many who advocate political coercion to accomplish their goals fail to realize the violence inherent in their methods, or deny it altogether. Nevertheless, the violence is unmistakably there. The dictum, "All political power comes from the barrel of a gun," is an accurate and insightful one. Its truth is easily demonstrated: attempt to go against the will of those in political power who would force you to be "your brother's keeper," or who would regulate your life, and you will find yourself under threat of fines or imprisonment. Backing up such threats is, finally and inevitably, the power of the gun.

Indeed, in a very real sense it is the *slavemaster* who is the ultimate embodiment of the second and third ways of being "our brother's keeper." It should never be forgotten that many apologists for slavery in our own country, a mere few generations ago, based their arguments upon religious and moral grounds. Biblical passages were interpreted in such a way as to justify slavery. It was claimed that the slaves were much better off in bondage, where they were fed, clothed, and cared for. Apologists maintained that the slaves were "heathen," and benefited from the religious instruction they received from their owners; that they were incapable of looking after themselves, and therefore needed the

institution of slavery for their own protection.

In brief, the apologists for slavery argued that they had a moral and legal right to use violence against other men, for "their own good" or to "protect them from themselves"—precisely the same arguments used by many who advocate political violence today. It should be remembered, too, that this form of slavery—recognized today almost universally as being a hideous violation of the most basic human rights—was sanctioned by the federal government and many state governments, as well as by numerous religious and community leaders. In many states, those who actively fought against the institution of slavery were classified by the law as criminals—just as are those today who violate the various coercive laws that prohibit so many forms of peaceful, non-violent human behavior.

Morality Based on Violence Is Fundamentally Flawed

At this point we have clearly shown that those who use the concept "we are our brother's keeper" to justify the use of political force are, in fact, advocating the use of violence against non-aggressive individuals. The advocate of liberty will point out that a morality based on violence is fundamentally flawed—that, no matter how valid or urgent

one's ends might be, one's means must always be moral as well, if society is to remain on a civilized basis.

To resort to the use of violence, whether political or non-political, is to resort to the tactics of the bully or tyrant, the tyranny of the strong over the weak. To sanction the use of violence against peaceful individuals to achieve one's goals must ultimately lead to a society in which the individual means nothing; in which no human rights are viewed as inherent and free from invasion; and in which violence of all kinds—both political and non-political—becomes more acceptable in the minds of many as a way of achieving one's desires.

The libertarian rejects the moral basis of those who favor the second and third methods of being "our brother's keeper." In its place, libertarians offer another ideal: the concept that everyone should be free to live as they wish, providing they harm no one. Instead of a society based upon violence and coercion, libertarians offer the vision of a society based upon peaceful relations, free exchange, and mutual aid.

Having stripped the advocates of force of their moral sanction, and having offered in its stead a principled moral vision of peace, freedom, and cooperation, we are now in a position to use the many powerful utilitarian arguments for liberty to their

best advantage. Having shown the morality of the free society, we can now demonstrate that such a society *works*—and works far more efficiently, effectively, and fairly than one based upon political violence. There is a wealth of such arguments, and they show convincingly, with facts and figures, the vast productive superiority of the free market compared to the controlled economy.

So we see that the urge to be "our brother's keeper" can manifest itself

as the highest of humanitarian ideals, or as the brutal tyranny of the brigand or slave-holder. Those who unknowingly parrot the phrase "we are our brother's keeper" in order to establish a moral legitimacy for the use of violence to achieve their pet social goals must be met with a rational, moral, principled condemnation of their methods. This, coupled with a carefully constructed utilitarian refutation of their arguments, makes a powerful and persuasive case for the free society. ☉

Despotism in Democratic Nations

ABOVE this race of men stands an immense and tutelary power, which takes upon itself alone to secure their gratifications, and to watch over their fate. That power is absolute, minute, regular, provident, and mild. It would be like the authority of a parent, if, like that authority, its object was to prepare men for manhood; but it seeks on the contrary to keep them in perpetual childhood: it is well content that the people should rejoice, provided they think of nothing but rejoicing. For their happiness such a government willingly labours, but it chooses to be the sole agent and the only arbiter of that happiness: it provides for their security, foresees and supplies their necessities, facilitates their pleasures, manages their principal concerns, directs their industry, regulates the descent of property, and subdivides their inheritances.

The will of man is not shattered, but softened, bent, and guided: men are seldom forced by it to act, but they are constantly restrained from acting: such a power does not destroy, but it prevents existence; it does not tyrannize, but it compresses, enervates, extinguishes, and stupefies a people, till each nation is reduced to be nothing better than a flock of timid and industrious animals, of which the government is the shepherd.

IDEAS ON



LIBERTY

CASUALTIES OF THE WAR ON POVERTY

IN the mid-1960s the United States was unquestionably the world's richest nation. Rates of unemployment and inflation were low and industrial productivity was high. A majority of Americans enjoyed a standard of living unparalleled in human history. So with the utmost confidence that his mission would succeed, President Lyndon B. Johnson on August 20, 1964, told the U.S. Congress that he was declaring "unconditional war" on poverty.

The Congress, of course, went along with the plan, though there were some dissenting voices (those who disapproved were labeled "reactionaries" by the press) and within a short time the government's plan of action would be endorsed by figures as diverse as Edward Kennedy

and Billy Graham. Thirty-five years before, Herbert Hoover, in his acceptance speech at the Republican National Convention, had declared with sincerity that "we shall soon, with the help of God, be within sight of that day when poverty will be banished from this nation." Succeeding events made a mockery of Hoover's words; Congress and the professional poverty fighters four decades later announced that *this* time poverty would be forever eliminated from America.

Conventional wisdom and U.S. Census Bureau statistics, not to mention our news media, tell us that the poor are still with us. In fact, it seems that the poor are being added to our population in increasing numbers. Our great cities of the East and Midwest, the main targets of antipoverty measures, have sections that are reminiscent of Berlin in

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1945. Buildings are burned out and gutted; once-thriving shops are boarded up, and unemployed men and women sit on littered apartment steps and stare blankly at the ruins of their neighborhoods. Unemployment among minorities is higher now than it was in 1964 and black youth unemployment stands at a scandalous 50 per cent.¹ Clearly, this war has not been won and there is every evidence to show that we well may be losing it.

Why the War Was Lost

Has the great War on Poverty failed? Indeed, it has. We then ask, why? The answers are as diverse as the individual ideologies of Americans and yet, with close to a trillion dollars spent seemingly in vain, we must look for reasons. Why is it that the government of the wealthiest, most productive nation in history could not, by law, marshal its resources to bring a minority of its people above the poverty line? In this paper we shall look for the answers.

In retrospect, one must admit that the antipoverty activity which began in the mid-60s was nothing less than awesome. In 1965, the 89th Congress, after hearing appeal after appeal from President Johnson, moved in a manner reminiscent of the first term of Woodrow Wilson and the first two terms of Franklin D. Roosevelt, according to political writer James Reston.² And like the leg-

islators of those two previous eras, the politicians of Washington worked to strengthen the power of the central government over the economic activities of its citizens.

The government's attack on poverty was to be three-pronged. First, Congress passed numerous transfer programs such as rent subsidies, increased welfare payments, college tuition grants, medicare and food stamps. Payments, minuscule by today's welfare standards, were to go to those who most needed the funds: the elderly, poor minorities and dependent children.

The second point of attack was to be centered in community action groups, which were to coordinate antipoverty plans with neighborhood self-help groups. To help spur such activity the Office of Economic Opportunity created the Job Corps, which was to provide jobs for unemployed youths, and Volunteers In Service to America (VISTA). Congress also appropriated more than one billion dollars for projects in the impoverished Appalachia region, most of which were administered through the Appalachian Regional Commission.

The third leg of the antipoverty triad was the passage of numerous equal opportunity laws, including the Voting Rights Act, the Civil Rights Act (passed in 1964 by the 88th Congress) and other laws that forbade racial discrimination in hopes that

blacks would not be barred from jobs or homes.

Indeed, the late days of 1965 were heady ones for those who were sure the avalanche of legislation would lead America into an era of peace and prosperity. Wrote Reston:

If the New Deal was experimentation and improvisation on a grand scale, the Great Society was a forehanded attempt to solve economic and social problems before they became critical. Thus, 1965 was a time of "preventative reform." It involved not only the problem of persuading a prosperous people to anticipate trouble, but also experimentation with new economic theories.³

And what were the theories that would lead America to become the Great Society? The theories of John Maynard Keynes. In other words, inflation through deficit spending was to be the key to the program's success and to pave the way for the blizzard of new "purchasing power," Congress removed the 25 per cent gold cover on commercial bank deposits held by the Federal Reserve Banks and the U.S. Treasury stopped making dimes and quarters of silver, substituting instead, nickle-copper "sandwich coins." By 1966, America was ready to fight this "war to end wars" against poverty.

The Situation in 1966

Just how poor was this nation in 1966? Had we not, since the days of the Great Depression, eliminated

poverty in vast amounts simply by allowing relatively free markets to operate within the United States? Or, as the liberal critics had charged, was capitalism actually creating more poverty?

In 1959, according to the U.S. Census Bureau, about 22 per cent of all Americans had incomes which made them officially poor (of course, as any expert on poverty will tell you, there are far more factors in determining poverty than just money income). Among white families, the figure was about 18 per cent, while among blacks it was about 56 per cent.

But by 1966, before the vast majority of poverty-fighting programs had been implemented, the number of officially-poor whites had dropped to 11 per cent, while black poverty declined to about 42 per cent, with an overall estimate of all Americans at about 15 per cent.⁴ Within three years the totals had dropped again, this time to 9.7 per cent for whites, 32.2 per cent for blacks and 12.1 per cent overall.

To the government-paid soldiers in the poverty war, such figures were cause for rejoicing, since they held the assumption that these newly-created federal programs were working. For many persons involved in this Great Crusade, the preliminary statistics to them were proof that by "redistributing" income, organizing neighborhoods and re-

stricting the legal ability of some Americans to discriminate against others, poverty could be eliminated. They had hope in the future; within the next decade poverty could be abolished from this land forever.

But the years from 1966 to 1970 were not peaceful ones in this country. The Vietnam War became increasingly unpopular, especially on college and university campuses, and no doubt that conflict served to raise levels of national tension. The real paradox, however, came in the ghettos and inner cities of Los Angeles, Detroit, Chicago and other metropolises where thousands of black Americans took to the streets in bloody riots. Talk of abolishing poverty did not ease the despair; in fact, as James Reston wrote, it served to heighten it.

It was not that the housing, sanitation, education, and employment of urban Negroes were worse in 1966 than in 1965. They were better; but they were still bad. The difference was that the Negro had been made more aware of his unequal situation. He had been told by his government and his own leaders that poor housing, inferior education, and unemployment were not inevitable, but correctable. Yet they were not corrected; at least not rapidly enough to meet rising Negro expectations. The government's promises of equality, opportunity, a War on Poverty leading to a Great Society, exceeded the performance. The Negro was made aware of his inequality without being relieved of it. Though he

was better off than in 1965, "the full and equal life" the President talked about was now part of the Negro's expectation without being part of his reality.⁵

Seventeen years after Reston wrote those words, the end of poverty in America is not in sight. According to Census Bureau statistics, the percentage of blacks below poverty levels in 1982 was 32.5 per cent, an *increase* from the levels measured in 1969 and, according to those same figures, the white poverty level stands about the same as it did in 1969. Since 1969 the halls of Congress have echoed with calls for "social justice," "redistribution" and the like. "Concerned" citizens have taken to the streets in marches and demonstrations, politicians have passed law after law "guaranteeing" equal opportunities for white and black and the poor, government has subsidized more than *half* the citizens of the United States with transfer payments. But still Leviathan refuses to be tamed and there is every indication that it is growing larger each year.

A Call for More

The new growth of poverty in America has led some to call for even more federal largess, with the reasoning that the need for government aid is even greater today than in the past. Free markets, they declare, cannot meet the growing human need. On the other hand, the reali-

zation that, in the past 13 years, massive federal spending has failed to even budge real poverty levels has forced many former advocates of the Great Society programs to rethink their approaches to the subject.

Explanations for this tragedy abound from blaming indifferent bureaucrats to military spending (which, in reality, *dropped* in real dollars during this period) to recent budget cuts. What few persons have said is that the original plans were flawed at the foundations. For nearly two decades the government of the United States has attempted to alleviate poverty by destroying this nation's basis of wealth, or at least undermining it, and the ominous results should be a warning to future generations on how *not* to help the poor.

As written earlier, the government tried to attack poverty in three ways, the first being transfer payments, the second social activism and the third being passage of equal opportunity laws. An examination of each leg of the triad reveals their fallacies and the problems they cause.

Transfer Payments

Under the concept of transfer payments, which first appeared in this country in the late 1930s in the form of Social Security, poverty was to be alleviated by taking from the haves and giving to the have nots. In fact, it was argued by some economists

that the disparity between rich and poor *was* the cause of poverty. Therefore, they argued, a systematic plan of transfers to counter this "injustice" was needed if the War on Poverty was to be successful.⁶

In the past 20 years our legislators have attempted to do just that. The Census Bureau reports that roughly half of all Americans receive transfer payments from the federal government, some in forms of welfare and food stamp payments, others in form of social security, education grants and the like. In 1960, about 22 per cent of the federal budget was earmarked for payments to individuals. Twenty years later, that percentage had more than doubled to 48 per cent (more than half of that figure went to social security payments). If transfer payments could, as many economists and social planners had insisted, eliminate poverty, then one would have expected to see a drastic fall in poverty levels, not a slight rise as actually occurred between 1969 and 1982.

What, then, is the problem of redistributing income? The first objection is this: transfer payments do not transfer wealth; they only transfer *claims* to wealth. Nor do transfer payments increase actual wealth itself; they can only increase monetary demand. Under Keynesian orthodoxy, increased demand spurred on by transfers or by inflation (which also acts as a transfer of wealth) will

automatically increase the supply of wealth. As we have seen, such a rise in the claim on wealth does not increase supply; it only increases prices. And to make matters worse, those receiving transfer payments fall under the "fixed income" category, which places them at a disadvantage in a period of inflation. Wrote Murray Rothbard:

Inflation, then, confers no general social benefit; instead, it redistributes the wealth in favor of the firstcomers at the expense of the laggards in the race. And inflation is, in effect, a race—to see who can get the new money earliest. The latecomers—the ones stuck with the loss—are often called "fixed-income groups."⁷

Perhaps to a disinterested observer, it would seem that transfer payments are an effective way to fight poverty. After all, when one adds up the dollar value of cash, in-kind payments, subsidies and services available to those in low-income categories, the figures look impressive. When all the "free" benefits are totaled, a family of four may have an income (cash plus available services and subsidies) of more than \$20,000 per year. But beyond all that, one must examine the quality of services available to poverty-aid recipients. A person spending an afternoon waiting at a dilapidated health clinic to seek medical service from a transitory staff of doctors who can't wait for their two-year public health stint to end so they can practice

medicine on their own is not likely to obtain the quality of care that a person seeing a private physician will have. On paper one sees that a poor person has available medical care; the reality, while not officially substandard, shows a different picture.

At Terrible Cost

On paper, the influx of transfer payments to the poor increased their income. Noted one writer: "Startling progress has been made toward eliminating poverty in this country—but at an equally startling cost to taxpayers."⁸ Subsidies were raised, public housing was constructed (using some of the most unattractive and dysfunctional architecture available) and cash payments were increased. But, in all of this, wealth was not created. Income was taken from some and given to others and, when no tax funds were available, government inflated or siphoned funds from capital markets, thus devouring the seed corn of future wealth. In short, the nation overall was becoming poorer (or at least wealthier at a much slower rate of growth) while being deceived by the growing incomes which have been severely eroded by inflation.

The figures bear this out. Until the advent of the Great Society programs and the escalation of the Vietnam War (or "guns and butter"), inflation in the United States was running at an annual rate of be-

tween one and two per cent. By 1966 the rate had climbed above three per cent, a seemingly low figure in this present age of inflation, but certainly a scandal at the time. Prices shot up, housewives picketed supermarkets and unions demanded cost of living allowances (COLA's) in their contracts.

But the domestic price rise was only part of the inflationary tragedy. First, in order to be able to pay for "guns and butter" (guns dominated the headlines but butter dominated the budget) the government debased the dollar by removing the 25 per cent gold cover on bank deposits held by the Federal Reserve. That was bad enough, (in a sense, an admission of bankruptcy) but wishing to preserve the illusion abroad that the Great Society did not imply the Great Debasement, the U.S. Treasury still permitted foreign governments the privilege to buy U.S. gold at the 1933 price of \$35 per ounce. The result, as any monetary expert can recall, was an unprecedented outflow of gold from this country into the treasuries of nations like France who declined to believe the U.S. claim that the dollar was as "good as gold." By August, 1971, claims against our gold far outnumbered our reserves, leading President Richard Nixon to suspend U.S. gold payments and impose wage and price controls here and devalue the dollar overseas.

At this point, in terms of real money, the U.S. Treasury was bankrupt. The message in the marketplace was this: "The U.S. Government cannot afford its welfare system or its vast subsidies given to nearly every special interest group that asked for federal largess."

The "New Economics"

Keynesian theories, known to Americans as the "New Economics," had proven a failure. Like miners who vacate a deep shaft when their caged canary succumbs to the odorless methane gases, so should have Congress and the President abandoned their spending schemes when the dollar collapsed. Instead, the dollar's collapse ignited an unprecedented orgy of federal welfare spending. In constant dollars, federal spending for individuals increased by more than 60 per cent in the decade following the monetary disasters of 1971. While inflation increased at unprecedented levels following the 1971 devaluation, Congress continually voted to increase spending at rates above inflation, "so the poor won't be hurt by rising prices."

But the poor *were* hurt by inflation and, in fact, suffered far more than the well-paid civil servants who administered the poverty programs. And the poor suffered in other ways as well, ways which were invisible to most other Americans. Many of

America's poor, and especially poor blacks, became underclass victims of federal dependency. Welfare advocates had assumed that by simply giving the poor more money, medical care and housing services, the government could eliminate not only the results of poverty but the causes as well.

However, there is a time-honored principle one must follow in dealing with cultures and subcultures: One cannot simply change one aspect of a society, for traditions (and markets) have a way of filling the void.⁹ So it was with America's poor. Social planners had eliminated some of the stigma of being poor by providing tax-supported benefits to the needy, but in the process of eliminating one incentive to climb from the depths of poverty, the bureaucrats eliminated the "carrot" as well. As many poor persons have discovered, one can do better financially by receiving federal benefits for *not* working than by accepting low-wage, entry-level jobs that in the long run may train workers for better careers in the future but in the short term do not pay much above subsistence. Under this country's welfare system, it is to the short-term advantage of the poor not to work. However, they, not to mention taxpaying Americans, must bear the brunt of such policies in the long run.

For example, housing projects that seemed clean and bright 20 years ago

are dirty and rundown today. Three and four generations of families dependent upon transfer payments like AFDC and food stamps crowd into these tax-supported slums where rates of crime, divorce and teenage pregnancy are at historic highs. On the outside restrictive government policies like minimum wage and licensing prevent many poor persons from moving into entry-level jobs that might promise them a successful future.¹⁰ In short, the causes of poverty not only remain under the welfare system; they are nurtured by it as well.

An Overwhelming Bloc of Voters

But transfers have not confined their damage to only the poor. As with many other government programs, many middle-class Americans have found their way onto the dole. In fact, if one includes social security as welfare, it can be argued that more transfer and subsidy money actually finds its way to the middle and upper-classes of the United States than to the needy and destitute. After all, the poor may have their housing subsidies in the form of grimy, rundown projects while the middle class receiving government housing money can spend it on a private home or a nice penthouse in a highrise.

The net result of so much federal largess to so many people is that a large political constituency (that

votes in great numbers) of persons on the government dole now has a substantial say in the governing of America. In short, the transfer-receiving majority can dictate to the tax-paying minority what kind of benefits it wants and how much is to be paid them.

When Congress first approved transfer payments en masse in the mid-1960s, few of the pro-welfare legislators imagined that transfers would grow to a point of crowding out other priorities in the budget process, like paying for needed road and bridge repair. Transfers were to be a temporary bridge to the Great Society; instead, they have gyrated out of control and their constituency is so strong that it is doubtful American politicians can muster the needed courage to bring them into line.

Social Activism

Spending money in the form of vast transfer payments was not the only high-level strategy in Washington's poverty war. By organizing the nation's poor into active political cells, the poverty fighters assumed that poor persons—and especially the blacks—would acquire a new awareness of their social, political and economic "rights" and demand proper treatment from businessmen and politicians. Within a few years of the passage of social legislation like the Civil Rights Act and the

Voting Rights Act federal funds found their way into the coffers of such organizations as the Black Panthers and revolutionary factions under the umbrella of the National Council of Churches. At the same time, VISTA "volunteers" (actually they were paid a small stipend) were organizing demonstrations against strip mining in the Kentucky hills while consumer groups and social engineering organizations like Family Planning and Legal Services Corporation, all receiving taxpayer funds, initiated an avalanche of litigation to enlist the court system as the vehicle for changing the "priorities" of this nation.

But, as the census figures point out, poverty is still as prevalent as ever. The Black Panthers may have garnered attention for themselves and the black community they supposedly represented; they may have been successful in providing free breakfasts for black children in Oakland (along with giving them a dose of revolutionary rhetoric); they may have been successful in inciting riots in which people lost their homes, businesses—and some their lives.

But the Panthers, who as an organization deteriorated into a horror story of murders and prison terms,¹¹ could not make a real dent into black poverty rates. The problem with their approach—and it is the approach of nearly every left-of-center social organization—is that

they view the poor, and especially poor blacks, simply as victims of rich, white male oppressors. Overthrow (or at least inconvenience) the oppressors, and the poor can have the high standard of living that is rightfully theirs.

Yet, when analyzed, the rhetoric of these activists is simply this: "Take away the wealth of the rich (or, more likely, destroy it) and the poor will have a better standard of living." But is this logical? Does a society in general become richer when its production of wealth remains static or declines? The obvious reply is no.

Nor did these social activist groups create much wealth on their own, for their efforts were mostly aimed at organizing poor people into a political constituency that would seek benefits from Congress through the transfer process. A few VISTA employees might have painted some houses in the ghetto while some other groups might have taught some illiterate poor persons how to read, but the main thrust of the social activism was to change the U.S. economy from one based on private property and economic freedom to one based upon government fiat. In this, they were partially successful; this "success," however, failed to lift the poor en masse from their destitution.

The third leg of the Great Society was the passage of numerous laws that would supposedly gain equal social, political and economic oppor-

tunities for the poor and minorities. And, in one sense, some of these laws had a minimum of success. For example, the obvious facets of racial discrimination such as segregated restrooms, lunch counters and the like have largely disappeared from the national scene. Those persons who believe in the concept of "created equal," and desire individual freedom for all, no doubt can be heartened by this fact.

Equal Opportunity Laws

But the flurry of civil rights and equal opportunity legislation also increased the power of the federal government not only over state and local governments but over the individual as well. Property rights, which are an important aspect of an order of political and economic freedom, were targeted as a major stumbling block to equality.

And with the power of the government to interfere with the private property order increased by equal rights legislation, it became easier for other laws restricting one's property rights to be passed by Congress. For example, in my state of Tennessee a few years ago the federal government deprived numerous landowners of their property rights in order to construct a dam and surrounding industrial park (ostensibly to help the free enterprise system), along with building a planned town from scratch. Nearly five years after

completion of the project, and after many of the landowners were either financially ruined or severely inconvenienced by the government's actions, the lake lies by itself. There is no industrial park and the planned town was abandoned before the first brick was laid. The net cost to both taxpayers and consumers has been calculated in the hundreds of millions of dollars.

Because the lines between property rights and government power were blurred during the Great Society era, fiscal fiascos like the one described above have become commonplace in our nation. Because one group of people may receive certain benefits from government action (in the case above, people in surrounding areas were given a "free" recreational lake) it is assumed that everyone benefits.

That assumption, however, is false. Even in the area of equal opportunity laws, there are winners and losers. Take affirmative action and quota regulations, for example. It is commonly assumed that such laws benefit minorities as a whole, but on closer analysis, it is discovered that while quotas may abound for blacks, Hispanics and women in higher-skilled professions that are highly-visible in our society, they are effectively non-existent in the low-skilled industries. This is not because there is more racial or sex discrimination in those low-skilled occupations, but

rather because it is virtually impossible for government bureaucrats to supervise *every* job opening that occurs in this nation. Affirmative action laws, then, benefit those persons who already have the skills and opportunities to compete for the more visible, higher-paying jobs. Those same laws do nothing for the poor but give empty promises.

And, to study the bottom line in alleviating poverty, the equal opportunity legislation failed to increase overall wealth in this nation. Instead, the laws depended on the wealth- and job-destroying transfer process while providing employment opportunities for middle- and upper-class persons involved in promoting and implementing such laws. When the transfer process failed, all that remained were tax-supported jobs for the rich and despair for the poor.

Conclusion

Since the advent of the Great Society two decades ago, we have seen enough money spent to make every poor man, woman and child in this nation an independently wealthy person, yet poverty remains. We are no closer to abolishing destitution today than when President Johnson told that cheering crowd of Congressmen that he had declared "unconditional war" on poverty.

The collective efforts of millions of poverty fighters and activists and

millions of dollars spent failed because the majority of Congressmen and social planners did not understand that poverty is eliminated only when wealth is created, not when it is destroyed. Nor did they understand that people do not rise from poverty en masse. In this century we witnessed the rise of destitute immigrants to a status of wealth in this nation, from the impoverished Scandinavians (like my own ancestors) who came to the Midwest and built great farms and cities to the Jews who at the turn of the century were crowded into the tenement districts of New York City but later built great financial empires, even in the midst of abuse and discrimination. They left poverty not all at once but individual by individual, family by family. There was no poverty program to ease their sufferings (which were many); they had only the right to go into business and make a profit if they could so manage or to work for others at mutually agreed-upon wages.

That story has not changed. George Gilder in his popular *Wealth and Poverty* points out the paths different immigrant families took in this

nation in the past 15 years that led them from being poor to financial security. The vehicle was economic freedom and it is the best anti-poverty program available to the poor today. ☉

—FOOTNOTES—

¹One can lay this figure directly at the feet of government, which has undercut job prospects for black youths by minimum wage laws and has driven businesses from the inner city by punitive taxes and regulations.

²See James B. Reston, "Focus on the Nation," *The World Book Yearbook*, 1966, pp. 22-27.

³Reston, pp. 25-26.

⁴All Census material is taken from the *Statistical Abstract of the United States—1980*.

⁵James B. Reston, "Focus on the Nation," *The World Book Yearbook*, 1967, p. 22.

⁶In this case, economists have neatly inverted cause and effect.

⁷Murray N. Rothbard, *What Has Government Done to Our Money?* (Colorado Springs, 1964), p. 28.

⁸Kenneth Y. Tomlinson, "We Can Clean Up the Welfare Mess," *Reader's Digest*, April, 1980, p. 83.

⁹See Gary North, "Cut-Throat Opportunities," *The Freeman*, June, 1982, pp. 354-356.

¹⁰For more detailed study on this problem, read Walter Williams, *The State Against Blacks* (McGraw-Hill).

¹¹For an exposé of Panther violence, see Kate Coleman and Paul Avery, "The Party's Over," *New Times*, July 10, 1978, pp. 22-47.

A Journalist's Journey

VERMONT ROYSTER, the long-time editor of the *Wall Street Journal*, calls his fascinating autobiography *My Own, My Country's Time: A Journalist's Journey* (Chapel Hill, N.C.: Algonquin Books, 351 pp., \$18.50). He should have added that it is also the full and quite definitive story of the transformation of a rather parochial financial sheet into a great national newspaper.

Royster (who is Roy to his friends) keeps the personal note throughout his tale, giving it a flavor of "country boy makes good." Roy came to Washington, D.C., in the middle Nineteen Thirties from a rather sleepy North Carolina. He was willing, at the outset, to take Franklin Roosevelt on trust. But the country boy learned quickly that welfare, though he still thinks it was necessary in the context of the Thirties, was not enough. Bill Grimes, who

preceded Royster both as editor and conductor of the column "Thinking Things Over," distrusted any "easy money" policy, and his worries were contagious. Roy was not one of those country boys who could be sold the Brooklyn Bridge, and he found himself in a shop generally run by canny country boys who had not grown up in parochial Wall Street.

Barney Gilgore, a few years older than Royster, was from De Pauw University in Indiana. It was Gilgore who, keeping track of modern electronics and the useful presence of deflecting satellites in the sky, thought the *Journal* could be published simultaneously in cities all across America. With its left side and right side "leader" stories of general import dominating a national page, and with a strong pro-free enterprise editorial page, a nationally distributed *Wall Street Journal* could

do battle with the *New York Times* and the *Washington Post* and their ubiquitous news services. Gilgore could not immediately make his vision plain to his colleagues, but it eventually began to sink in. By the time the technological difficulties of printing identical copy for morning distribution in New York, San Francisco, Chicago and elsewhere were solved, the staff was ready.

Working with William H. Grimes

Royster tells the story of a team effort with objectivity. But there was the matter of office politics, too, which was harder to be objective about. The man behind the editor's desk, William Henry Grimes, could be incalculable, sometimes in a most disconcerting way. As Roy puts it, for "twenty-two years" Grimes was his "patron, guide, irritant, teacher, obstacle, and friend." Grimes would sometimes kill pieces for reasons that were hard to explain. Just before the 1948 election Roy wrote that "by all the polls and portents, Thomas E. Dewey will be the next President of the United States. But it's hard to see why." Grimes refused to print the piece because it was based on Royster's "personal feelings." If it had been printed, it would have stood out as a prophetic omen. Royster had actually based his piece on more than a personal subjective feeling. He had taken his mother to a Dewey rally in Madison Square Garden.

"That man can't win," said his mother, "this was supposed to be a victory rally and there was almost no excitement when Dewey entered and spoke."

Later, when Royster expanded a policy of printing theater, music, art and book pieces on the editorial pages, he had more trouble with Bill Grimes, who thought the arts reviews were a "waste of space." He would not let the word "homosexual" be printed even in a review of a play about the problem.

Roy could forgive Grimes his curmudgeonly aspects, which could take amusing turns. (When I was working at the *Journal* I heard Grimes say that if anyone called him a senior citizen, he'd hit him with his crutch.) But Grimes really outraged Roy when, after bringing him up from Washington to run the editorial page, he inserted Buren McCormack over him as "senior associate editor." This seemed to Roy to be a breach of faith. It was a long time before he got over it. Grimes, of course, did not mean to reflect on Royster's work by his move. He was just trying to find a place for McCormack and thought Royster would understand.

More important for the long run was Grimes' impact as a guide and teacher. Roy had come to the *Journal* with a fine classical background. He had gone to a school in Tennessee that drilled its students in the

advanced Greek and Latin classics. Little attention was paid to "social studies" or anything of a "frill" nature. Once in college, at Chapel Hill, Royster coasted to a Phi Beta Kappa rank on the basis of what he already knew about Homer and Virgil. He had only one course in economics.


On the *Journal* he had to get this subject up for himself, by absorption from Grimes or his own reading. When he suspected that "easy money," as Grimes had predicted, would loosen the moral fabric of society, Royster read Keynes' *General Theory* for himself to find out what "government investment" was all about. He found Keynes hard going. To round out his understanding, Roy then turned to Friedrich Hayek and Ludwig von Mises. He found Mises hard going, too, but he was convinced by the ultimate clarity of the Austrian school.

Politics and War

There is much more to this autobiography than the story of the *Journal's* development and the account of one editor's efforts to beat the competition for the job of running the editorial page show. Even in the middle of office work Royster insisted on going to the national conventions and covering the whole political scene. His book gives us canny ratings of all the presidents and near presidents since Hoover's day.

Surprisingly, he gives Eisenhower the strongest of his accolades. In the Fifties, when he was forced to deal with the Eisenhower Administration on a day-to-day basis, Royster lamented that the placid Ike never gave him anything exciting to write about. But, looking back, Royster has decided that Eisenhower's ability to get us out of one war and his record of keeping us from getting into any other are the marks of a master of foreign policy. He also gives Eisenhower full credit for letting us digest past inflations.

The five years of World War II forced Royster to go to sea (he had enlisted in the naval reserve, and, though he had a wife and child to support, he would have felt unpatriotic to ask for a deferment). At the war's end he was captain of a destroyer hovering off the ruined Japanese port of Nagasaki. Along with most of his mates he was happy that Truman had used the atomic bomb to end the war. We had already made the decision to invade Japan, and the navy would have had to play a dangerous role in getting our troops ashore.

Royster came home to a wife and two children (one of whom had been born during the war) who hardly knew him. But he picked up the threads of domesticity quickly. One of the pleasurable things about this book is that it is the chronicle of a lifelong happy marriage. 

**AMERICAN POLITICAL WRITING
DURING THE FOUNDING ERA:
1760-1805**

Edited by Charles S. Hyneman and
Donald S. Lutz

(Liberty Press, 7440 North Shadeland,
Indianapolis, Indiana 46250), 1983

2 volumes: volume I, 704 + viii pages;
volume II, 713 + xii pages

\$28.50 set cloth; \$13.50 paperback

Reviewed by Clarence B. Carson

MEN of the founding era of the United States had apparently never heard that it is futile to reason with people, that minds are not changed by reason. Or, if they had, they must have rejected the notion out of hand as being ridiculous. In any case, those of that era who have left written records leave little doubt of their belief in the effectiveness of reason. For reason they did: on government, on the state, on society, on religion, on liberty, and about the affairs of men. Of course, the 18th century is sometimes referred to as the Age of Reason, a title some would apply with equal aptness to the 17th. The truth is that the men of the founding era were at the peak of a long trend toward increasing confidence in reason. But however all that may be, one of the considerable benefits of reading their thought is to make junction with men who believed in reason as our primary, if not on-

ly, means of arriving at some truth.

Although the two volumes in hand run to more than 1400 rather large pages, they are only a sampling of the extant political writing from the period. By design, the editors excluded all private materials, such as letters, diaries, and journals. In general, too, they excluded public documents, such as the resolutions of the Stamp Act Congress, the Declaration of Independence, all constitutions, and the like. In addition, some of the better known political writers and commentators of the period are missing, such as John Dickinson, Thomas Jefferson, Alexander Hamilton, Richard Henry Lee, George Mason, and John Marshall. There is a brief selection from Benjamin Franklin, a little longer one from John Adams, and a memorial in which James Madison had a hand. None of *The Federalist Papers* are included. In general, these omissions were intentional. The editors had in mind to make available in book form the best of the political writings that were published in that day but are not now generally accessible. Thus, though the present reviewer has read and studied extensively in the literature of the period, there are selections from many writers of whom he has never heard, for example, Thomas Bradbury, Zabdiel Adams, Gad Hitchcock, and Levi Hart. Only a very few people would be rewarded who bought these books

in the expectation of finding selections from their favorite authors.

Yet there is good fare here, especially for those who like meat and potatoes rather than salads, rich desserts, and frothy beverages in their reading diet. Some of the selections are deep; none of them are shallow. Most are not so abstruse as the piece by John Perkins called "Well-Wisher to Mankind," which deals closely with the doctrines of predestination and foreordination to arrive at the view that we do act freely by taking thought. Simeon Howard, in "A Sermon Preached to the Ancient and Honorable Artillery Company in Boston" in 1773, gives a very lucid definition of liberty. He says, "I mean by it here, only that liberty which is opposed to external force and constraint, and to such force and constraint only, as we may suffer from men." In a state of society under government, he continues, they have "all that natural liberty . . . , excepting what they have expressly given up for the good of the whole society. . . ." He provides a justification for war in a Christian context, also, which many would do well to consider today. He points out that "it is only defensive war that can be justified in the sight of God. When no injury is offered us, we have no right to molest others." However, "When others have sufficiently manifested an injurious or hostile intention. . . , we may, in order to

avoid the blow they are meditating against us, begin the assault."

Indeed, there are a goodly number of valuable selections. John Leland's essay, titled "Jack Nips," reminds us of the role of the Baptists in pressing for religious freedom. His careful distinction between sin and crime would repay the reading of it by a general audience. Noah Webster's "An Oration on the Anniversary of the Declaration of Independence" is especially important for his careful analysis of the political language of the day. His observations on equality are particularly instructive. "That one man in a state," he notes, "has as good a right as another to his life, limbs, reputation and property, is a proposition that no man will dispute. Nor will it be denied that each member of a society . . . has an equal right to protection. But if by *equality*, writers understand an equal right to distinction, and influence; or if they understand an equal share of talents and bodily powers; in these senses, all men are *not* equal." Several writers emphasize, along with Webster, the importance of reputation and the legal protection of individuals from libel and falsehoods about them. There was apparently a widely held view that reputation, or a good name, was indeed valuable property deserving protection along with other species of property.

The editors have performed a useful service in putting together this

collection of essays. They have made available much material which was not heretofore to be had in any one place in the country. The selections not only reinforce what we already knew about this period but also bring out some things that were not generally known. I was surprised to discover as many references to "utopian" schemes, for, while I was aware that men of that time would have generally deplored them, I did not know that the word was so well known among literate people then. It is worth noting, too, that not only was the revolutionary era in our history a time of great fertility in political thought, there was also a great willingness to explore the possibilities in a variety of directions and to learn from experience. The conclusions which they reached, too, speak well for their commitment to the use of reason. ☉

THE MYSTERY OF BANKING

by Murray N. Rothbard

(Richardson & Snyder, 25 Broad Street,
New York, N.Y. 10004), 1983

286 pages ■ \$19.95 cloth

Reviewed by Brian Summers

THIS book is an introduction to the fractional reserve banking system, its history and its consequences. The approach is straightforward, with

each chapter building upon previous chapters, much in the manner of an introductory course in money and banking.

Professor Rothbard begins by examining the origins of money and how individual prices are determined by supply and demand. The text is easy to follow, although some readers might be more comfortable with fewer supply and demand curves. The professor completes his introductory remarks by showing how the supply and demand for money determine the general level of prices.

Turning to the theory of banking, Rothbard distinguishes between loan banking and deposit banking. The hallmark of a loan is that the money is due on some agreed-upon date, and the debtor pays the creditor interest. But a deposit is almost the exact opposite. In this case, the bank must pay on demand—whenever the depositor presents his receipt. No interest is paid; in fact the depositor may pay the bank to safeguard his valuables.

Unfortunately, these two banking functions have become commingled, so that banks can engage in credit expansion via fractional reserves. Credit expansion is held in check when banks are free to compete with one another because bankers must maintain reserves so that competing banks can redeem their notes. With the advent of central banking, how-

ever, the last market check on credit expansion was abolished.

In the last third of this book Professor Rothbard surveys the history of central banking in England and the United States. He shows how central banking was politically imposed on these nations, with the resulting inflations, instability, and depressions which have plagued the Western world for more than a century.

Rothbard concludes by proposing that the dollar once again be tied to gold, and the Federal Reserve System be abolished. In today's political climate, such proposals receive scant attention. But as foreign debts pile up and the fractional reserve banking system grows ever shakier, events may compel us to return to the discipline of a market-determined money. ☉

THE ORIGINAL MCGUFFEY'S

by William Holmes McGuffey
(Mott Media, 1000 East Huron, Milford,
Michigan 48042), 1982
7 volumes ■ \$69.95 set

Reviewed by Robert A. Peterson

For many years McGuffey's *Readers* have charmed nostalgia buffs and have provided solid academic fare for a few traditional educators. The McGuffey's *Readers* that were available, however, were later editions,

the most recent being the 1920 revision. Now Mott Media, an aggressive publishing company in Michigan, has come forth with the original 1836 edition—and none too soon, in the light of the continued decline of education in America.

William Holmes McGuffey, often referred to as "The Schoolmaster of the Nation," was born on the Ohio frontier on September 23, 1800. Young McGuffey received a "liberal education in the way of chores" (as one of his *Readers* later put it) and found little time and less money for formal schooling. McGuffey's desire to learn was so intense, however, that his parents saw to it that he was able to gain admittance to Washington College in Pennsylvania.

Unable to afford the textbooks necessary for his college classes, McGuffey borrowed copies from friends or the library and copied them out in longhand. In later years, when McGuffey compiled his *Readers*, more than one story was based on the theme of a poor boy working his way to the top through determination and persistence. As one story in the Fourth Reader later pointed out, "The best seminary of learning that can open its portals to you can do no more than to afford you the opportunity of instruction. It must depend, at last on yourselves, whether you will be instructed or not, or to what point you will push your instruction." (238)

Impressed with his desire to learn

and his already substantial attainments in classical languages, Rev. Robert Bishop, president of Miami University in Ohio, offered McGuffey the chair of classics at the frontier college. At Miami, McGuffey taught during the day and studied for the ministry in the evening. In 1829 he was ordained as a Presbyterian minister. McGuffey filled pulpits in rural churches surrounding Miami, and preached periodically in the college chapel. It was through his *Readers*, however, that McGuffey preached to the nation. The *Readers* were published in 1836. Later editions were published by his brother Andrew. Eventually, through successive editions, McGuffey's Scotch Presbyterian values were diluted by Unitarian influences.

Mott Media's reprinting of the original *McGuffey's Readers* captures the true letter and spirit of the stories as selected by the old schoolmaster himself. The *Readers* are sprinkled with selections from the Bible. (In McGuffey's day, the Supreme Court had not yet discovered that the curriculum of America's local schools was within its area of jurisdiction.)

McGuffey's Readers also contain stories about great men, holding them up to schoolchildren as an example to follow. The late Dr. Max Rafferty once said that today's history teachers "debunk the hero, and elevate the jerk." Men like John


Lennon are given a prominent place in history while George Washington, who served without pay during the War for Independence, is accused of padding his expense account. The problem with this teaching method is twofold. First, it leaves children with no models after which to pattern their lives. Second, it is usually historically inaccurate. The character sketches in *McGuffey's Readers*, however, give young people ideals towards which to work. Even if children never attain the stature of a Washington or a Webster, at least they have been challenged. A crooked furrow is better than none at all.

McGuffey's intention was for the *Readers* to produce young adults who displayed self-government under God. The values taught in the *Readers*, if followed by a substantial number of citizens, would lead to limited, constitutional government in which "virtue," as our Founding Fathers would have it, not force, would maintain order.

Like many great books, *McGuffey's Readers* will do little good unless ways are found to use them in educating today's youth. My own experience in using *McGuffey's Readers* in the classroom convinces me that students would much rather read these timeless stories than the sterile "Dick and Jane" genre of the past generation. The fact that the *Readers* contain so many selections

from the Bible will undoubtedly make it difficult for them to be adopted by local school boards and textbook selection committees. Despite this "shortcoming," there are, however, several ways in which the *Readers* could be used. Teachers can use them in a Reading Enrichment Program. When students finish their required reading, they could read McGuffey. Teachers can often purchase materials like this (they are tax-deductible) without having to get permission. Sets can also be donated to school and public libraries. History teachers can use the books to illustrate 19th century values and how they laid the philosophical basis for free enterprise—suggesting that these values are still relevant

today. Private schools, particularly those in the rapidly growing Christian school movement, will be able to incorporate them into their curriculum. One textbook publishing company, A Beka Books based in Pensacola, Florida, has taken stories from *McGuffey's Readers* and placed them in its elementary curriculum. *The New McGuffey's Readers*, as A Beka styles them, are being used with success in many private Christian schools.

Finally, parents should have a set in their own homes. Here, *McGuffey's Readers* will provide a necessary supplement to the morally and intellectually anemic fare being offered up by today's educational establishment. 

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On Minding One's Own Business— A Page on Freedom	William Graham Sumner	67
We best help others by attending to our own affairs.		
Big Lessons for a Little Boy	Dennis L. Peterson	68
A youngster learns the principles of labor and management.		
The Secret of Swiss Prosperity	Dean Russell	74
Prosperity occurs when there is a favorable economic and political climate.		
Evading the Issue	Clarence B. Carson	84
How Marx and Freud have contributed to the breakdown of reason.		
Equality, Justice, and Liberty	John K. Williams	89
How friends of freedom may reclaim terms the socialists had usurped.		
Live Long and Prosper	Ernest G. Ross	100
Concerning the individual's right to grow older at his own expense.		
Ideological Roots of Unionism	Hans F. Sennholz	107
The political power of labor unions traces back to the misconceptions of early economists.		
Capitalism and Human Nature	Richard H. Crum	121
The vital difference between competitive enterprise and the welfare state.		
Book Review:		126
"Bernard Baruch: The Adventures of a Wall Street Legend" by James Grant		

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On Minding One's Own Business

I HAVE SAID that we have an empirical political economy and social science to fit the distortions of our society. The test of empiricism in this matter is the attitude which one takes up toward *laissez faire*. It no doubt wounds the vanity of a philosopher who is just ready with a new solution of the universe to be told to mind his own business. So he goes on to tell us that if we think that we shall, by being let alone, attain to perfect happiness on earth, we are mistaken. The half-way men—the professorial socialists—join him. They solemnly shake their heads, and tell us that he is right—that letting us alone will never secure us perfect happiness. Under all this lies the familiar logical fallacy, never expressed, but really the point of the whole, that we *shall* get perfect happiness if we put ourselves in the hands of the world-reformer.

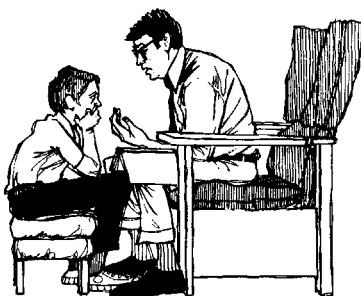
We never supposed that *laissez faire*

would give us perfect happiness. We have left perfect happiness entirely out of our account. If the social doctors will mind their own business, we shall have no troubles but what belong to Nature. Those we will endure or combat as we can. What we desire is, that the friends of humanity should cease to add to them. Our disposition toward the ills which our fellow-man inflicts on us through malice or meddling is quite different from our disposition toward the ills which are inherent in the conditions of human life.

To mind one's own business is a purely negative and unproductive injunction, but, taking social matters as they are just now, it is a sociological principle of the first importance. There might be developed a grand philosophy on the basis of minding one's own business. ☉

—William Graham Sumner

BIG LESSONS FOR A LITTLE BOY



LABOR DISPUTES are occurring somewhere in the nation almost constantly. One can read or hear about some type of dispute somewhere on almost any given day. If railworkers or garbage collectors are not on strike, hospital workers or teachers are. Some group is always striking, walking out, sitting down, or threatening to do one or more of these things.

Much of this conflict could be eliminated by following principles of good labor-management relations. Whether one is an employee or an employer is insignificant, for the principles remain the same for both.

My father, a self-employed brick mason, realized the importance of

such principles and tried to teach them to me. From the time I was big enough to cause trouble for my mother at home until I left for college, he insisted that I go to work with him. It was on the job that he began teaching me the common-sense principles of labor and management.

While other kids were playing on Saturdays and during summer vacations, I was mixing mortar, carrying bricks, rodding joints, and building or removing scaffolding for my father. I certainly did not enjoy the work at the time, but it taught me many valuable lessons. I frequently recall them and wonder where organized labor would be if we all followed those simple principles.

First, let us look at a few princi-

Mr. Peterson of East Greenville, Pennsylvania, is a free-lance writer interested in studying and explaining the benefits of the free market.

ples dealing with the responsibilities of employees to their employers.

Use Time Wisely

Wasting time on the job is a common complaint made of many workers. When an employee uses the boss's time wisely, he helps not only the boss but also himself.

My father taught me to never be found sitting down on the job. If I completed an assigned task and was caught "loafing around," he quickly gave me another assignment. I remember cleaning out his cluttered toolbox countless times when there was "nothing to do."

When there is no incentive to work hard, such as in the case of hourly workers, there is often a tendency to do as little as possible and to waste time. Why should one go out of his way to find more work when he gets paid the same hourly wage for doing as little as possible?

For this reason, my father seldom paid his workers by the hour. Instead, he paid by piece-work: the more bricks or blocks we helped him lay, the more money we earned.

As a little boy, I remember working for twenty-five cents per hundred bricks. I could only carry three bricks at a time, but I kept an almost hourly account of the money I was making. I counted how many bricks I carried and compared that number with how many Dad was laying. It made me work harder and

helped Dad complete his jobs faster.

Samuel Smiles wrote in *Thrift*, "It is the idler, above all others, who is undignified and dishonorable. No idle or thriftless man ever became great. It is among those who never lost a moment that we find the men who have moved and advanced the world."

Be Loyal and Obedient

Today's workers are transient creatures. Few of us stay at the same job for any great length of time. Whenever we hear of a worker retiring after twenty or thirty years with the same company, we are amazed. A constant shifting of jobs often results in a lack of loyalty.

Staying with the same job for many years creates in a worker a sense of pride in his job and in his employer. Athletes would call it team spirit. Soldiers would call it company morale. Without such loyalty, it is easier for disobedience and disrespect to occur.

My father has worked as a self-employed mason for over twenty-five years. Most of that time he has worked for the same contractors. He has been consistent in his pricing, attendance, and work quality. During that time, however, he has had many different employees. Although many of them were good workers who retired or young workers who advanced to better jobs, others were simply job-hoppers. They wanted good pay for little effort. They

did not want to show up on time. They wanted to quit early. The workers who worked for Dad longest were also the most respectful, most obedient, and most diligent. Their years of work gained them not only a good income but also a good reputation.

John Ruskin once said, "The highest reward for man's toil is not what he gets for it but what he becomes by it."

Do Your Best

"An honest day's work for an honest day's pay" used to be an unwritten motto of American laborers. A return to this philosophy would do wonders for the U. S. economy.

But honesty in labor goes far beyond hard work in return for a wage. It encompasses quality, truth in advertising, and a desire to do one's best.

In recent years, the quality of foreign products has surpassed that of American manufactured goods. Whereas the stamp "Made in Japan" used to be synonymous with "shoddy," the opposite is true today. Consumers know this and are buying the high-quality foreign products. In response, American industry has attempted to restore confidence in the quality of its goods by advertising a return to quality.

Are American factories really improving in quality as a result of their advertised quality-consciousness?

For the answer, at least in the automobile industry, study the "incidence of repair" charts in the automobile issue of the latest consumer magazine. The Japanese do not talk quality; they produce it. Americans, however, have developed a reputation for talking it but seldom producing it.

The root of America's lack of quality can be traced to the individual workers' attitudes and daily efforts. To try to get away with producing poor quality products while advertising quality is less than honest.

I vividly remember my father teaching me to rod joints. He emphasized the importance of getting them smooth and straight. He warned of rodding them before they had had a chance to dry and of letting them get too hard. Despite these admonitions, I would sometimes try to finish early, making an unsightly mess on the bricks, or I procrastinated, making dark, ugly marks in the joints. It took a while for me, childlike as I was, to realize that my ineptness and procrastination or hastiness could affect my father's reputation as a mason.

Many workers have the idea that they have fulfilled their obligation if their production is good enough to get by. "That's good enough for government work," I've heard some say, implying that government employees are frequently guilty of this attitude.

Samuel Smiles pointed out the danger of this attitude when he wrote in *Thrift*, "It will do!" is a common phrase of those who neglect little things. 'It will do!' has blighted many a character, sunk many a ship, burned down many a house, and irretrievably ruined thousands of hopeful projects of human good. It always means stopping short of the right thing. It is a makeshift. It is a failure and defeat."

The old Newport-News Shipbuilding and Dry Dock Company, prior to being taken over by Tenneco, tried to combat the "It will do!" mentality. Their slogan was, "We shall build good ships here—at a profit if we can, at a loss if we must—but always good ships."

Be Patient

The present generation of American workers has grown up in an "instant" age. We have instant coffee, instant tea, instant potatoes, instant winners, and instant pain relief. We have become so accustomed to receiving everything "instantly" that we have great difficulty waiting for anything.

When workers today want a wage increase, improved working conditions, or an additional benefit, they are too impatient to make known their desires and then wait for the employer to study it and eventually "get around to it." Instead, they present "demands" and an ultima-

tum. They expect instant compliance or they will initiate a work slowdown or go on strike.

They fail to realize that perhaps the employer sees a problem in their demands that could be solved in time but which will only complicate matters if the demands are granted immediately. They fail to recognize what their belligerence is doing to their reputations as employees or the harm they are doing to young people soon to enter the labor market. They are actually developing a subconscious association with their employer as an adversary rather than as the co-laborer he is.

What if an employee has a legitimate complaint against the employer? The employee should diplomatically let his views be known, suggest changes that need to be initiated, and then patiently wait for results.

What if the employer continues the undesirable action or refuses to make the suggested changes? The employee then has several choices. He can "grin and bear it," ignoring the problem and continuing as though there is no difficulty. He can once more approach the employer, repeat his opinions and suggestions in a more convincing but still civilized manner, and give more time for the changes to be incorporated. Or he can exercise the most valuable right of any free worker: he can resign and search for a position where the con-

ditions, wages, benefits, and the like, are more in keeping with his needs and desires.

Most people are generally reasonable creatures, even bosses—if approached in the right manner and with the right attitude. Any who are not reasonable in the face of such an approach will soon realize their error when workers begin to go elsewhere for employment.

The workers, however, must be patient with their bosses, good ones and bad ones alike. Employers also have responsibilities to their workers. The principles that make for a successful labor-management situation are built on a two-way street.

Deal Justly

Justice is a very broad subject when it comes to labor. It involves not only the proper payment for work done but also the general manner in which one treats employees.

The phrase “an honest day’s work for an honest day’s pay” applies to employers as well as to employees. If one expects to obtain quality work he must be willing to reward the laborer.

It should go without saying that the wage one receives should be the wage agreed upon before the work began. But how often do disputes arise over the agreed-upon price *after* the job has been completed?

What should employers do when workers present complaints over

wages, hours, benefits, or conditions? Deal justly. Listen to the complaints, try to understand the workers’ viewpoints, and, if possible, do something to alleviate or reconcile the problem. He, as well as the workers, is to be patient.

Pay Promptly

An employer has an obligation not only to pay his workers *properly* but also to pay them *promptly*. The agreed-upon payday might be daily, weekly, biweekly, monthly, upon completion of the job, or a variety of other times. Regardless of the method agreed upon, pay must be given promptly at the designated time.

I remember several times when my father would wait several months for a paycheck to come in payment for a job completed. He would have to call, pester, and almost beg to get payment from the contractor. The contractor, who had received what he wanted, seemed in no hurry to fulfill his end of the bargain. To say the least, he was not one of Dad’s favorite accounts.

Don’t Threaten

Some employers are very hasty to tell employees what will happen if things are not done “according to Hoyle.” The sole incentive for workers becomes keeping their jobs or avoiding penalties. The whip is constantly being cracked just above the workers’ backs. The boss yells and

demands and threatens and snarls.

Under such circumstances, the newly-hired, timid, or dull workers will "knuckle under" to these threats. The others, however, will begin to develop a negative attitude not only toward their boss but also toward their work itself. They will soon answer threat with threat and snarl with snarl. The quality of their work will suffer. Their demands will increase. Job dissatisfaction will spread like a cancer.

One employer and his supervisors tried to "encourage" loyalty and quality by threatening. Workers were repeatedly fed a diet of threats, criticism, and negativism. It seemed, to listen only to the boss, that no worker could do the job right. Whenever someone offered constructive criticism or suggested a different approach to improving job quality, they were told, "If you can't take the heat, get out of the kitchen." The re-

sult: mass resignation. The workers got out of the kitchen. And what of job quality and loyalty? It was worse than ever.

There is a place for threats and negative action in labor relations. In fact, some workers deserve more of it. But generally a more reasonable and positive approach will work better.

These principles of labor and management are very simple yet so infrequently applied. If incorporated on a regular basis by workers and bosses alike, the labor movement would practically cease to exist. There would be very little need for it.

Everyone would benefit from the application of these principles. The results, however, are not in question. The question is whether or not we as Americans are really willing to apply them. ☸

Self-help

"HEAVEN helps those who help themselves" is a well-tryed maxim, embodying in a small compass the results of vast human experience. The spirit of self-help is the root of all genuine growth in the individual; and, exhibited in the lives of many, it constitutes the true source of national vigor and strength. Help from without is often enfeebling in its effects, but help from within invariably invigorates. Whatever is done *for* men or classes, to a certain extent takes away the stimulus and necessity of doing for themselves; and where men are subjected to over-guidance and over-government, the inevitable tendency is to render them comparatively helpless.

IDEAS ON



LIBERTY

The Secret of Swiss Prosperity



HERE'S an approach to securing student participation in class discussions. At the beginning of the very first class (even before the house-keeping chores), I ask a seemingly simple question. "What makes Switzerland prosperous?"

Over the years, I've asked that question of hundreds (perhaps thousands) of students in my "international" courses. After first temporarily ruling out participation by "prior" students, I've never yet gotten an immediate response. Just silence. So after waiting a few moments, I continue.

"It is prosperous, you know—one of the most prosperous nations in the world. And before we can realistically approach these international

business problems we're studying here in class, we've got to understand why Switzerland is prosperous and why so many other nations aren't prosperous. If we can't figure that out in advance, we have no reliable guidelines to direct our business decisions abroad."

Still nothing. But I can almost see some of those sharp minds beginning to come awake. And the "prior" students who remember what comes next, usually are grinning broadly and enjoying the whole charade. Then I make the students an offer they can't refuse. "The first one of you who comes up with an answer—any answer—on the secret of Swiss prosperity gets an A for the next test, and you needn't even take the test."

Usually (but not always) that produces a response. At any rate, everybody's now awake, and the an-

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swers then begin to come. I *always* keep my promise to the first one—an automatic A for a major test. And if there's an argument concerning who was first (it sometimes happens), I award an A to both. For I learned early in my teaching career that an A and F both require exactly the same amount of time to print, and they use up precisely the same amount of ink from my pen. Since that's true, why not go first class whenever possible!

I've never yet gotten an early response that even comes close to what I'm convinced is the basic cause of Swiss prosperity. But at any rate, the discussion is off and running, and it continues (off and on) throughout the semester with a series of nine or ten mini-discussions on the subject.*

Almost all of us agree quite quickly that we'd rather invest in a prosperous nation than in a non-prosperous one. Sometimes a particularly sharp student will say, "No, the best procedure is to invest in a nation that's not yet prosperous but shows every sign of becoming so." To him (it's frequently a "her," of course), I award another A and say, "Agreed, but what criteria are you going to use to de-

cide which countries are most likely to become prosperous?"

It's still the same question. And intelligent businessmen want to understand the basic issue behind it before they expand abroad in any capacity. Otherwise they'll never maximize their long-range profits, and they may even lose their entire investment.

Size?

The first obstacle the students (and, I'm convinced, most businessmen) have to overcome is the ingrained conviction that prosperity is somehow determined by size. That's one of the reasons I use Switzerland as an example. Why we even have *counties* in Texas that are about the size of Switzerland! And Russia and Brazil and China (fairly large nations) aren't exactly noted for prosperity.

Finally, the students are willing to admit (albeit reluctantly) that size is no guarantee of prosperity. And obviously, small nations can be prosperous. I don't dare tell them that if a correlation exists between size and prosperity, it's more likely to be negative than positive, e. g., subsistence-level Japan with its empire, and prosperous Japan without it. The possibility of that correlation would be just too much to ask them to consider. But I can quickly think of several small nations that lost their empires after World War II, with a

* If you the reader would like to participate in this serious game, then at this point please give your own appraisal of the *basic* cause of Swiss prosperity. I can't guarantee that *my* answer is correct, but I'm confident that your answer and mine will vary in several particulars. So place your bets and come on along.

resulting increase in prosperity. For example, tiny Holland without its vast empire is now more prosperous than ever.

Resources and People?

After size, resources seems to be the most popular answer as the cause of prosperity; for everybody knows that nations with vast amounts of natural resources are automatically richer and more prosperous than resource-poor nations. That's why those European nations went into the "empire business" in the first place, i.e., to get all those natural resources.

I've never yet found a student who immediately said, "The resource-argument is false, totally false." But it is. Just look around.

With the temporary exception of a few (not most) of the oil-rich nations, you can't find anything that even looks like a positive correlation between prosperity and resources. While resources may (or may not) be available in prosperous nations, that's not what caused it. Then I take them back to resource-poor Switzerland—which by now, some of the students wish didn't exist. It seems to disprove most everything they've always believed about the cause of prosperity.

About the only natural resource Switzerland has is snow for skiers—and then it melts into running water that can be used to generate a

little electricity, but is really used mostly to fill those lovely lakes you can sail boats on and fish in. No, natural resources in *Switzerland* are not in any way related to Swiss prosperity.

And while we're looking at that conventional resource-argument, don't forget the enormous natural resources in Zaire in Africa. And remember the subsistence-level of living of those one million or so Indians who inhabited our own vast and resource-laden land when Columbus arrived on the scene. Actually, when I look at Venezuela, Colombia, and similar poverty-ridden countries, I'm almost tempted to conclude there's an *inverse* relationship between resources and prosperity, i.e., the more they've got, the less prosperous they seem to be. At any rate, there's no correlation between prosperity and the natural resources that exist within a nation.

Then how about people? It's obvious that if you don't have people, you can't have prosperity. Well, if "people" is the answer, we can know for sure that China and India are the most prosperous nations in the world; for along with a lot of resources, they've also got a lot of people. The entire country of Switzerland doesn't have even as many people as Chicago.

No, there's no relationship between the size of the population (be it large, small, or in between) and

prosperity. None whatever. China, with its enormous population, *could* quickly become as prosperous as Switzerland (probably more so) if its leaders only knew what causes prosperity. But since they don't, it won't.

Education and Effort?

Well, perhaps it's due to education, e.g., the high literacy rate in Switzerland. But that answer begs the question. How did Switzerland become prosperous enough to be able to take all those people out of the work force and put them in school for so many years? Education (as contrasted with mass training) is the *result* of prosperity, not its cause. The British laws against child labor didn't take those kids out of the factories and put them in schools. *Prosperity* did it. And that's why it's so vital to our future (individually and as a nation) that we understand what causes prosperity.

Don't forget that Russia is forever bragging that the literacy rate there is higher (much higher) than in the United States. Perhaps so, but that only proves that literacy is not the cause of prosperity. Admittedly, it could be that the Russians have deliberately decided to continue an existence-level standard of living in order to devote resources to more education. Probably not. But even if it's so, their inability to understand what really causes prosperity will only mean they'll continue to be the

most literate people the world has ever known with such an unbelievably low level of material existence.

But back to the Swiss. Perhaps they just work harder than other people. Maybe that explains their high standard of living. No, they don't work harder, not really. True, one of their national heroes, John Calvin, told them that's what God wanted them to do. And while I lived there for two years, I observed that they do work hard. But they don't work any harder or longer than, for example, the Indians I observed cutting cane in Guatemala. Anyway, the more prosperous the Swiss become, the less they work. That's to be expected. In fact, that's why most of us work in the first place. We want to become prosperous so we can work less and enjoy more. No, hard work doesn't necessarily bring prosperity; there just isn't any positive correlation, individually or collectively.

Agriculture?

Well, perhaps it's because the Swiss have big farms with rich soil to grow those delicious vegetables and to provide pastures for cows to be milked to make that famous cheese. Everybody knows that prosperity is based on agriculture. I hear it everywhere, especially in the farming areas here in Wisconsin where I teach. And it's simply not so. That's an old fallacy that came to prominence again when the farm-

ing areas of East Germany were separated from West Germany. With the loss of their farmlands, surely the West Germans would starve, and the East Germans would grow fat. The reverse happened. The agricultural capacity of a nation is not necessarily related to its prosperity.

As my old professor in Geneva, Wilhelm Röpke, said, "It's simply astounding that almost nobody seems to understand why it worked out the way it did in Germany. The East German leaders are totally baffled when they must go again to the West German leaders and beg for some more food. They simply have no comprehension at all concerning the cause of the abundant supply of food in West Germany."

Anyway, there are no big farms in Switzerland. And the few they've got are poor and mostly located on the sides of steep mountains. People have actually fallen out of them and been killed. Literally. So stay out of those Swiss farms, especially the vineyards; they're dangerous.

Form of Government?

Eventually, some student is sure to suggest that Switzerland's prosperity is due to its democratic form of government. Close, but no A for the semester—not yet, at any rate. We've first got to understand how the Swiss form of government is *totally* different from any other form of government in the world today;

then perhaps we can see the relationship of government to the basic cause of prosperity.

The essential difference between Swiss democracy and the other democracies around the world is well-illustrated by this true story. I asked a Swiss fellow-student, "Who's the president of Switzerland?" He thought awhile and then said, "I don't know. It doesn't make any difference anyway. So we just don't pay much attention. I think," he concluded, "they sort of take turns."

Then I discovered a startling fact. The Swiss constitution for its national government is somewhat like the Articles of Confederation of the original 13 American states—except that the Swiss national government doesn't have nearly as much power as did our old Continental Congress.

The tiny nation of Switzerland is composed of 25 "federated states"—and in many respects, each state operates much like an independent country. Talk about states' rights! The states operate as a unit for the armed forces, communications, foreign relations, tunnels and bridges, and other "common problems." Otherwise they protect their languages and ethnic cantons with a fierceness you wouldn't believe. You are free to move from one canton to another if you wish to do so. And you can conduct unrestricted business in all of them. But don't you dare mess

around with the different cultures, languages, religions, and ethnic groupings. They're convinced (rightly, I suspect) that if Switzerland ever becomes an integrated nation with a common language, they would soon lose their prosperity and disappear into a neighboring country.

Thus it's true that the Swiss form of government does indeed have something to do with their prosperity. But that's still not the basic reason for their high level of living. Anyway, that restricted (almost nonexistent) Swiss form of national government is not what my students have in mind when they say "democratic." In fact, they're thinking that prosperity comes from a *strong* central government—that permits lots of voting, of course.

Right to Vote?

For some unfortunate reason, "democratic" seems to be equated totally with voting in the United States. That's too bad, really; for it pulls us over into the age-old concept that "might (the majority) makes right." At the end of that seductive road is death itself. And you're still dead forever, even if it's the will of the majority.

So while sometimes there seems to be a relationship between right-to-vote and high-level-of-living, it's too tenuous to depend on. They vote in India, for example—in truly free

elections in every sense of the word, just as in the United States. In fact, I once discussed democracy with the prime minister of India who succeeded Indira Gandhi because his party got more votes than her party. That prime minister truly believed in democracy, and would willingly die for it if necessary.

India also has people, resources, and one of the largest educational systems in the world. But they haven't the vaguest idea what causes prosperity. Until they find out, they're doomed to their low (and decreasing) level of living. Making their educational system even more universal, as they are continuing to do, is more likely to decrease prosperity than to increase it. In any case, there's no positive correlation. If you recommend that your company build its factories in India, you surely must be mad at your bosses and are trying to get even.

There's voting in Chile, Peru, Argentina, Mexico, and in almost all the new African nations. It's a real popular pastime. Hitler made good use of it. Stalin enjoyed voting, and he insisted that everyone else should vote, too. In at least one country in the democratic Western World, they'll fine you (democratically, of course) if you don't vote.

When I was in school in Switzerland in the late 1950s, women couldn't vote. We Americans chided our Swiss fellow-students about that.

They (including the women students) simply couldn't understand why that seemed to perturb us. As they said, "The women's vote would not in any way change anything. It's not really an issue. But even so, we'll eventually get around to changing the law to give the vote to women—if for no other reason than to prevent any more pointless arguments with our friends." They changed the law. Women now vote. And Switzerland is still precisely what it was.

No, if you mean that the right to vote *in truly free elections* will lead any nation to prosperity, you're in for a shock. There's no fixed correlation between voting and prosperity. In truth, most of the world's people (including us here in the United States) are using our votes to endorse measures that will surely *decrease* prosperity. In England, the world's oldest democracy, the people voted to nationalize mines, railways, banks, and anything else their leaders called to their attention. That didn't exactly increase prosperity there.

Here's an all-important caveat, however—an explanation to prevent any possible misinterpretation. It's absolutely vital that we preserve the right to vote in the United States. While it doesn't cause or preserve prosperity, it definitely *does* preserve our right to change officials. Thus it's the mainspring of the most precious ideal of all—human free-

dom; for our own leaders will surely destroy us if we leave them in power long enough. The right to vote "western style" is a sort of insurance against total tyranny. And that's worth a high price, including even a decrease in our standard of material living if necessary. When all is said and done, it's even worth dying for.

Capital Formation?

Finally the students arrive at the answer they just know I've been waiting for. "Capital formation!" they shout, and wait for the expected shower of A's. I truly hate to disappoint them again, but I must. Capital is not the answer to prosperity, not really; capital formation is the automatic result of something else, which is the real cause of prosperity.

The Russians, for example, have more capital (machines and such) than you can find in Switzerland—measure it any way you like. And the Western World keeps sending vast amounts of additional capital to Russia, as we've been doing steadily since the early 1930s. And, of course, the Russians themselves produce vast numbers of machines of various kinds. The fact that their material level of living (prosperity) is actually decreasing is not really the fault of all those machines. It just doesn't seem to be related to it one way or the other. That enormous accumulation of capital throughout the country is of almost no value to the

Russian people in raising their level of living. They're in much the same position the Japanese were in 1940. The Russians use that capital mostly to maintain their empire, while the people continue to stand in line for something to eat.

That's one of the sights that most impresses our students when they go to Russia under our "Russian Seminar" program—the long lines of people waiting patiently to get some food, or shoes, or any other desirable good.

Increasingly we are encountering the same sort of lines here in the United States. And they occur here for precisely the same reason they appear in Russia, i.e., governmental interferences in the market place. For example, the evening TV newscasts are forever featuring long lines of Americans who actually camp out overnight to get first shot at government-subsidized interest rates, government-created jobs, government disbursements of food, and so on. And as these governmental interferences increase "to help the people," the lines will grow longer—and the "stuff" up front will grow shorter.

Why Work and Save?

No, we'll never solve the secret of prosperity until we understand why people save their money and devote it to capital formation in the first place. That's the key to prosperity; not capital formation itself but what

causes you and me to create it and to use it to produce whatever it is we choose to produce and for whatever reason we choose to do it.

No one "works and saves" because the country is large or has resources or votes or because of any of the other half-truthed fallacies we hear everywhere. You and I work and save (form capital) for one simple reason. We expect to gain *individually* by doing it, to have more later on by using less of what we produce today. And if that expectation is absent for any reason, we cease saving and just consume whatever we've got, a sort of hand-to-mouth existence.

Of course, there *is* one other reason people produce and "save"—and that is because brute force is applied against them by whatever type of government happens to be in power. But while compulsion does indeed produce capital formation, it's not exactly the best way to encourage creative thinking and effort. Anyway, it's seldom the type of capital that's designed to meet consumer demands.

Finally the students give up. They claim they've covered every possible cause of prosperity. "So what's the answer?" they ask. There's an excellent reason for their wanting to hear what I think is the cause of Swiss prosperity. They can then hand back the "correct" (i.e., the instructor's) answer on the test they're sure will be coming along shortly. That's

known as "student realism," and they've developed it to a fine point over a period of four years or so.

But they never get such a test from me. No student is ever held responsible for my particular viewpoints and prejudices. My tests in "policy and opinion courses" consist of research and term papers, plus prepared tests supplied by the authors of the texts themselves. And even on the papers, I'm generally more interested in their grammar, spelling, and composition than anything else. (For good writing will prove valuable, no matter what careers they follow.) You see, when all is said and done, I don't know *the* answer any more than they do. The best I can do is to tell them what I think, and why I think it.

Actually, the students are already familiar with the secret. They're always a bit disappointed when it doesn't turn out to be mysterious and complicated—with a formula to memorize and a model to help them get the answer. The answer (as I see it) is so well known and obvious and simple that no student ever seems to bother to say it and to spell it out a bit.

The Cause of Prosperity

The cause of prosperity in Switzerland (or anywhere else) is the competitive free market economy. It always leads to prosperity. Always. All the other supporting causes nec-

essarily flow from it and are caused by it.

For example, there can be no free market if the government restricts it with wage and price controls, tariffs against competition, subsidies to various groups, and so on. Thus a government with strictly limited powers is an automatic result of the free market economy.

In a free market economy, there's also private ownership of all resources and all means of production and distribution. True, it's possible to have a form of private ownership under a dictator—Hitler, for example. But it's impossible to have a *free market economy* under dictatorship. When a group of producers are controlled or enslaved (or even exterminated), only a madman could refer to it as an economy wherein all peaceful persons can produce whatever they wish to produce.

When the market economy exists, the government automatically assumes the position of "night watchman." The government then becomes merely an organization (a mechanism) we use to preserve the peace, to keep out robbers (both foreign and domestic), and to make sure there's no organized effort to disrupt the workings of a free people, freely trading with each other on mutually acceptable terms.

In a competitive market economy, there'll be all the prosperity there can be. Any restrictions imposed

upon it, i.e., imposed against peaceful you and me, will automatically result in less prosperity than could be. If the nation happens to be large and to have an abundance of natural resources, fine—but they're not in any way necessary for prosperity.

For example, Switzerland is a poor nation when the customary "size and resource" criteria are used. But the Swiss actually have the largest possible market—the entire world with all its natural resources and skills. The exceedingly high standard of living enjoyed by the Swiss is based on trade—not so much *in* Switzerland as *through* Switzerland and all over the world. They invite you to send your capital to Switzerland. They'll keep it safe for you; they won't even tell anyone you sent it. And

they'll supply you with the world's best managers of capital—for a reasonable fee, of course. They'll invest it for you throughout the world, including a large portion of it right back here in the United States.

That's the secret of Swiss prosperity—the free market economy, backed up by the resulting strictly-limited government, private ownership, tax and banking laws favorable to capital accumulation, good financial managers, and trade all over the world with anyone (under any form of government) who wants to trade. They learned long ago that prosperity can't really be created; it just seems to show up automatically when and where there's a favorable climate for it. ☉

THE MAINSPRING OF HUMAN PROGRESS

by Henry Grady Weaver

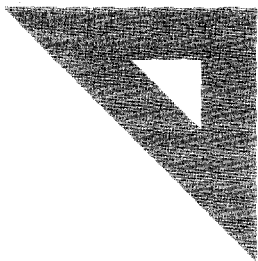
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EVADING THE ISSUE

REASON has not fared well in this century. This is the more strange because never before have there been so many ways to convey thought and ideas so swiftly and extensively to other people. Before the 1840s, when the telegraph was invented, it was only possible to convey ideas either in person or on paper, written out by hand or printed and shipped at the same speed, more or less, as other cargo. Now, ideas and pictures can be communicated virtually instantaneously around the world via satellites. This development is, if not the culmination, one of the most recent in a dazzling array of inventions and discoveries for making words available or retrievable over distances with great rapidity: the telephone, recordings, radio, television, motion pictures with sound tracks, microfilm, and so on.

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Yet conveying carefully reasoned and sustained thought is very much an uphill job in this century. Indeed, it may well be much more difficult than in earlier centuries. It would be easy to jump to the conclusion that there is a causal connection between the proliferation of the means of communication and the resistance to the product of sustained thought. Undoubtedly, the great cacophony of sound and sights made swiftly available by these devices does make more active discrimination necessary if we are to distinguish between sound and sense in this century.

But there is good reason to believe that the low estate of sustained rational thought in this century has other explanations. Reason has been subjected to sustained direct and indirect assaults for more than a century now. It has been dismissed as rationalization, abandoned as ineffective, and ignored as if it were beside the point. Reason has been widely discredited, and it has been

swept aside by the dominant irrational currents in many fields of thought.

Above all, though, reason has been made to appear irrelevant by focusing the intellectual attention elsewhere. Whole schools of thought have taught us to ask *why* people say, think, or believe as they do, rather than to ask *whether* what they say is valid or invalid, true or false. They have taught us to deal with secondary questions about ideas rather than the primary one, thus avoiding the basic question or evading the issues raised by trains of reasoning. The late C. S. Lewis devised an imaginary name for this turn of mind. He called it "Bulverism."

"Some day," Lewis wrote, "I am going to write the biography of its imaginary inventor, Ezekiel Bulver, whose destiny was determined at the age of five when he heard his mother say to his father—who had been maintaining that two sides of a triangle were together greater than the third—'Oh you say that because you are a man.' 'At that moment,' E. Bulver assures us, 'there flashed across my opening mind the great truth that refutation is no necessary part of argument. Assume that your opponent is wrong, and then explain his error, and the world will be at your feet. Attempt to prove that he is wrong or (worse still) try to find out whether he is wrong or right, and the . . . dynamism of our age will

thrust you to the wall.' That is how Bulver became one of the makers of the Twentieth Century."

Unfortunately, Lewis never got around to writing this illuminating biography. Indeed, his description of "Bulverism" is fragmentary (in the version printed in the collection of essays, *God in the Dock*, published by Arlington House, pp. 271-77). His main concern was with Christian apologetics; in that endeavor he employed reason rigorously, albeit with much wit and charm, and he insisted over and over again that the basic issue that precedes all others was whether or not the Christian view is correct and true. Those who raised subsidiary issues first were, in his view, evading the issue. He saw clearly that "Bulverism" was an obstacle to his efforts, as well as those of anyone using reason to arrive at such truth as they could hope to arrive at and convey to others.

Examples of "Bulverism"

The two actual examples which Lewis gives of "Bulverism" at work are from Freudianism and Marxism. More broadly, what he had in mind was the habit of psychologizing and appealing to economic determinism as a means of explaining (away) statements or beliefs. "The Freudians have recently discovered that we exist as bundles of complexes," Lewis said. "The Marxians have discov-

ered that we exist as members of some economic class." Thus, he says, if the claim is made that Elizabeth I was a great queen, the Freudian says that if the claimants are analyzed it will be discovered that they believe this "because they all have a mother-complex. Their thoughts are psychologically tainted at the source." The Marxist, on the other hand, says that if people think that economic freedom is a good thing it is "because they are all members of the bourgeoisie whose prosperity is increased by a policy of *laissez-faire*. Their thoughts are 'ideologically tainted' at the source."

These approaches are profoundly subversive of reasoned and sustained thought. They are evasions of the issues. They assume what has not yet been tested, i.e., whether Elizabeth I was indeed a great queen or whether economic freedom is a good thing. To answer the question about Elizabeth, it would be necessary to weigh the evidence pro and con and arrange it in some fashion to arrive at a conclusion. To decide whether economic freedom is (or is not) a good thing it is necessary to engage in a lengthy process of reasoning, supported at the appropriate places with such evidence as can be assembled.

It may well be that propositions could have been chosen to which reason could be more aptly applied to arrive at satisfactory conclusions.

But that is irrelevant. The point is that the basic question about a proposition is its truth or falsity, that *why* it is believed becomes of interest mainly when it has been shown to be false, and that the only way for us to ascertain the truth of a proposition is by reason.

The question now becomes: Is our thought tainted at the source? The answer, I think, depends both upon the source of thought in general and the source of any particular line of reasoning. So far as I can make out, the source of thought in general is the premises upon which it rests. The source of any particular line of reasoning is the particular premise from which it proceeds. If the premise is sound, and the rules of reason have been carefully observed, the conclusion reached should be valid.

What I am saying is this. If we trace any line of reasoning back to its source, what we discover is a premise. If the premise is invalid, then the source of our thought is indeed tainted, and our conclusions will also be invalid. To know where we stand, it is highly important to test our premise. To do that, we must, of course, advert to the premise(s) on which it rests, back finally to the First Cause, Original Source, or God, as philosophers have pointed out from time immemorial. But I point out the last here mainly to make clear that I do not have in mind some sort of infinite regression.

Naturalistic Premises of Marxists and Freudians

The basic premises of the Marxists and Freudians are naturalistic in character. The broad frame within which their conceptions took hold is known as naturalism. (If it be objected that I am here explaining *why* they believed as they did, it should be pointed out that it is necessary to do this to get to their premises.) Although naturalism had many facets, the one that concerns us here is its application to ideas. Naturalists tended to view ideas as natural events in the same stream of causation as other natural events.

Karl Marx was (as any Marxist is) a materialist. That is, he believed that ideas and beliefs have a material cause, more specifically, that they are a reflex—an ideology—of economic interests determined by what class controls the instruments of production. In any case, they are materialistic in origin and are in a natural, i.e., material, in this case, stream of causation.

Sigmund Freud's thought was not so simplistically naturalistic as was that of Marx. Nonetheless, his explanations are basically naturalistic, though they are rooted in mental phenomena more than in the exterior world. Naturalistic ideas had already made considerable impact before Freud made his psychoanalytic innovations. Mechanistic (or materialistic) psychology comes out

most clearly in behaviorism and its emphasis upon external stimulus and internal response.

Freud was not a behaviorist, but he did treat the mind and its contents as if they were in a natural stream of causation. The contents came from past experience and were stored largely in the unconscious (subconscious, non-rational, or irrational) mind. Our conscious ideas are apparently altered and driven or directed from the seat of the unconscious. True, Freud's psychoanalysis purports to deal with pathological states, but that has not in the least deterred Freudians generally from treating ideas as if they were all tainted by their subconscious origins, i.e., have a non- or irrational base.

Neither Marxians nor Freudians recognize reason as it has been understood for the better part of 2,500 years in Western philosophy or describe the rules for its normal operation. Clearly, ideas are not material objects, such as billiard balls, which follow a path determined by the angle from which they are struck with cue sticks. No one has ever seen, felt, tasted, smelled, or heard (in the literal sense) an idea. Ideas are immaterial or, since that word has two distinct connotations, non-material; they can, therefore, only be affected by material in whatever ways that which is immaterial can be. That the material ordinarily has a determi-

native effect on the immaterial is most doubtful. In any case, it is highly doubtful that thought or reasoning is in the chain of natural causation.

Thought is not a natural event, as we usually construe that phrase. It is *sui generis*, unique, belonging to its own category, distinct from all others. If reason is any kind of event at all, it is a *human* event. The ability to do sustained reasoning is a distinctly human ability. As for its place in causation, sustained reasoning, or the results of it, joins the chain of causation as a cause, not an effect. When thought is performing its proper office it is determinative, not determined. That this is the nature and role of reason is not some new insight of mine; it is the common sense of those throughout the ages who have given thought to the matter.

Some qualifications are in order, of course. Undoubtedly, all sorts of things may influence, disrupt, distort, or even condition our thinking. Intense heat or cold may make any but the most elementary thinking extremely difficult. Low pressure systems in the atmosphere may depress us, and high pressure systems may exhilarate us. Our wishes, whether born of material interests or immaterial desires for diversion, may lead us to wrong conclusions. Pathological mental states may render us incapable of sound reasoning.

Our minds do not exist in splendid isolation from our bodies but are rather so much connected with them that we can rarely ignore them for long. If I were bitten by a rattlesnake, I suspect I would have great difficulty even breathing, much less thinking.

But all that should be nothing to the point. It is the very office of reason to put at naught all these influences which distort conclusions. If I draw my conclusion as to what is of ultimate importance in this world in the presence of a Bengal tiger on the loose, I may be expected to modify it in more serene surroundings, to say nothing of how others might view my conclusion. In like manner, it is the business of reason to remove all discrepancies in thought, whatever their source. The source of the discrepancy does not matter any more than the fact that Ezekiel Bulver's father was a man mattered in his conclusions about a triangle. The question is whether or not it is possible to construct a triangle any two of whose sides must not be longer combined than the other. If it is not, it matters not at all whether the person who drew the conclusion was a man or woman, a bourgeois or industrial worker, had an inferiority complex or had sublimated his sexual desires. Anyone who doubts this axiom about triangles can test it for himself. All else is irrelevant. It evades the issue. ☉

EQUALITY, JUSTICE, LIBERTY &

IN Australia recently I received through the mail a document entitled *Changing Australia*. The title was deliberately ambiguous: it was both descriptive—that is, referred to alleged changes taking place in Australian society—and *prescriptive*—that is, urged readers to agitate for and work toward, certain changes.

The document made sorry reading, being little more than a litany of most of the least lovely lunacies of our age. “High technology” was condemned; massively increased government-to-government aid to the third world was recommended; zero-economic growth was espoused; businesses and industrial enterprises making profits were casti-

gated; higher taxation rates, and more lavish transfers of wealth from rich to poor, were advocated.

None of these attitudes or proposals could be described as “novel.” Were it not for the *source* of the document few lovers of liberty would, I think, have spared it a passing glance. For that source was not the newly elected socialist government we Australians are “enjoying”—indeed, that government was severely reprimanded by the authors of the report for their “moderation.” Nor was the source one of the many communist parties in Australia claiming to represent “authentic” Marxism-Leninism. Its source was the Divisions of Social Justice of the Roman Catholic, Episcopal, Methodist, Presbyterian, and Congregational Churches (the last three, which united in 1976, now known as the Uniting Church in Australia). In the coming months the faithful of these

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denominations will, alas, be instructed, Sunday after Sunday, in the bizarre tenets informing *Changing Australia*.

Examining the Concepts

It is not my purpose fully to explore the eerie but world-wide infatuation of many mainstream church-people for the left, although that phenomenon is a fascinating exercise in pathology. I wish merely to isolate and comment upon three words littering the report, three words virtually captured, in recent years, by the left. I refer to the words "equality," "justice," and "liberty." According to *Changing Australia* my nation is characterized by sinful inequalities, outrageous neglect of "social justice," and a desperate need for liberation of the poor, the disadvantaged, the marginalized.

I speak of these three words—"equality," "justice," and "liberty"—as being "captured" because they once graced the lexicons of those committed to economic and political freedom. Adam Smith, for example, spoke of his "liberal plan of equality, liberty, and justice," contrasting his vision with the inequality, constraints, and injustice cursing the politico-economic system of mercantilism which obtained in the world he knew. Yet today most volumes of political philosophy discussing these key concepts use them to justify political and economic structures not

far removed from those Smith, and later classical liberals, condemned.

What did the classical liberals mean when they used these words? Are we to reconcile ourselves to the left-wing captivity of "equality," "justice" and "liberty"? Or can we retrieve the words, exorcising them of their acquired connotations?

I believe we both can and must retrieve these words, for I know of no other terms we can use to capture the essence of the freedom philosophy. More: I am convinced that the left's interpretation of these terms is literally incoherent, whereas that of the classical liberals is superbly and powerfully rational.

The Concept of Equality

I begin with the term "equality." In its simplest sense, the word refers to a *relation*: in terms of some quality or characteristic two entities are "equal" if they share that quality or characteristic to the same degree. Two pieces of wood may be *equal in length*; two containers may be *equal in volume*; two material objects may be *equal in mass*. In terms of the quality specified, the "equal" objects are interchangeable.

Clearly, two objects cannot be equal in *all* respects. Suppose you are presented with two independently prepared descriptions of what you initially believe are distinct objects. You notice, however, that the two descriptions agree in all re-

spects, including specifications as to location in time and in space. You immediately realize that you have been presented with two descriptions of one and the same object. Bluntly, if A and B are distinct, then each enjoys some qualities or characteristics the other lacks.

Granted that no two entities can be equal in *all* respects, what does it mean to say—as the document *Changing Australia* does *ad nauseam*—that all people are “equal”? What quality or characteristic—physical, intellectual, or moral—do all human beings share to the same degree? Whatever quality or characteristic is specified, exceptions are obvious. People simply are *not* equal—and that is singularly fortunate, in that they are therefore not interchangeable. It is odd that churchpeople should seemingly resent this state of affairs, for scripture, in asserting that God “calletH His sheep by name,” celebrates the uniqueness of each, not the identity of all.

Are we then to agree with those who say that the claim “all people are equal,” although it *looks* like a description, is really a prescription, a disguised way of saying that the moral person treats all people equally? Such moral advice is, however, somewhat wholesale: the Mafia hit-man who disposes of all his victims with equal efficiency is treating those victims “equally”; so is the

sadist who treats all people with equal cruelty.

“Ah,” say some moral philosophers, “you have misunderstood the principle. Really it means ‘treat all people with equal consideration, equal compassion, equal respect.’” Yet even that reformulation collapses: it is, after all, perfectly satisfied if one treats people with equally *little* consideration, equally *little* compassion, equally *little* respect.

Equality of Opportunity

At this point in the discussion most devotees of “equality” belonging to the left start speaking about “equality of opportunity.” There is, as I shall indicate in a moment, a sense in which I warm to this expression. It should, however, be noted that most men and women of the left assert, when they observe some *inequality of outcome* to an exercise, that this *must* be due to some inequality of opportunity demanding coercive intervention—an utterly unwarranted conclusion unless one assumes *either* that participants in an activity enjoy an initial equality *vis à vis* such characteristics as physical prowess, moral fortitude, intelligence, *et al.*, or holds that *equality of opportunity* justifies a coercive leveling down or handicapping procedure. The former assumption is false. The second inexorably leads, as Professor A. G. N. Flew has pointed out, to the grotesque world depicted by

L. P. Hartley in his novel *Facial Justice*, a world within which handsome men and beautiful women are forced to undergo surgery to correct their envy-provoking excesses of sexual appeal, or the equally horrendous world described by Kurt Vonnegut in his short story "Harrison Bergeron," a world within which men and women above the average are cut down to mediocre size by the implantation of anti-pacesetters.

The key to the sort of equality favored by the left is simply this: the state of affairs they desire can be worked toward either by a "leveling up" or a "leveling down." Almost invariably the latter procedure is that which is adopted. For example, many private schools in my country which have tenaciously held to high academic standards and have provided the community with sensitive artists, talented surgeons, insightful writers, and gifted engineers, are under fire as being "elitists," and are, in effect, under pressure to relax their standards and sink to the mediocre level characterizing our schooling system as a whole. "Equality" demands it, you see!

Equality Before the Law

Adam Smith's understanding of "equality" did not lead to the adoption of such ludicrous policies. By "equality" he referred to *equality before the law*. There should be, he asserted, no classes, castes, or elites

somehow "above" the law; no individuals or set of individuals who are the beneficiaries or victims of laws which applied only to them. It was this vision of equality which the Greek historian Thucydides celebrated when he praised his beloved Athens because in Athens "[when] it is a question of settling . . . disputes, everyone is equal before the law." A similar vision was embraced by Thomas Jefferson when, in his First Inaugural address, he advocated "equal and exact justice to all men, of whatsoever state or persuasion, religious or political." Such an understanding of "equality" may well preclude laws which, by "positive discrimination," seek to rectify past wrongs; only thus, however, is it possible in principle to preclude laws which perpetuate or initiate special privilege. The rules of the game must be the same for all; in that sense, and only that sense, the players—governed and governors alike—are "equal."

What About Justice?

But what about "justice"? If "unequals" are treated "equally," unequal outcomes are inevitable. The free market in the free society of necessity generates inequalities in income and wealth. It seems intuitively obvious that the most "just"—i.e., "fairest"—way to divide some good between people is to give each person an equal share of that good.

Five people, for example, may find themselves marooned on a desert island graced by trees bearing coconuts: is it not "just" that each person should be given one-fifth of the coconuts? Since the free market in the free society, while certainly improving the lot of the poorest and putting an end to inequalities of wealth and income created by the existence of class and caste, does not distribute income or wealth "equally," "justice" demands a massive redistribution.

One can, in this context, make some pragmatic as against principled points. The attempt to redistribute wealth so that the difference between the highest and lowest incomes is minimized usually involves—certainly in a fettered market economy—progressive taxation and high marginal taxation levels. Unfortunately, however, such levels jeopardize capital formation, the *sine qua non* of economic growth and an improved standard of living. For a high marginal taxation rate hits saving in three ways: it taxes away the very dollar individuals have the highest propensity to save; it deters people from earning that dollar in the first place; and it taxes away the earnings from such investment. A cut in marginal taxation levels thus imparts a triple stimulus to savings and investment, but only a single stimulus to consumption.

Consider, for a moment, the third

way high marginal taxation levels deter saving. Joe Doe, who earns a moderately high income, wins the lottery. After tax he has \$100,000. Two incompatible desires torment poor but rich Joe: blow the lot on an outrageously extravagant car, or invest the money at 15% and add \$15,000 *per annum* to his income stream. The "cost" of the car is considerable: the forgone \$15,000 *per annum*. A 50% marginal tax level reduces that "cost" to \$7,500 *per annum*. The pre-Thatcher 97% marginal tax rate which obtained in the United Kingdom reduced the "cost" of the car to \$450 *per annum*. At that level a person who does *not* choose to purchase the car is operating, to put it gently, with a somewhat bewildering ranking of values. Bluntly, a high marginal taxation level encourages extravagant consumption, deters saving, and erects an almost insuperable barrier against capital formation. *And the ultimate victims are the poorest.*

Yet this pragmatic point is, to me, less important than a principled point. It is *not* clear to me that, when one ties the existence of some good to the production of that good, "justice" dictates any redistribution.

Almost invariably left-wing analyses of "justice" start off with an existing good to be shared between a number of people—five castaways on a desert island containing some coconuts or several folk adrift in a boat

containing a given supply of food and water. Yet when one considers five castaways some of whom start thinking, planning, and toiling and thereby create some goods, or occupants of a life-boat who start fishing or distilling water or what have you, the picture changes dramatically. It is not, I suggest, self-evident that if A's alertness, thinking, and labor created some good, then B, C, D, and E can claim, in justice, equal shares of that good with A.

The Laws of Justice

In chapter 9 of Book IV of *An Inquiry into the Nature and Causes of the Wealth of Nations* Adam Smith, when describing his "simple system of natural liberty" does tie that system to "justice": "Every man," he writes, "*as long as he does not violate the laws of justice*, is left perfectly free to pursue his own interest his own way." And those eleven words—as long as he does not violate the laws of justice—are absolutely crucial. The productive achievements of the market and the freedom that it allows are both utterly dependent upon clearly defined and efficiently enforced property rights, or rules of the game.

Bluntly, the only conception of justice that makes sense in large, impersonal, pluralistic, societies which are *not* characterized by orchestrated behavior aimed at some single goal or set of goals involves

the criterion referred to in our discussion of equality: rule by known general principles of conduct which apply without exception to all in an unknown number of future instances. The point might be made another way: the sole dictate of justice is "Avoid *injustice*," and injustice occurs when people are not treated in accordance with known rules that apply to all.

I used to lecture first-year undergraduates in philosophy. Some six hundred to seven hundred students usually enrolled for Philosophy I. Fairness demanded simply that all those students were subject to the same rules and that the rules were applied impartially. Should some individual student be disadvantaged by circumstances that these rules had not anticipated, the only "fair" way to deal with the situation was *either* to formulate some codicil, so to speak, to the rules which also was capable of general application *or* to decree that, however unfortunate, the circumstances in question did not constitute grounds for modifying the general rules. What *had* to be avoided was some rule which, in truth, applied to one unique case: the application of such a rule would, inevitably, lead to an arbitrary and capricious decision. *Justice*, in other words, demands the application of impersonal criteria to allocate burdens and benefits, for inescapable limitations on our knowledge make

it impossible to take personal considerations into any account in any consistent way. And consistency is the *sine qua non* of fairness, hence of "justice."

In a sense I would like to conclude my discussion of "justice" at this point. Three additional points, however, should be made.

One. Although the consistent application of known general rules is a *necessary* condition for just behavior, it is not a *sufficient* condition. Something more than a purely formal principle is required; something must be said as to the *content* of these general rules. On this the classical liberals were clear: they linked generality of rules to the concept of *reciprocal respect for autonomy*.

The point is relatively simple. Human beings are characterized by the capacity to engage in goal-seeking, purposive behavior; they are, more simply, able to formulate and strive to realize their own visions of the "good life." For A, that vision might be reading the novels of Dostoevsky, listening to the music of Mozart, and solving cryptic cross-words; for B, it might be watching television, drinking cans of beer, and investing \$20 per week on the track. According to the liberals, it was not for government to praise or blame, punish or reward, denigrate or recommend, *any* such vision, unless some such vision included the imperative *coercively to modify the be-*

havior of others. Should A, for example, kidnap B, chain her to a chair, place earphones on her head, and make her listen to Mozart, government rightly intervenes. Similarly, should B coercively extract \$20 from A and invest it, for B's financial good of course, on a sure thing in the second race at Yonkers, government again rightly intervenes. *Government is ceded a monopoly of coercive power to be used solely to proscribe the arbitrary exercise of coercion by any individual or set of individuals.*

Thus: "justice" demands general rules of behavior, applicable to all in an unknown number of future instances, which proscribe the arbitrary initiation of coercion—crudely, which proscribe actual or threatened violence, theft, and fraud.

Two. The adverb "justly" and the adjective "just" are primarily used of purposive behavior. It makes little—or no—sense directly to use such terms of some pattern of distribution. (It *may* be possible to speak of a "just distribution" of wealth in a small tribe the members of which share a common vision of the "good life" and which is characterized by orchestrated behavior aimed at some specific goal or set of goals, but even that is not clear.) A category mistake is involved: it makes no more sense to debate whether a particular distribution of wealth is just or unjust than it makes sense to argue whether a refrigerator is musical or

tone-deaf. The descriptions simply do not apply. If this is granted, the expression "social justice," so dearly beloved by clergymen of the left, must be dismissed as a meaningless combination of sounds.

A distribution of wealth may, however, be described as "just" or "unjust" in a secondary, derivative sense: a distribution is "just" *if and only if it is the outcome of just behavior. It is the process, not the final pattern, that ultimately carries the term.*

Here are two people: White and Black. White, a singer, earns \$500,000 *per annum*. Black, a street magician, earns \$5,000 *per annum*. Is this distribution "just"? The devotee of "distributive justice," or "social justice," noting the inequality obtaining, would probably answer "No!" The classical liberal would ask how that distribution was generated. Suppose White is popular with many thousands of people, who prefer to surrender \$10 and alternative goods or services that money could buy and hear White sing than to retain that \$10 or procure alternative goods and services and not hear him sing. White prefers to surrender several hours gazing at himself in a mirror, sing, and obtain a vast sum of money, than not to sing, enjoy gazing in the mirror, and surrender the money. The exchange is voluntary, all surrendering what is valued less, obtaining what is valued more, and thus improving their sit-

uation. The income is justly derived. Unfortunately, relatively few people choose to surrender money and watch Black perform. Again, that income, generated of voluntary exchange, is justly derived. It follows that the resulting distribution is, in the derivative sense noted, "just."

Three. It is vital that "justice" and "charity" are neither confused nor conflated. There is no conflict whatsoever in holding that one is morally obligated to assist needy individuals, according to one's capacity to assist, who come within one's sphere of action, yet to deny that such individuals have a *right* to one's assistance. This is, after all, central to the parable of the Good Samaritan. The priest, Levite, and Samaritan were all, according to Jesus, obligated to assist the robbed and wounded traveler. There is, however, no suggestion that the traveler was legally *entitled*—had a right—to that assistance. It was precisely because the Samaritan acted in a way going beyond what the law commanded that he was praised.

A crucial asymmetry obtains. A "right" of A generates an obligation for someone else. Contractual rights illustrate this: if A and B have signed a contract, person A has a "right" to B's services, and B has an obligation to provide A with those services. Similarly, those who assert that human beings have a "right" to a decent job are *ipso facto* asserting that

someone somewhere is obligated to provide that job. The claim that the poor have a right to some of the possessions of the wealthy implies that the wealthy are legally obligated to surrender some of their possessions; indeed, that claim may well justify the further claim that those capable of producing goods over and above those needed for themselves are legally obligated so to do. Liberals, of course, insist that no such positive rights exist. *But* the assertion that A is obligated—morally obligated—to assist B does *not* entail the assertion that B has a “right” to A’s assistance. In summary: rights for some entail obligations for others; obligations for some do not entail rights for others.

Many fail to appreciate this simple point. Indeed, contemporary clergymen must be strongly tempted to rewrite the parable of the Good Samaritan in terms of “rights” rather than an obligation to exercise the virtue of charity. The old-style Christian socialist postulates, in effect, a “Better Samaritan.” Observing the wounded and robbed traveler, the Better Samaritan hot-foots it back to Jerusalem, calls out the Roman militia; extracts money from other wealthy Samaritans; and sets up an aid-to-wounded-travelers benefit. The “liberation theologian” goes further. He postulates a “Best Samaritan.” This Best Samaritan observes the wounded and robbed

traveler; concludes that since it had been worth the robbers’ while to assault him he must have been fairly wealthy in the first place; decides that he must therefore be the beneficiary of an unjust economic and political order; and finally scurries off to take up a collection for the robbers (really, of course, “freedom-fighters”).

The concepts of “equality” and “justice” advocated are perfectly acceptable to Christian believers. They parallel the “justice” of God who treats His children “equally” by sending rain on the good and bad alike. Similarly, the Bible writers invariably tie “justice” back to purposive behavior; Micah, for example, speaking of those who “act justly.”

(In parentheses, it is worth noting the insistence of many contemporary theologians that believers should identify with the poorest and welcome laws which discriminate in their favor. Precisely what these theologians make of the insistence that “You shall do not injustice in judgment; you shall *not* be partial to the poor nor defer to the great” (Deuteronomy 19:15) is somewhat obscure.)

Liberty

One further term remains: “liberty.” Confusion here is simplified if we simply note that the passive infinitive verbal form “to be free” or

"to be at liberty" takes two prepositional constructions: "to be free *from*" and "to be free *to*." Following Sir Isaiah Berlin, these uses may be described as "negative liberty" and "positive liberty."

A person "free from" the constraints imposed by disease, poverty, or enslavement enjoys an autonomy a person subject to such constraints does not enjoy. A person "free to" express his views, choose his friends, and pursue the vocation of his choice similarly enjoys an autonomy a person lacking such freedoms is without. While Friedrich A. Hayek is indubitably correct to distinguish between legal constraints preventing a person doing X—say attempt to climb a mountain—and a lack of the ability or power to do X—say a lack of the skills or equipment needed to climb a mountain, *both states of affairs are characterized by a limitation upon individual autonomy (that is, an individual's ability to formulate his own goals and act in accordance with these).*

Minimally, government honors liberty, so understood, if it does not curtail behavior which does not interfere with the liberty of others. John Stuart Mill expressed this position in his *Political Economy*, V thus: "[the] individual is not accountable to society for his actions *in so far as these concern the interest of no person but himself*. Advice, instruction, persuasion, and avoid-

ance by other people if thought necessary for them for their own good, are the only measures by which society can justifiably express its dislike or approbation of his conduct." Unfortunately the phrase "in so far as these concern the interest of no person but himself" proved remarkably slippery, as did the notion of "harm to others" utilized in *On Liberty*. The contemporary philosopher Robert Nozick has tightened Mill's statements by speaking of actions which do not involve actual or threatened violence, theft, or deception, but even this statement must face some difficult cases. Yet the general principle is clear: the only actions a government honoring liberty can proscribe are actions involving some form of coercive interference with others and, therefore, a denial of their autonomy.

Liberals—using the word in its contemporary, debased sense—however, go further. If individual autonomy is a good, should not government positively act to increase the total quantum of autonomous behavior within a community? If impoverished A lacks the means to pursue his own goals, should not some of affluent B's wealth be transferred from B to A, and A's autonomy thereby be increased?

Yet, such a position is impossible to defend. Such an action, justified by reference to human autonomy, itself constitutes an invasion of hu-

man autonomy. A's autonomy may be increased, but B's autonomy is denied. For *given* a free market in a free society, B's wealth is the result of voluntary exchanges engaged in by B or the result of a gift from some third party, C. It may seem "unfair" that B rather than A is the beneficiary of C's generosity, but if C in any meaningful sense "owns" his wealth, justly acquired, he is at liberty to dispose of that wealth as he chooses.

In summary: the role of a government which respects liberty is to possess and exercise a monopoly of coercive power used simply to proscribe behavior which denies the autonomy of others.

The Christian who takes seriously the doctrine of the fall should respond positively to this analysis of "equality," "justice," and "liberty." Philosophers from Plato to Marx asked what political and economic structures maximize the good the best can do assuming they enjoy political and economic power. The classical liberals asked a different question: What political and economic structures *minimize the evil the worst can do* assuming they enjoy political and economic power? The assumption was not that the worst *would* enjoy such power, but that the possibility cannot be denied. This second question is the question men and women believing in the fall should applaud.

Conclusion

All forms of socialism—indeed, interventionism as such—assume that there exists a class, caste, or elite marked by a wisdom and a beneficence denied most mortals, and that this class, caste, or elite inevitably will exercise political and economic power. Werner Sombart, for example, postulated a hierarchy of *führers* headed by *the Führer*, who directly received his orders "from God, the Führer of the universe." Marx dreamed of absolute rule by a liberated intelligentsia and class-conscious workers, insisting that such rule would not be tyrannical. Even moderate interventionists hold that, when elected to political power, individuals will selflessly redistribute wealth in ways which benefit the most deserving. None take the doctrine of the fall seriously.

The words "equality," "justice" and "liberty" have been debased by those of the left, particularly within churches. Such people's use of these terms generates paradoxes which cannot be resolved, and demands an impossible playing off of one concept against another (say "liberty" as against "equality"). The classical liberals' use of the terms is, in contrast, coherent, rational, and perfectly in accord with Judaeo-Christian teachings and values. The terms belong to the lovers of freedom: the time has come for such people to reclaim them. ☉



Live Long and Prosper

THE AVERAGE LIFESPAN continues to increase in the United States. Once the deleterious effects of greater cigarette smoking among males are taken into account,¹ American men *and* women can reasonably hope to live well into their seventies. At the time of this nation's founding, the expectation was only about half that.

The trend which started long ago shows few signs of abating. "Life extension is not a new concept. Pioneers such as Semmelweis, who advocated that doctors wash their hands before examining pregnant women in labor (to control the deadly bacterial infection called puerperal fever); sanitation engineers; and other public-health officials around the turn of the century extended life

substantially by preventing communicable diseases through antiseptics, immunizations, sewage control, and sanitary food and water processing."²

In most modern nations huge amounts of money (hundreds of billions of dollars in the U.S. alone) yearly go to various health-related programs designed to prevent, arrest, or reverse the various diseases and deteriorations which shorten human life. As an international underscoring of this effort, note that at \$234.5 million the World Health Organization of the U.N. received the biggest single-agency share of the U.N.'s 1983 annual budget of \$1.63 billion.³

In a sense, the entire field of medicinal research directly or indirectly promotes the extension of human life. But many other disciplines,

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such as genetic engineering, computer-assisted diagnostics, biophysics and chemistry, radiation research, and nutrition—to mention just a few of the productive shafts of the life-extension gold mine—also contribute.

There is little doubt that science values the idea of enabling people to live longer. Certainly if we asked the average “man (or woman) in the street” if he thought greater life expectancy is a good thing, he would answer with a resounding, “Yes!”—as long as he could live in good health and decent economic circumstances. In other words, he would like to live long *and* prosper, physiologically and materially, which of course would enormously enhance his happiness.

Blessing or Burden?

Longer lifespan seems an obvious value. It is hard to imagine anyone considering it a negative. Yet, some do. Why? Because, they assert, it might be “too great a burden on society.”

This fear about longer life being a burden *rather than a load-lightener* has a distinctively statist origin and appeal. Statism—because of its nature and despite its rhetoric of disguised benevolence—has a rationale for opposing longer lifespans under certain circumstances.

Statism builds and depends for its “life-extension” upon governmental programs which arbitrarily desig-

nate an end to the productive lives of citizens. Historically, in the more barbaric states, the elderly have simply been killed off. In “enlightened” modern statist nations older people are handed stipends. Because statist systems are resistant to change, the prospect of citizens living longer threatens “smooth” functioning and in some cases the very existence of entire bureaucracies.

As we all know, many nations have mandatory retirement ages and ages beyond which citizens are unconditionally entitled to government welfare. Vast, ponderous agencies such as the U.S. Social Security administration and various health care bureaus exist to distribute money taken from those who have not retired to those who have.

The bureaucrats who work in these agencies naturally have a vested interest. Their jobs depend on maintaining the status quo—as long as they can continue to sell government legislators on the idea. But the bureaucrats are primarily concerned with preventing the status quo from moving in one direction: toward the shrinking of their agencies’ scope and power. If the status quo changes by expansion, that’s quite a different matter.

This was the pattern in America for many years, although it accelerated from around 1945. “Since the end of World War II, the U.S. has moved toward functional socialism

almost secretly," according to London School of Economics teacher, Maurice Cranston. As he points out, health care funding alone [a large component of which is income transfer to the elderly] "in 1950 was 4.5% of the gross national product, or something under \$13 billion. By 1970 it had risen to 7.2% and by 1980 it was 9.5%, or \$1,067 per person."⁴ Of course, as to Social Security, it is common knowledge that taxes in that area have now moved into the spotlight as the largest single-purpose confiscation American producers and workers have ever had to fork over other than for defense.

How Longer Lifespans Threaten Welfare Agencies

How exactly would longer lifespans threaten such burgeoning agencies' status quo or expansion?

First, we should recognize that the operators of the agencies are not stupid. They know that for their bureaus to function, they must have a steady supply of money. But, when more and more people live longer and retirement and benefit-qualification ages remain the same, the ratio of benefit-recipients to benefit-supporters (taxpayers) goes up.

As the bureaucrats see it, there are only two ways to solve this dilemma. Either taxes must go up or mandatory retirement and benefit-qualification ages must rise. What we've actually gotten has been a

mixture of both, with *most* of the mix consisting of higher taxes. The agency operators prefer the latter as long as their legislator-benefactors concur, which they've tended to do. For by raising taxes and not significantly raising age limitations, the bureaucrats and politicians together create an ever-larger political constituency of elderly recipients of income transfers.

So far, it would seem that our statisticians actually prefer longer lifespans. The more elderly recipients under their welfare wings, the better off the bureaucrats are politically—i.e., the less the likelihood that their agencies will be trimmed or terminated—right? Such is not the case. Sooner or later even the most economically jaded bureaucrat or politician must recognize certain financial realities. The primary reality in this context is that there is a point beyond which lifespans which are *too* long threaten the state's status quo by (a) forcing cutbacks in other *equally politically popular* redistribution schemes and (b) creating a backlash among the ever-smaller but still very large number of taxpayers. In other words, the welfare-for-the-elderly special interest groups find themselves fighting many other special interests, including other powerful bureaucracies and tax-rebelling producers and workers. This is the problem we approach in America today.

Stop Promoting Longer Life!

What is the "logical" solution which springs into the minds of clever statist planners? It is: Stop encouraging research, programs, and policies which promote longer life. Is this an overstatement? Well, witness the "concerned" remarks, such as this typical one by Alexander Leaf, former head of the President's Special Commission on Aging: "To consider any extension of human life span without a serious effort to anticipate and plan for the impact of increased longevity on society would be entirely irresponsible."⁵ At first glance this may sound innocent enough. But the implication is ominous: Unless we first have "social impact" studies of life extension research and actions, it is irresponsible to promote life extension; which means promotion of longer life—unless first cleared by society (i.e.—government, society's coercive agent) is to be condemned!

The argument is very similar to those which contend that new machinery should not be introduced without "labor impact" clearance. What we have is a fundamental attempt to subjugate life extension efforts to the will of the state. It is a kind of enforced life extension Lud-ditism.

As Pearson and Shaw, the two most prominent life extension scientists in the U.S., wrote, "With this philosophy, we may not be permit-

ted to extend our lives beyond the traditional three score and ten until the government figures out how to handle all the expenses and changes from widespread life extension."

"Is [Alexander Leaf's] comment merely an abstract point of no practical consequence?" they ask. Hardly. Extensive government health and welfare controls *have led* to development of policies restricting the extension of life. "Already, Britain's socialized medical service generally refuses to provide expensive treatments such as dialysis to patients over 65. The U.S. government already legally limits the number of hospitals that may purchase expensive CAT scanners and modern radiation therapy units, due to their impact on Medicare costs." And while the authors admit that these types of restrictions are touted as economy moves, "the people who made these decisions and the governments they work for face an inherent conflict of interest. These governments have colossal income-transfer programs, which take money from the young and transfer it to the old. . . . These programs and growing public awareness of advances in life extension research require that *choices be made* between the extension of human life span and the expectations of the electorate for ever more services at tax rates that they can afford. Either electorate expectations for government services must de-

crease, or taxes . . . must increase, *or the human life span must be held constant by government policy.*"²⁶

While public awareness of life extension research is indeed greater than a few years ago, considerable danger lies coiled in this political fact: There is no life extension special interest group even close to the size of other major political lobbies. Politically, this makes it possible for government agencies to, in a host of ways (such as FDA prohibition of free choice in use of potentially life-extending drugs), erode, inhibit, and block efforts of individuals and private organizations and firms to pursue a *free market* in life extension fields.

Statist Attack

This interventionism in the life extension market should surprise no one, for as Ludwig von Mises pointed out long ago, major bureaucracies are *by their nature* hostile to the free market. Opposition to a free market in human longevity is merely the latest in a long line of statist attacks on *all* market freedoms.

In order to thwart these attacks, a foremost requirement is for economists to speak out and present the case for the economic benefits of longer lifespans. Not nearly enough has been done, primarily because for many years, until our bureaucracies started to "overload" the economy, almost everyone assumed that longer

life was a good thing. Most people still do and it is a tribute to the basic American sense of life and self-improvement. But now the economic attack—a *statist* attack, antithetical to those basic American values—has begun and it must be countered forcefully and lucidly.

Here are some starting points for those who wish to enter the battle:

(1) The freedom to choose and pay for life extending innovations and information derives from man's most basic right—the right to life. If he does not have the freedom to pursue the preservation and betterment of his life, then the right to life loses the anchor of reality. This means that the life-extension market must be completely deregulated. It means government must contract, not expand, its control over all fields affecting the right of individuals to make life-extending market choices. Consumers must be free to decide for themselves what medicines, drugs, vitamins, surgical procedures, research, and information will best benefit them—as long as they are willing to pay for them, as all consumers must in a truly free market.

(2) Producers of life-extending products and services should be freed to offer them in an unfettered marketplace. Quality control to protect consumers could be better handled by private evaluative groups such as Underwriters Laboratories, Consumer Reports, Standard and Poor's,

and many insurance firms now do to assure high quality in various other market areas. There is no honest market need for government agencies such as the FDA, hospital-over-sight boards, genetic research standards boards, quasi-governmental medical examining boards, or any of the myriad of coercive agencies which now exist for the alleged purpose of protecting consumers from the products and services affecting individual health—and lifespans. As has been well-established elsewhere, such oversight agencies end up restricting consumer choices—which means, they end up also restricting the ability of consumers to take steps which would enhance their physiological well-being and enable them to live longer. In short, heavily-regulated markets chop off the good with the bad.

(3) Extended lifespans also extend productive years. This is an important economic point. People these days are not only living longer, they are living in better health. Thus, a greater proportion of a person's years can be devoted to supporting his *own* life—which means a smaller proportion of his years will require the aid of others, including the aid of tax-supported bureaucrats. On the face of it, this should demonstrate that extending lifespans of individuals also enhances the life and health of the entire economy. With more people relying longer on their own pro-

ductive efforts, there is less drag on the economy. Especially noteworthy is that longer lived people have more time to plan and prepare for their own retirements. An extended working life enables them to save and invest more money to be used when they finally step out of the work force in their less able years.

This is more true the freer the economy we develop, the fewer the arbitrary restrictions on retirement and the fewer the government programs we institute restricting people during their productive years. As things stand, government constrains the free market of labor by various legal ceilings on the working age.

Artificially low benefit-qualification ages also provide artificial incentives for the elderly to quit working earlier than they otherwise would and live at the expense of others—including other productive elderly people! The principle that welfare encourages more people to join the welfare rolls applies as much to the elderly as it does to the poor.

Ideally, from a market perspective, mandated retirement ages should be completely done away with and welfare for the elderly should be phased out and replaced by private market alternatives—such as the many excellent plans which free market economists have developed to equitably phase out the Social Security System.

(4) Finally, it is crucial to reassert a fundamental understanding of how free markets operate through division of labor. This is required not just for general economic progress anyway, but for progress specifically in the life-extension field. For if all parts of the field in a free market were allowed to interrelate, we would maximize the transfer of useful information, spurring innovation and progress to new speeds and new heights.

Perhaps more than anything else economic, it is a failure to grasp the principle of division of labor which permits public silence when particular divisions of labor (such as the life-extension professions) suffer the attacks of government. As George Reisman put it, "In the absence of such knowledge of economics, a modern nation like the United States is in the position of an ignorant crowd wandering among banks of computers or other complex machinery and randomly pushing buttons here and pulling levers there. For its people live in the midst of the division of labor, their lives depend on it, yet they do not understand it and are taking actions with respect to it

whose effects they do not comprehend."

It is for this lack of economic understanding that a generally pro-life-extension populace allows politicians and bureaucrats to randomly push the buttons and pull the levers of regulation on everything ranging from aspirin to zymology—all in the name of such package-deal slogans as "consumer protection" and "spreading the wealth." It is an ignorance and disrespect of the market which, if it continues, will some day lead a stunned public to ask why lifespans have stopped increasing and why no one ever repeats the joyous slogan, "Live Long and Prosper." ☸

—FOOTNOTES—

¹"Smoking and the Longevity Gap," *Science News*, August 13, 1983, p. 119.

²Harry B. Demopoulous in *Life Extension*, by Durk Pearson and Sandy Shaw, Warner Books, 1982, pp. xvii, xviii.

³"U.S. Pays 22% of U.N. Budget," A.P. wire, September 24, 1983.

⁴*Wall Street Journal*, August 24, 1983, p. 27.

⁵*Scientific American*, September 1973, quoted by Pearson and Shaw.

⁶*Life Extension*, p. 556, emphasis added to quote.

⁷*The Freeman*, March 1981, p. 184.

IDEAS ON **Maxwell Anderson**



LIBERTY

A free man has a value to himself and perhaps to his time; a ward of the state is useless to himself—useful only as so many foot-pounds of energy serving those who manage to set themselves above him.



Ideological Roots of Unionism

IN ECONOMICS, as in ordinary discourse, the word labor connotes the physical or mental exertion of a practical nature, as distinguished from exertion for the sake of play and enjoyment. Labor is performed in the production of economic goods or services that are useful and valuable. It may be rendered independently by an individual aiming at economic betterments and well-being, or it may be performed in the labor market for the sake of compensation that enhances economic well-being. It may be a contribution to the productive process in the form of work by body or mind. In short, labor is expenditure of vital effort, an indispensable characteristic of human action.

Economists treat labor as a separate factor of production, distinguishable from natural resources and capital. From the beginning of economic thought by the ancient philosophers to modern economic theory, labor has been a distinct factor because it involves the efforts of human beings. Many writers are reluctant to apply economic knowledge and analysis to this distinct factor. There is nobleness and even sacredness in work, they proclaim, which do not allow for economic deliberation and price calculation. They devise economic doctrines and theories of their own and call for social reforms through legislation and regulation.

In a more special sense, the word labor connotes all workers collectively. It is the supply of labor in a country at a given time, the total manpower of a nation. The term is

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borrowed from the armory of military strategy and the political command system. It is used in the popular expression "national labor force," which includes all those persons, whether self-employed or wage-earning, who do any work for pay or profit, all those who have jobs as well as those who are unemployed but are seeking employment. In this sense it is the favorite term of all mainstream economists and government regulators.

In a yet narrower sense, the term labor is often applied to industrial and agricultural wage earners only. They are said to form the "working class," propertyless and helpless, engaged in an economic, social and political struggle with the ruling classes. It is in this sense that one speaks of "organized labor" seeking strength through political organization and collective bargaining.

The "labor movement" comprises all the organized activities of the working class. In the free countries of the West, it is engaged in three major types of activities—economic, political, and cooperative. The economic activities are carried on by labor unions eager to achieve job and income control through joint action. The political activities of labor usually aim at replacing the competitive private-property order with a political command system. In the United States they have mostly been directed toward government inter-

vention designed to restrict free competition and open markets. The cooperative activities are visible in the formation of credit unions, pension funds, and other nonprofit organizations in the midst of private enterprises.

The economic literature of our age is but a mirror of the prevailing economic thought and doctrine. There is a vast literature on the labor movement, usually in full agreement with its many manifestations. Countless books intone the praises of its organization and history, and repeat a few vague old notions on labor's disadvantage and exploitation. But these old notions continue to provide the very ideological foundation of labor unionism and the labor policies of all contemporary governments in the Western world. Refuted and exploded innumerable times in the past, their power and vigor make it necessary to answer them again and again.

Labor's Disadvantage

It is rather difficult to trace a thought back to its original thinker. Old thoughts may never die. Once formed and uttered, embodied and expressed in fit words, they may walk the earth forever. The notion of labor's disadvantage is usually ascribed to Adam Smith, and has been held ever since by hosts of writers. A number of classical economists, above all, Jean Baptiste Say (1767–

1832), J. R. McCulloch (1789–1864) and John Stuart Mill (1806–1873) repeated the idea, in time embellished it. The Cambridge School of Alfred Marshall (1842–1924) and A. C. Pigou (1877–1959) expanded and popularized it to justify workers' combinations and collective bargaining. The first president of the American Economic Association, Francis A. Walker (1840–1897), added his conception. Countless contemporaries continue to echo the old exercise.

The wage of labor, according to Adam Smith, depends on the contract made between workers and masters. But their interests are not the same. The workmen desire to earn as much, the masters to grant as little as possible.

The labor movement of the early 19th century may have sprung from the following passage in the *Wealth of Nations*, or at least may have received the master's approval and benediction: "It is not, however, difficult to foresee which of the two parties must, upon all ordinary occasions, have the advantage in the dispute, and force the other into a compliance with their terms. The masters, being fewer in number, can combine much more easily; and the law, besides, authorizes, or at least does not prohibit their combinations, while it prohibits those of the workmen. We have no acts of parliament against combining to lower the

price of work; but many against combining to raise it. In all such disputes the masters can hold out much longer. A landlord, a farmer, a master manufacturer, or merchant, though they did not employ a single workman, could generally live a year or two upon the stocks which they have already acquired. Many workmen could not subsist a week, few could subsist a month, and scarce any a year without employment. In the long-run the workman may be as necessary to his master as his master is to him, but the necessity is not so immediate."¹

Say, McCulloch, Mill

The French writer Jean Baptiste Say did more to spread Smith's teaching in general and Smith's doctrine of labor's disadvantage in particular than any other writer. In his *Traité d'économie politique*, published in 1803, he repeated Smith's remarks and eloquently elaborated the implications. The wants of the masters, according to Say, are less urgent and immediate than those of the workers who without gainful employment would soon be reduced "to the extremity of distress." This circumstance, Say concluded, must have its effect on the rate of wages both parties tend to accept.²

J. R. McCulloch, in his 1851 *Treatise On the Circumstances which Determine The Rate of Wages and the Condition of the Labouring Classes*

eloquently repeated the Smith doctrine in defense of union organization and activity. Trade union leaders quoted McCulloch and thousands of pamphlets spread his views on the benefits of labor combination. Actually he was merely popularizing Smith's doctrine of labor's disadvantage.³

John Stuart Mill, who dominated the intellectual scene in Britain and the United States for nearly half a century, professed two different theories of labor combination. In his younger years he was rather skeptical about labor's ability to improve working conditions through combination. In his *Principles of Political Economy* he spoke of "narrow limits of power" beyond which union activity would keep "a part of their number permanently out of employment."⁴ Combinations may be successful only where the work-people are few in number and are concentrated in local centers. They may impose higher costs on employers who will pass them on to consumers in the form of higher prices.

Some twenty years later Mill presented a different theory of the prospects and consequences of combination. Under the influence of his friend, W. T. Thornton, he not only reproduced the doctrine of labor's disadvantage but also invoked his "standard of morals" on behalf of labor unions. He mixed his economic beliefs with his moral convictions and

arrived at an ardent labor union doctrine. The laborers' wages, according to Mill, tend to fall within a certain range the higher limit of which is "consistent with keeping up the capital of the country," and the lower limit of which "will enable the labourers to keep up their numbers." Unable to resist even a single employer, and surely the tacit combination of employers, the laborers must yield. Their wages, as a rule, are "kept down at the lower limit." When laborers combine in a union that includes "all classes of labourers, manufacturing and agricultural, unskilled as well as skilled" they may achieve the higher limits. Whoever adheres to "a standard of morals" must wish "that the labourers may prevail."⁵

Walker, Marshall, Pigou

Francis A. Walker (1840-1897), the outstanding American economist of his time, justified combinations on grounds of "impaired" or imperfect competition which may work against the workers. Adam Smith provided his guideposts: "Masters are always and everywhere in a sort of tacit, but constant and uniform, combination not to raise the wages of labor above their actual rate." (*The Wealth of Nations*, pp. 66-67, quoted by Walker, *The Wages Question*, p. 392). In the name of justice and "for the peace of industrial society," labor must be permit-

ted to play the same game. Professor Walker, therefore, concurred with Messrs. Mill and Thornton and all other defenders of trade unions. But he added a reservation that continues to be heard even today, a century later: Labor unions served a useful purpose in the past, but have lost their justification in the present. In his own words, "My difference with such defenders of trades-unions as Mr. Thornton is merely as to the time when these should be put away as an outgrown thing. I find no ground for expecting any benefit to the wages class as a whole, from restricting the access to professions and trades in any country where education is general, where trade is free, where there is popular tenure of the soil, and where full civil rights, with some measure of political franchise, are accorded to working-men."⁶

Alfred Marshall (1842–1924), one of the great names in the development of contemporary thought, had such great influence on his fellow economists that the first quarter of the 20th century can probably be called the "Age of Marshall." Much of the Marshallian framework remains intact today, in the last quarter of the century.

Marshall elaborated Smith's doctrine of labor's disadvantage and embellished one of Thornton's original thoughts that "labour will not keep." Labor may be at a special disadvantage because it is "perishable"

and the sellers are too poor to withhold it from the market. The want of reserve funds is common especially to all grades of unskilled labor, the wages of which leave little margin for saving. Moreover, unskilled workers are most numerous and always eager and capable of taking each others' places, which makes a laborer's disadvantage cumulative in two ways: "It lowers his wages; and as we have seen, this lowers his efficiency as a worker, and thereby lowers the normal value of his labour. And in addition it diminishes his efficiency as a bargainer, and thus increases the chance that he will sell his labour for less than its normal value."⁷

The Economics of Welfare

Arthur Cecil Pigou (1877–1959) was the successor of Marshall as professor of political economy at Cambridge University. He was, it may probably be said, the last member of the Cambridge School, which John Maynard Keynes made his chief target of attack. Pigou's *Theory of Unemployment* (1933), especially, embodied the "classical economics" that was loudly rejected by Mr. Keynes. But Keynes never objected to Professor Pigou's doctrine of labor combination and union activity, or his notion that the pricing process allowed for a margin of "indeterminateness" that was available for collective bargaining.⁸

In his celebrated opus *The Economics of Welfare*, Professor Pigou depended on collective bargaining to prevent the "cutting or nibbling" of wage rates. In fact, he sounded like a socialist who is firmly convinced of the power of employers to "exploit" their weak and defenseless workers, especially through piece-wages. In his own words, "When a bad employer succeeds in 'nibbling' the rates, his success makes it difficult for his competitors to refrain from following his example, and is apt, therefore, to start a cumulative movement. But it is not necessary that piece-rates should be fixed by individual bargaining. In this fact the solution to the problem may be found. For collective bargaining furnishes a guarantee against the kind of nibbling which is really exploitation, and also makes it easy to provide machinery—whether joint-committees or jointly appointed rate-fixers to adjust particular rates."⁹

There Is No Margin of Indeterminateness

If eminent economists from Adam Smith down to our age professed such forceful doctrines it cannot be surprising that multitudes of lesser writers joined in the chorus, that nearly every man of public affairs continues to identify himself with the eminent economists, and every union spokesman proudly echoes the doctrines. But no matter who may

sponsor the precept, how often it may be repeated, and how popular it may be, it cannot possibly stand a critical analysis. It contradicts basic economic knowledge and clashes with economic reality.

The doctrines of labor's disadvantage and deliverance by collective bargaining are "short-cut doctrines" that promise instant relief and improvement through collective force. They probably spring from sympathy for the hardships of the poor which is a noble passion of the human heart, and from the most beneficial of all the affections—hope—which is the only universal cure. They promise an exciting shortcut to income and wealth without the pain of extra effort and labor and without the arduous task of capital formation that makes human labor more productive. And lest we forget, they bring popular applause for "goodness" and "benevolence" although they pave the way for so much folly and suffering.

There are no shortcuts to economic production and income. Wage rates for any kind of labor, from complex mental labor to simple physical exertions, are determined by the anticipation of the service they render to human well-being. In particular, they are determined by anticipation of the price that can be obtained for the increment of goods and services expected from the employment of the worker. Economists

call this increment the "marginal" product that determines the compensation for every kind of labor. It can be made to rise through greater labor exertion and improvements in the quality of labor. It may be raised with the help of more capital and application of more productive methods of production. But it cannot be made to rise through collective bargaining. There is no "margin of indeterminateness" that can be appropriated by militant labor unions. There is no "no-man's land" in which the biggest battalions determine the outcome of the battle.

In a private-property order labor is treated like any other factor of production bought and sold on the market. Employers need to buy materials and supplies, tools and equipment, and all kinds of specific labor. To stay competitive and serve his customers best, an employer must buy the needed factors at the lowest possible prices. But the prices he offers must be high enough to secure the necessary supplies from the sellers, outbidding all other competing buyers. He may make mistakes in his bidding for the factors of production. He may bid to pay more than the going rate, which raises his costs of production and invites offers in excess of his needs. If his bids are lower than the market price, he may not be able to secure the needed supplies. A businessman who continues to make such mistakes, i.e., incurs

higher costs than his competitors or fails to obtain the needed supplies, will, in time, cease to be a businessman. Someone else more capable of judging prices will take his place.

Employer Combinations Are Ineffective

Even if employers were to combine openly or tacitly to keep wages below the marginal rate, to which Adam Smith alluded, their sinister efforts would be destined to fail. If they would pay less than the full rate, they would render the employment of labor more profitable. New entrepreneurs seeing new opportunities for profits would appear on the market and bid for more labor, which would bring wage rates right back to the marginal productivity of labor. Even if employers would manage to prevent the arrival of newcomers through institutional barriers, such as government licenses and permits, their open and tacit combinations would soon fail because they themselves would be tempted to buy more labor at such bargain rates. They would be tempted to expand their activities, bidding for more labor in any way conceivable. After all, there may be small employers who would like to grow, some who are young and eager, some who are poor and desperate, perhaps on the brink of bankruptcy. They all may want to hire profitable labor in order to reap the benefits. If they cannot raise

wage rates, they may want to adjust working conditions, improve fringe benefits, or compete effectively in countless other ways, which once again would raise labor compensation to the marginal rate.

Employer combinations designed to restrain wage rates ignore many other factors of labor compensation that remain the objects of competition. In this respect a combination agreement is like a wage "freeze" or "stop" imposed by a fuddled government; it may arrest a single factor of competition, the rate of wages, but tends to stimulate the competition for labor in countless other ways, from generous expense accounts to country club dues. If government cannot effectively enforce a wage stop, using threats, fines and brute force, it is unlikely that an association of employers, or even a national association of associations, lacking that force, can lower wage rates.

If it is true that employers compete with other employers in countless subtle ways, it is rather futile and unwise to enter into restraint agreements and wage combinations. This fact alone, which undoubtedly is well-known to experienced businessmen, points at the obvious conclusion that the colorful reports on employer combinations, today or from the distant past, are probably overstated and exaggerated.

Comparing employer combinations with worker combinations, that

is, labor unions, the basic differences become apparent immediately. While employers tend to compete openly and tacitly to engage the needed labor, labor unions actually prevent the competition of their members. Employers may evade a wage agreement in countless different ways; workers may not be able to escape the union command. They face an agonizing decision: to cross or not to cross the picket line. Employers are virtually free to compete in the labor market; workers are not. They may live under the threat of brutal retaliation not only at the picket line but also at work and at home.

Surely, to be more competitive in the labor market, an employer may openly improve the fringe benefits of his workers without inviting any physical danger to himself or his family. A worker who ignores his union command and actually crosses a picket line may jeopardize all his property and risk bodily harm not only to himself but also to his family. It must be concluded, therefore, that combinations and organizations of restraint are rather ineffective among employers. But they may be highly effective in their design to restrict competition when they consolidate and syndicate the workers.

Workers Can Wait

It is said that workers cannot wait for remuneration and, therefore,

suffer a disadvantage in their bargaining position toward employers. "The masters have the advantage," according to Adam Smith. The workers without gainful employment would soon be reduced "to the extremity of distress," according to Jean Baptiste Say. Thus stated by the mentors their disciples have been repeating it ever since.

This ability-to-wait theory of income obviously is moving in a vicious circle. It ascribes disadvantages to poor laborers who cannot wait, and explains their inability to wait with their lamentable poverty. The masters can wait because they are affluent, and they are affluent because they can wait. Actually, the ability to wait has no bearing on wage determination unless it is the ability to withdraw permanently from the market. Withdrawal of labor raises the marginal productivity of labor just as the withdrawal of capital raises that of capital. But such a withdrawal, if it is conceivable at all, would reduce total output and thus total income. It would aggravate everyone's economic conditions but especially those of workers who chose or were forced to withdraw.

The inability-to-wait doctrine, which lives on in contemporary economic literature, received considerable intellectual support from Thomas Robert Malthus and his theory of population. Nearly all classical economists were convinced

that the power of population is indefinitely greater than man's power to produce subsistence. Population, when unchecked, increases in a geometrical ratio. Subsistence only increases in an arithmetical ratio. The disproportion unfortunately condemns the least productive class of population to hopeless misery and poverty.

Malthus and Population

The Malthusian law of population indisputably explains economic conditions in many parts of Africa and Asia where additional quantities of means of sustenance are immediately absorbed by additional numbers of people. But in capitalistic societies with economic freedom and private property in the means of production, with private initiative and entrepreneurship, economic production tends to outpace by far the proliferation of population. Freedom thought and policy always bring unprecedented economic development together with declines in birth rates and mortality rates, which significantly raise the levels of living and prolong the average human life. If working people no longer hover at the subsistence minimum the Malthusian law of population cannot be made to support the inability-to-wait doctrine.

The doctrine nevertheless lives on, nourishing labor combinations and commending collective bargaining.

It never explains why workers acting in concert have greater holding power than workers acting individually and alone. After all, human wants and basic needs for sustaining human life are always individual. It is true, an association of workers may pool member resources and thereby consolidate and equalize the hold-out period. It may save membership dues and accumulate a strike fund for distribution during "waiting periods." And above all, it may concentrate its holding power on a single employer, inflict or threaten to inflict painful losses on him in order to make him submit to union demands. Such tactics of worker combinations leave employers no choice but to form their own defense organizations that can meet the workers' collective power with holding power of their own. Most employer associations sprang from this necessity of self-defense.

Employers organize in self-defense from labor organizations defending themselves from alleged "cutting," "nibbling," or outright exploitation. Both sides are often locked in a bitter struggle of self-defense, which is testing their ability to wait, impoverishing both and hurting the public. Both sides act like pawns in the game of economists who call it "cutting" or "nibbling" with its predictable consequences.

Are employers capable of cutting and nibbling in the absence of pow-

erful labor unions? They are as capable or incapable of nibbling at the price of labor as they are with other prices for materials and supplies, water and electricity, or travel facilities. In the case of labor, as with many other factors, employers may have a choice between many grades and qualities. What may appear like "nibbling" and "cutting" may actually be the purchase of mediocre labor. Workers differ greatly not only in learning, training, and skills but also in dependability, conscientiousness, honesty, cooperation, and goodwill. Some employers may choose to attract only the most productive workers by offering the highest wages; others may try to get along with mediocre labor, paying average wages; others yet who may have special skills in handling difficult labor may try to make do with less expensive labor. They all mean to achieve the lowest costs per unit of output in order to serve their customers best.

"Labor Is Perishable" and It "Will Not Keep"

In its crudest form expressed by Professor Marshall, the inability-to-wait theory calls for collective defense on grounds that labor is "perishable" and that it "will not keep." This startling observation obviously implies that, in contrast to labor, capital is more durable and therefore stronger than labor. Unfortu-

nately, this whole line of reasoning is flawed rather seriously because it compares two incomparable qualities: labor services with the productive life of tools and equipment. It is specious reasoning which would become apparent immediately if employers were to use it: "We are unable to wait, when compared with labor, because corporate profits and interest income are 'perishable,' but laborers are not." If Marshall had compared labor service with capital service, or labor income with capital income, he would have noticed that all types of income are "perishable." During periods of labor strife and idleness, the services of both capital and labor do not "keep"; both lose time, income, and wealth through inactivity.

Contrary to the pronouncements

by the eminent economists, many workers can wait longer than their employers. Small employers are no match for laborers organized in industry-wide unions. Many large employers are "marginal," that is, are operating at the margin of profitability covering expenses and earning a going rate of return. Some employers may be "submarginal" earning less than the going rate. Some may even suffer losses. When labor unions choose to test the ability to wait the weakest employers suffer the greatest pain in the form of calamitous losses, which may spell ruin and bankruptcy. All other producers may be forced to curtail operations and reduce output.

Many classical economists were unduly impressed by the economic strength of the masters. According

Bargaining

BARGAINING is not facilitated by a powerful membership organization of competitors, whether they be competing for wages or for profits or for anything else which is scarce enough to have market value. It is a highly risky thing to delegate one's own right to bargain to any representative who pretends that such organizational control of competition is either necessary or desirable. A bargainer is one who cooperates with those who are willing; for that purpose, he needs no power of compulsion. He doesn't need coercive control of competitors. Such controls are the tools of persons who will use force if bargaining doesn't go to suit them. Those who are still free to bargain, and who like it that way, will think carefully before placing in the hands of others those personal rights and responsibilities which might be perverted into weapons of coercion.

PAUL L. POIROT

to Jean Baptiste Say, "There are few masters but what could exist several months or even years, without employing a single labourer, and few labourers that can remain out of work for many weeks, without being reduced to the extremity of distress." Surely, few American corporations could suffer a strike of several months or even years without jeopardizing their economic survival. And few French companies could have suffered through lengthy shutdowns in 1803 when J. B. Say wrote these lines. They, too, had to pay taxes, interest on loans, and high overhead costs regardless of operation and output. They, too, suffered grievously through time wasted, income lost and opportunities forgone.

The classical economists never were "masters" meeting payrolls and interest payments, facing deadlines for tax payments to various government authorities, or suffering frightening losses from sudden changes in market conditions. They probably never confronted labor unions that meant to inflict maximum harm on the owners. The great writers were academicians motivated by genuine sympathy and empathy and guided by deep feelings of good will for the poor.

Inapt Reverence for the Past

In all matters of labor relations public feeling is apt to side with the laborers. Their poverty, presumed or

real, is like a badge of courtesy to which the public readily pays homage or at least demonstrates respect. Most economists who are mindful of public opinion are quick to render honor to labor combinations. In want of a labor union rationale, but guided by considerations of courtesy and public opinion, they may dwell on the history of labor and make much of the distant past.

Francis A. Walker was one of the first to question the present and salute the past. He added a thought to the intellectual armory of unionism that continues to haunt us even today, more than one hundred years later. No longer finding any ground "for expecting any benefit to the wages class" from labor combinations, he raised the questions of "when these should be put away as an outgrown thing." In short, he suggested that labor unions may have lost their justification in the present (1876), but that they were most useful in the past. He bestowed honor and prestige on labor unions by imputing a virtuous and glorious past.

Economics as a theoretical science elaborates eternal, inexorable principles of human action. It deals with the means man must apply in order to achieve attainable ends. History is but a register of human efforts and blunders which cannot confirm, refute, add to or subtract from economic knowledge. It cannot uncover

benefits of labor combination in the present or the past if economics finds "no benefits to the wages class." History cannot reveal benefits to all workers if economics demonstrates convincingly that union tactics cause unemployment. Historians should not proclaim the benefits of labor combination and collective force if economists can show that such force not only reduces economic output and thereby hurts consumers, but also inflicts serious harm on unemployed workers.

The unhampered market order allocates to every member the undiminished fruits of his labor. It does so in all ages and societies where individual freedom and private property are safeguarded. It did so 2,000 years ago in Rome, in eighteenth-century England, and in nineteenth-century America. The reason our forefathers earned \$5 a week for 60 hours of labor must be sought in their low productivity, not in the absence of labor unions. The \$5 they earned constituted full and fair payment for their productive efforts. The economic principles of the free market, the competition among employers, man's mobility and freedom of choice, assured full wages under the given production conditions.

Wages were low and working conditions primitive because labor productivity was low, machines and tools were primitive, technology and production methods were crude when

compared with today's. If, for any reason, our productivity were to sink back to that of our forebears, our wages, too, would decline to their levels and our work week would lengthen again no matter what the activities of labor unions or the decrees of government.

Most historians are not economists who elaborate the inexorable principles of human action. They like to portray the Industrial Revolution as a disaster that brought untold misery to the working classes. They hail progressive governments and courageous labor unions for having offered relief to the suffering masses. To them the coercive power of both government and labor union is a necessary instrument for balancing the economic powers of the masters. To economists such an interpretation of history is deficient in basic economic knowledge. They view the Industrial Revolution and the phenomenal improvements of labor conditions and income as a great achievement of economic freedom. It set people free to apply science to industry, and to form and use capital in economic production.¹⁰ The rise of unionism during the past two centuries is seen as the result of fallacious economic doctrines about laborers' disadvantage. Labor unions are the bitter fruit of erroneous theory, with a record of abuse far more grievous than the alleged evils the unions were supposed to rectify.¹¹ ☉

—FOOTNOTES—

¹Cf. Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, 1776 (New York: The Modern Library, 1937), Book I, Chapter VIII, p. 66.

²Jean Baptiste Say, *A Treatise on Political Economy* (1803), Third American Edition, 1827, "The wages of the labourer are a matter of adjustment and compact between the conflicting interests of master and workman; the latter endeavoring to get as much, the former to give as little, as he possibly can; but, in a contest of this kind, there is on the side of the master an advantage over and above what is given him by the nature of his occupation. The master and the workman are no doubt equally necessary to each other; for one gains nothing but with the other's assistance; the wants of the master are, however, of the two, less urgent and less immediate. There are few masters but what could exist several months or even years, without employing a single labourer; and few labourers that can remain out of work for many weeks, without being reduced to the extremity of distress. And this circumstance must have its weight in striking the bargain for wages between them." (p. 294)

³"Few masters willingly consent to raise wages; and the claim of one or of a few individuals for an advance of wages is likely to be disregarded so long as their fellows continue to work at the old rates. It is only when the whole, or the greater part, of the workmen belonging to a particular master or department of industry combine together, or when they act in that simultaneous manner which is equivalent to a combination, and refuse to continue to work without receiving an increase of wages, that it becomes the immediate interest of the masters to comply with their demand. And hence it is obvious, that without the existence either of an open and avowed, or of a tacit and real combination, workmen would not be able to obtain a rise of wages by their own exertions, but would be left to depend on the competition of their masters." (New York: Augustus M. Kelley, 1963), pp. 79-80.

'Principles of Political Economy (1848), in "Collected Works of John Stuart Mill" (University of Toronto Press, 1965), Vol. III, p. 930.

⁵"Thornton on Labour and its Claims" in "Fortnightly Review" May 1869, *Dissertations and Discussions, Political, Philosophical, and Historical* (New York, 1875), pp. 74, 75.

'The Wages Question: A Treatise on Wages and the Wages Class, (1876) (New York: Holt, 1904), p. 406.

'Principles of Economics, (1890), 8th edition (London: Macmillan & Co., 1920), p. 473.

⁸*'Principles and Methods of Industrial Peace* (New York: Macmillan, 1905), p. 36. Also *The Economics of Welfare* (1920), Fourth Edition (London: Macmillan, 1932), pp. 557, 558: "Insofar, however, as movements of workpeople are hampered by ignorance and costs, a monopolistic element is introduced into the wage bargain. Consequently, there is created a range of indeterminateness, within which the wages actually paid to any workman can be affected by individual 'higgling and bargaining.' The upper limit of this range is a wage equal to the value of the marginal net product of the workman to the employer engaging him. . . . The lower limit is a wage equal to what the workman believes he could obtain by moving elsewhere, minus an allowance to balance the costs of the movement. The width of the gap between the workers' minimum and the employers' maximum varies in different circumstances. It is made larger when the employers in a district tacitly or openly enter into an agreement not to bid against one another for labor, since, in that event, the alternative to accepting terms from them is to seek work, not near by, but perhaps in an unknown district."

⁹*The Economics of Welfare*, p. 483.

¹⁰Cf. T. S. Ashton, *The Industrial Revolution* (Oxford University Press, 1948); F. A. Hayek (ed.) *Capitalism and the Historians* (University of Chicago Press, 1954).

¹¹Cf. W. H. Hutt, *The Theory of Collective Bargaining* (Glencoe, Ill.: The Free Press, 1954); Charles E. Lindblom, *Unions and Capitalism* (New Haven: Yale University Press), 1949.

CAPITALISM AND HUMAN NATURE

THE RETREAT from reason takes many forms. One of its strongest thrusts is the irrational drive of twentieth-century man, led by the irrationalists of the state and their intellectual acolytes, to enchain the producers in society. This they do by physical force, which is the state. Defying the laws of human nature and the principles of economics, they suppose that "somehow" it will succeed. What they mean is: "somebody" will pay.

It is unnerving and sad to see our wonderful, diverse and interesting country slide toward the dull stagnation of over-governed Britain, where the rich somehow remain rich but a newcomer trying to build his own business can get crushed by official paperwork and taxes. America is not perfect, but it is much closer

to it economically than any other country—thanks, largely, to that maligned evil—profit: the devil for which intellectuals like Michael Harrington, in *The Twilight of Capitalism*, blame the energy crisis, urban blight, stagflation, youth crime, lax school discipline and almost every other social ill.

Such critics base their entire historical outlook on a parochial interpretation of the politico-economic crisis in the United States in the early 1930s. They seem genuinely to believe, like Eliphaz the Temanite in his dialogue with Job (XXII 5-10), that the very fact that a man is rich proves him to be a public robber. Even George Santayana, in a letter to Sidney Hook, said of our current system of production: "This labour in fact subtracts from their value, in so far as it is forced labour; and this is the crying sin of our industrialism: that it forces millions of men to

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labour hopelessly in order to supply themselves—or the capitalists among them—with a lot of rubbish.” (Published in *Modern Age*, Spring, 1977, p. 78)

There are two ways of living off others: free exchange or coerced exchange, trading or taxing and taking, cooperation or war. When a sufficient number of nonproducers has reached the public trough, you have inflation. Then the cry goes out for more controls. But controls tell lies. So-called price-controls are economic falsehoods by which people are placed in deeper bondage. There are no shortages in the free market, only under government intervention. The first duty of a citizen is to see through the deceptive jargon of his would-be rulers. Capitalism releases the human spirit. All other systems mask and enslave it. Freedom is the invisible hand, the magnetic force that draws from each of us his best service to others.

Statist economies always stagnate, collapse and produce general poverty. The reason: stagnation is contrary to the facts of human nature. Collectivist economists, in their attempt to repeal these facts, betray themselves into the logical absurdity of asserting that slavery could not have achieved the wonders of a free economy, but that in a complex technological economy we must have slave labor, *i.e.*, government controls and exorbitant taxation.

Consequences of Compulsion

Observe the psychological consequences of being compelled to live in a Communist society. People simply steer clear of politics, try to stay out of trouble, work as little as possible and acquire what consumer goods they can to make life tolerable. “I would say 98 percent of the people are just apolitical,” one Western diplomat said. “They work at their jobs as little as possible and worry about how to get a car and get away to a cottage in the country.” They do open up now and then, and slyly. “We are building a new metro,” one Prague man said. “It is being built on the Russian system. It will be finished in 27 years.”

An example of the sour jibes at the Workers' Homeland in satellite countries is this. A Russian man sees his friend Alexei coming down the street one snowy day wearing only one shoe. “Ah, Alexei,” he says, “I am sorry to see you have lost a shoe.” “No,” Alexei says, “I have found one.”

Bribery in Communist countries is a routine of life. Medical service is free. But if you want to jump to the head of a long line at the clinic or doctor's office, you slip someone a bribe. If you want a good cut of meat, you slip the butcher two packs of cigarettes. “You have to pay a bribe for everything,” one working wife complained.

Money can't buy food when grocers don't have it to sell. In Iron

Certain countries it is not unusual to walk a mile to the grocery and stand in line for butter. When your turn comes, you may be told there is no butter, or no meat or even vegetables. It seems almost impossible that in a farming village people would be without produce, but the state gathers up farm products and then distributes them around the country.

Note what has happened in the United States in the past half century to the comparative costs of mailing a letter versus making a long distance call on our privately owned telephone system. So the government has broken up the Bell system. The same government has decreed that A.T. & T. may earn only 7½% as a result of its enormous inventiveness and investment in plant, structure, brains and equipment. You can get 5% in a bank or 12½% in a mutual bond fund by just sitting still. If a company shows good earnings, it immediately has Internal Revenue on its back bleeding it of well over 50% under the pretext of the "Undivided profits tax." The enterprise that feeds, supplies and provisions us is already subject to minimum wage and maximum profit regulations. How long will it be before the arc is closed—with limitation of maximum wage? Marxian economics will then be complete.

Now it is true that experienced observers—at least those with earthy

shrewdness—are gravely concerned about the concentration of ownership and control, the growth of profitable holding-companies, mergers and conglomerates. When this process extends to the marketplace of ideas, as in the growing number of one- and two-newspaper cities, it is especially disturbing, because ideas are the most important thing in the world and publicity is the most powerful instrument that can be wielded. But the answer to concentration of power in the hands of patoots is not concentration of power in the hands of politicians. Grafting reform of limited abuses with unlimited ambition has started the political fortunes of several American family trees.

No One Knows How to Make the Command Society Work

It is commonly better for the managers of a command economy if fifteen men are assigned to do one man's work. So assigned or not, that is approximately what fifteen socialist workers will normally do. They have and can have no incentive to do otherwise. The managers can have no rational way to allocate resources to their most desired and effective uses. As F. A. Hayek demonstrated so memorably in *The Road to Serfdom*, no one knows how to make socialism work.

Two centuries ago we were a poor nation where men and women

worked 12 to 18 hours a day at least six days a week. Child labor was required for most families to survive. Horses and oxen plowed fields and pulled wagons. Electrical power did not exist. The internal combustion engine was a hundred years away. There was no running water in homes. Life was hard. We know what we have today by contrast. Wages have reached a level unprecedented in any economy. We produce in an hour what it took our forefathers a week to produce. We travel in five hours a distance that took them six months. One half of all the goods produced in the past 10,000 years have been produced in the United States in the past two hundred.

"Oh, but capitalism failed dismally during the Depression," someone says. The answer is that the whole complex of make-work projects, WPA, PWA, CCC and the rest, did nothing for the economy.

Today the beneficent oak which was our strength is in trouble. The problem is big, centralized government which has encrusted the roots and branches with such parasitical mushrooms as CAB, EPA, EEOC, FAA, FCC, FPC, FTC, ICC, NLRB, OSHA and SEC. All these bureaucratic regulatory agencies have grown at the expense of our free enterprise system. They exercise control over our lives, telling us and the businesses we own and for which we work what we can and cannot do.

Not one of these burdensome bureaus was required to make America's economy the greatest on earth.

One Control Leads to Others

Experience with human action shows that there can't be a little socialism, any more than a man can partly murder or a woman be partly pregnant—there can only be a lot. Every measure to control any aspect of the economy dislocates some other aspect or activity. The latter, being closely tied in, therefore requires control in turn. The great oak can give its vitality to mistletoe and still thrive, but there comes a point when any parasite will destroy its host. The pretty bindweed with its bright pink morning-glory blossoms must be snipped off at the root or it will strangle the chrysanthemum and the rose. Let political direction invade any area of economic or cultural life and it constricts, winding itself round and round sprouting vested interests bound to insure its perpetuation. Then farmers insist that we continue to pay them not to farm, educators raven for federal funds and direction, we have "urban renewal" fiascos, womb-to-tomb paternalism.

Can we frame a plan or elect a planner that will efface in other people a myriad intellectual errors and emotional compulsions? Who would be so rash as to claim he can dispel every mistaken notion from his friend, or indeed even from himself?

Socialism, as Leonard Read constantly reminded us, will wither away when we fix our attention on a better idea. Looking back on the process, we shall hardly know at what point the unsound idea was replaced by a sound one. We need a growing comprehension of the miracle of the free market, a sort of Gresham's law in reverse: a good idea driving out a bad one.

Historically, with sporadic but blessed exceptions, government has shackled and robbed. In a free society, instead, it would be limited to protecting against violence and fraud. Healthy growth would proceed naturally from the innate impulse of every person to improve his situation.

The Key to Progress

Capitalism challenges us to save, invest, invent new tools and better methods, employ others in the endeavor to maximize earnings by providing an improved product at lower cost. But more than that, there is a relationship between a life in business and a stable and mature adult personality. Here we have, not a faultless, but to a measurable degree a rational and even humane system of rewards in return for productive effort expended. Private enterprise can produce more sensibly motivated and competently educated children, more creative ferment in the arts, better sensitized

achievable and spontaneous social conscience, and so on through the categories of meaningful life.

The ethics of enforced altruism, as in China, will play itself out sooner or later. Here is the way things should be: each person with eyes on his own aspirations, spiritual and material, not on another's satisfaction. When each makes the most of himself or herself—enlightened self-interest—then each becomes your and my servant unknowingly. Paradoxical as it sounds, in a free society, with all too human exceptions, every man and woman is going about doing what he or she wants to do.

The vital distinction between the market economy and the welfare state is simply rights and opportunities *versus* handouts. Our real problem is overgrown government. Its rightful function is to implement justice according to agreed-upon rules, to keep the peace, maintain a fair field with no favoritism. Let each of us put this question to himself: Do we genuinely believe in the free market for the conduct of creative activities as superior to controlled exchange, whether in industry, farming, education, or whatever? If the answer is yes, we are making progress in understanding freedom.

With his manuscript, Professor Crum offered his list of some 87 volumes of references or readings on liberty. A copy of that list is available on request.

Bernard Baruch

BACK IN 1941, when I was assigned with Eunice Clark, the granddaughter of economist John Bates Clark, to do a story on American war preparedness for *Fortune*, publisher Harry Luce suggested that we might take counsel from Bernard Baruch, the old chairman of the World War I War Industries Board. The experience of talking with Baruch was both fascinating and hair-raising. He threw himself into the story as if it were his own. But when the article appeared he called up to express his disappointment. "Did Harry Luce lose his nerve?" he asked.

What had actually happened was not Luce's fault. Baruch's projections of the cost of the coming war had seemed so huge to us that we had, for publication purposes, cut them down to what we considered a "reasonable" figure. We were, of course, wrong. The war itself made Baruch's outside figures seem all too conservative. Nevertheless, the old Wall Street veteran, who was used to keeping a wet finger to the wind, had a more certain sense of the future than anyone else at the time. Harry Luce used to quote Baruch's

ruling admonition, "Keep your face toward the sound of the guns."

James Grant, formerly of *Barron's* magazine, gets to the essence of Baruch's seemingly equivocal character in a spirited and well-written biography, *Bernard Baruch: The Adventures of a Wall Street Legend* (New York: Simon and Schuster, 376 pp., \$19.95). Baruch, the son of a South Carolina doctor who had come to America to escape the Prussian draft, distrusted the power of the state. He believed in free markets. As a governor of the New York Stock Exchange in the pre-World War I period, he opposed government regulation. A southerner transplanted to New York, he was a Democrat with a capital D, which meant, at the time, that he followed Andrew Jackson in his preference for hard money and free trade. "His lifelong approach to economic problems," says Grant, "was the fundamental notion that people must work and save." When asked about foreign lending, Baruch said he would use it sparingly, and only on condition that recipient governments would establish free trade in return.

A Market Operator

As a market operator, however, Baruch knew that governments would always be vulnerable to special interests. Baruch's first great market killing was in sugar. With his eye on Washington he had a gut feeling that the sugar beet politicians of Colorado and Utah would win out in a log-rolling deal with Louisiana cane sugar raisers to keep the sugar tariff high. The year was 1897, and Wall Street was betting the other way. Baruch put \$300 into the market, and kept parlaying it (with canny stop-loss-order protection) until he had a profit of some \$60,000. He promised his intended wife that he would hang on to the money, and on the basis of that promise she married him. As a matter of record, Baruch bestowed two-thirds of his profits on his family, buying a seat on the Stock Exchange for his brother Harty on condition that his brother would give up acting.

Grant's story of Baruch's vicissitudes as a market speculator is dispassionate. Baruch was no superman, and he had to learn the hard way that tips, even when supposedly well-authenticated, could lead to disaster. Baruch lost money in coffee when he failed to outguess the nature of Brazilian growing seasons. But he was in his element in dealing with metals. Cultivating the Guggenheims, he amassed an encyclopedic knowledge of world metal re-

sources. He was also in on the ground floor in sulphur. He was as much an investor as he was a speculator when it came to buying metal stocks.

In the period after the 1929 crash Baruch made mistakes like everybody else, but he never got extended on margin. Where he had been worth some 22-to-25 million dollars in 1929, he came out of the Hoover years with some \$16 million intact. It was not a brilliant performance, but it was nothing to cry about. Baruch would have done better for himself if Roosevelt had not forced him to turn in his gold. But he made money in gold mining stocks, which continued to pay dividends at a time when capitalists such as Ivar Kreuger and George Eastman were killing themselves.

Power, Party, Friendship


Good libertarian though he was in theory, Baruch was always willing to sacrifice philosophic consistency to considerations of power, party and friendship. His desire to be of help to his hero Woodrow Wilson moved him deeply into a wartime socialism as head of the War Industries Board. Thereafter Baruch was always ready to support such dubious measures as price-fixing even in domestic crises. He was against inflation, but when the Supreme Court invalidated the gold clause he wired his congratulations to Roosevelt in the White House. His inconsistencies made it

impossible for anyone to predict where he would next turn up on the ideological compass. In 1937 he predicted to Winston Churchill that "all the 'managed currency nonsense' would soon disappear." But World War II intervened, and Baruch, as the World War I War Industries Board czar, was back in the business of advocating total centralized control of the economy.

Grant speaks of Baruch's later years as an "industrial statesman" as offering a "masterpiece of irony." Asked to make a speech at Johns Hopkins University, Baruch delivered a lecture on the evils of statism and the inviolability of natural laws. "We barter away our birthright," he said, "in such an extension of federal power that the earth, air and water are all, in some sense, regulated by bureaus. Local government is a vanishing function. Privacy in business relations is practically gone. Per-

sonal conduct is largely under federal supervision. There is scarcely one of the guarantees of the Bill of Rights that has not been impaired. The cost of all this folly is reflected in a four billion dollar government no better in many respects than the pre-war establishment which spent one-sixth as much . . . We simply cannot afford this sterile luxury."

It was a great speech, worthy of the honorary degree that it earned. But as the Roosevelt revolution went its way Baruch's reaction to measures that he could not approve was mild. To Senator Key Pittman he remarked that he did not want to be put into the "position of saying anything to commit sabotage."

Grant makes no effort to reconcile Baruch's opinions with his behavior. It is a thoroughly instructive book on the perils of being first of all a party man. 

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MARCH 1984

Unemployment—

A Page on Freedom, No. 4

Hans F. Sennholz 131

The cure is to restore freedom in the labor market.

Natural Liberty: A New Version

Perry E. Gresham 132

The spell of Marxism still hangs over us, but must give way to man's natural love of liberty.

The Early History of FEE

Henry Hazlitt 143

One of the original Trustees recalls the origin in 1946 and the early history of The Foundation for Economic Education.

Our Fair Share

Ridgway K. Foley, Jr. 147

Our fair share consists of that which we create and acquire in non-aggressive manner.

Dime Store Economics

Jerry Ellig 156

A helpful example of productive activity to serve consumers.

The Case of the Stock Market:

Freedom vs. Regulation

S. David Young 159

A look at the market alternatives to SEC rules and regulations.

How to Reduce Crime

Morgan O. Reynolds 168

Make punishment swift, sure, and severe under a firm but limited government.

Unions and Government Employment

Dennis Bechara 175

Coercive "bargaining" versus keeping the peace.

Book Reviews:

184

"The Case for Character Education" by Frank Goble and B. David Brooks

"Nation, State, Economy: Contributions to the Politics and History of Our Time" by Ludwig von Mises

"Natural Resources: Bureaucratic Myths and Environmental Management" by Richard L. Stroup and John A. Baden

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Unemployment

UNEMPLOYMENT is one of the most senseless and unnatural phenomena ever to descend on man. Any improvement in the arrangement and use of resources in the world depends on human labor. Man must sustain his life through labor. That is as certain as day and night. And yet millions of people are unemployed.


The news media announce it, the educators lament it, politicians condemn it, and governments allocate public funds to eradicate it. No other economic phenomenon receives as much public attention as unemployment. Despite such popular condemnation, unemployment persists, holding millions of Americans in its deadly grip.

Unemployment is a political disease which springs from the primitive but popular notion that government can improve everyone's income and working conditions by legislation and regulation, and that labor combinations can exact higher incomes and better conditions through collective bargaining. It is an affliction that stems from misinterpretation and misinformation about work and income and from an undaunted

faith in collective force and coercion. As such, it clearly reflects the spirit and mentality of our age.

The rate of unemployment is directly proportional to the force applied to raise the cost of labor. Force may be applied by the victims themselves acting collectively through properly certified labor unions, or by governments enacting laws and imposing regulations that raise labor costs. But in final analysis, unemployment descends from the vague supposition that collective force is capable of improving the economic conditions of working people.

There are no "instant" solutions to the phenomenon of unemployment, no painless recipes or political prescriptions. There are no coercive cures or remedies that create jobs for the jobless. Labor will be fully employed when its application is profitable and adds value to production.

The way to alleviate unemployment is to reduce the coercion of minimum wage legislation, fringe benefit mandates, and union rates and rules. It is to restore freedom in the labor market, which permits the cost of labor to readjust to the true level of productivity. 

—Hans F. Sennholz



NATURAL LIBERTY: *A New Version*



WHEN Good Queen Bess defended her realm from powerful and gold-rich Spain by means of a superior Navy and a powerful fleet of merchant adventurers, she gave out monopolies to certain traders and exemplified, thereby, the mercantilist system. As time went by, the astute practices of Sir Thomas Gresham, my distant kinsman, kept her modest empire solvent, even though her kingdom was always on the brink of disaster. The Low Countries with which she traded were in even more desperate circumstance. The Spanish and Portuguese explorers lived with the mercantilist presumption that precious metal is wealth.

However, contradictions and excesses inherent in government monopoly of trade administered through cartels and licensed subordinate monopolies soon brought disenchantment to those involved. The tyranny of the governments and their plundering agents left many people in penniless squalor. The urgency of change became a drumbeat.

At just this moment came the wise intellectual leadership of Adam Smith. He was a quaint and charming absentminded professor who for-

mulated a new approach to political economy. He called it "natural liberty." He saw wealth not as bullion, but as a prospering economy which gave hope to the poor and liberty to the common person. His classic benchmark volume, *An Inquiry into the Nature and Causes of the Wealth of Nations*, published in 1776, marked the end of mercantilism and ushered in the new order which was soon known as "liberalism."

This somewhat slippery designation for a particular approach to political economy was intended to emphasize the freedom of the individual to act without restriction of state monopoly. While supply and demand are as old as any form of human commerce, it received its most adequate presentation in Adam Smith. In a somewhat desultory fashion, Smith covered such issues as the division of labor, the formation of capital, and the self-regulating nature of the market which made its own allocations, set its own prices,

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developed its own labor force, and brought on amazing prosperity without the interference of government intervention.

The natural liberty of Adam Smith meant freedom of initiative and resourcefulness to find economic opportunities and lift the common people out of their poverty. The market worked so well that the industrial revolution ensued.

Webster's Unabridged Dictionary defines "liberalism" as "A theory in economics emphasizing individual freedom from restraint, especially by government regulation in all economic activity, and usually based upon free competition, the self-regulating market, and the gold standard (the decline of mercantilism produced a period characterized notably by the ideas and policy of liberalism)—called also economic liberalism."

The free market, however, is not merely economic. Among other things, it is political. Economic considerations imply political activities of a certain kind. In all Scotland there is no university course in Economics and none in Politics; it is always Political Economy. Only the politics of limited government with an inclination toward *laissez faire* made possible the liberalism of Adam Smith. John Stuart Mill wrote his essay on liberty as a sort of political equivalent to *The Wealth of Nations*. While Mill got himself confused into

some proposals of socialist economics, he was crystal clear in his demand for liberty in government.

Critics of natural liberty appeared in spite of the obvious success of its drive toward prosperity. Thomas Malthus, demographic genius who served as a priest at the Cathedral of Bath, worried that people would grow thrifty and savings would destroy the economy. David Ricardo, the stock broker who was a friend of the poor, fretted about rents and formulated his iron laws. But the real challenge to Adam Smith came with that angry curmudgeon who was writing endlessly in the British Museum. The *Das Kapital* of Karl Marx gave the name of "capitalism" to the economy of the free market. He used the word as a pejorative term; nevertheless, it gained respectability in spite of him. Capitalism powered the amazing development of that nascent republic which we call The United States of America.

In the first half of the 20th century, the winds of opinion changed. The 1930s were marked with a very different attitude toward liberty. The whole meaning of the word changed. John Maynard Keynes was a true genius at investments who tripled the endowments of King's College at Cambridge by studying its portfolio each morning before he finished his tea and dressed for the day. An ardent patron of the arts, he was President of the Covent Gardens Society.

Bertrand Russell called him the greatest mind he had encountered. Keynes became interested in economics and wrote some books about money and about economic theory. He had great confidence in the government to manage the economy by stimulating aggregate demand. Much of the Pandora's box of government intervention was opened by John Maynard Keynes. His advice to the American leaders involved in the Great Depression resulted in the New Deal.

Contemporary American Liberalism

John Kenneth Galbraith has become an apostle of the contemporary so-called "liberal" tradition with its emphasis on the public sector of the economy and its high regard for government as arbiter, manager, and in some respects, even owner. He is a bold proponent of government planning, a defender of transfer payments to promote equality, an exponent of government regulation for business, industry and finance. He argues that high taxes are necessary for civilized living. He has described the liberalism of Adam Smith as "the conventional wisdom." Some of the facts add plausibility to his argument. Businessmen have run to government to reduce competition, to find protection from foreign trade, and to gain monopoly, if possible. Some of their rhetoric in favor of free

enterprise is rhetoric and nothing more. They talk of individual liberty while cozying up to government for their own advantage. Galbraith was right in calling their free enterprise "conventional wisdom."

By standards of contemporary American liberalism, as exemplified by some public figures such as Senator Edward Kennedy, Presidential candidate Walter Mondale, House Leader Thomas P. "Tip" O'Neill, or most of the media gurus such as John Chancellor or Jack Anderson, equality as an ideal for our society is viewed as absolute, rather than "the equality of opportunity" as mentioned by Thomas Jefferson. Quite oblivious to the fact that people are not equal and cannot be so, they make strong egalitarian appeals that are powerful vote-getters. They would pass laws that would take from some and give to others in order that all might be equal, or as much so as possible.

The contemporary American liberals, whether they are professors, news people, authors or politicians, argue that the present world economy is much too complicated to operate without planning and management. They believe in big government and high taxes. Economist Allan Meltzer has observed, "Governments grow because the benefits are concentrated and the costs are diffused." Large interest groups organize to win special fa-

vors for themselves and the cost is so widely distributed that the voters do not organize to oppose the special interest legislation. In line with this effort, some leaders favor socialized housing and transportation. Intellectuals are slow to learn what has long been known as economic truth—that not everybody can live at the expense of everybody else.

The New Deal

The Franklin Delano Roosevelt New Deal marked the effective finish of the free market economy in America and brought in the arrangement which I have described as “interest group interventionism.” The state has taken on a vital role in all economic affairs, even though the relationship is less than socialism. The politicians and the bureaucrats feel responsibility to regulate industry and commerce, protect consumers, provide safety regulations, spell out the basis for economic action by controlling mergers, protect the environment and provide for the general welfare by means of transfer payments. Government grows, taxes become onerous, and individual liberty erodes.

The contemporary “liberal” in America is inclined to look to the government for solutions to national problems such as unemployment or highway safety. He is liberal in contradistinction to conservative. The earlier meaning of freedom from

state interference and control is completely lost. The pejorative use of the term “liberal” by religious fundamentalists may have contributed to the New Deal meaning of the term. The name “liberal,” is worn with pride by those who wish to be progressive; they describe conservative in such disparaging terms as “rightest,” “old fogey,” “fundamentalist,” “reactionary,” and “ultra-conservative.” By the irony of language, the word has been transformed to mean something more akin to mercantilism than to the liberalism of 1776.

“New Deal socialism saved capitalism in America” is a common remark by those who are conscripts of the contemporary American conventional wisdom. There are several variations on this remark, such as “President Roosevelt saved capitalism” or “Keynes was the economist who observed the self-destructive tendency of capitalism in The Great Depression and provided a theoretical basis to restore the economy.” Such efforts at explaining change in political and economic theory are naive. The New Deal dash of socialism did not end the depression, nor correct the conditions which brought it on. The Great Depression ended only when that dreadful war lashed the economy into a fury of production. The conventional “liberal” wisdom contributed to the failure of capitalism rather than to its sal-

vation. Government intervention spawned a whole new batch of problems. Muddled legislation and bureaucratic excess were pronounced good and baptized both liberal and humane. The stark facts are that liberty was diminished, production repressed, inflation stimulated, and taxes multiplied to oppressive proportions. For documentation see *Business, Government, and the Public* by Murray Weidenbaum.

Natural Liberty: A New Version

Sometime around 1975, a new awareness began to sweep the world. Walter Lippmann much earlier had foreseen this effect when he wrote of the sickness of an overgoverned society. Higher and higher taxes with more and more loss of individual liberty began to catch the attention of world leaders. In countries where opinion can make a difference, the electorate was ready to accept more freedom in the political economy. Margaret Thatcher came into power in Britain; Ronald Reagan was elected in the U.S.A.; and the Scandinavian countries took a sharp turn to the right. France elected a socialist who seems to be leaning toward capitalism because of the failure of his nationalization efforts. The world seems to be ready for a rebirth of freedom.

As a political economist, I do not presume to evaluate Mrs. Thatcher, Mr. Reagan, Mr. Mitterrand, or any

other political leader. It is my function to point out the mood of the people with regard to the role of government within a particular nation state. It is my opinion that Mrs. Thatcher and Mr. Reagan were swept into office because they represented more liberty in the political economy of their respective countries. The modification of the socialism of Mitterrand in France derives, likewise, from the interests of the people who cherish liberty.

The dominant public philosophy, however, continues to be government-centered interventionism. The planned and regulated political economy is the new "conventional wisdom." Labor leaders expound this theory, but the rank and file are disenchanted with it. The members have begun to move with the drumbeat of a new liberty. There are stirrings toward the liberation of individuals all over the world—even in tightly controlled nation states such as Russia and China. The people are beginning to reassert themselves and to rediscover their individual needs, wants and ideas. Weariness with being a mere cell in some collective society is losing its appeal.

The arrival of Aleksandr Solzhenitsyn in America was a massive blow to the Socialist mystique. The almost lyrical appeal of Marxism to many contemporary American liberals had a rude shock when it became apparent that socialism has a

very high record of abysmal failure almost everywhere. Indira Gandhi is trying to move India back from left to center. Chile is in turmoil, but has had enough of Allende. Many Canadians are sick of Trudeau. Mainland China is adopting capitalistic methods and ideas. Even Russia is showing more and more inclination toward capitalist ways in domestic matters.

Nor is economic theory lacking for the new forms of natural liberty. John Maynard Keynes once said, "The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood." New and different intellectuals are emerging who give thought and structure, as well as respectability, to the freedom philosophy. Theodore Lowi, political scientist at The University of Chicago, came forth with a new book called *The End of Liberalism*. Writing at the very end of the 1960s, he outlined in lucid terms the failure of the state-centered liberalism of the American mid-century. He marked the inability of the bureaucracies to deal with the problems of human action. He wrote a convincing chapter on the subject, "Why Liberal Governments Cannot Achieve Justice." He notes the failure of the welfare state in its effort to deal with poverty. He notes the tragedy of efforts at urban planning. He notes the

breakdown of the law in dealing with human issues when the law itself attempts to make policy.

Lowi is not alone. A whole flood of contemporary books of quality show the disenchantment that comes with too much government. The experience of one thoughtful journalist who has interviewed and dealt with almost every person of prominence in this 20th century describes his pilgrimage away from contemporary American liberalism to the free market, the free individual, and the free enterprise. I refer to John Chamberlain's exciting book titled *A Life with the Printed Word*. A guru from Boston, named Warren Brookes, who wrote *The Economy in Mind*, comes down hard on the side of the new liberation from statism. The amazing popularity of the Friedman book, *Free to Choose*, is a great boost to the new public philosophy of liberty. In his book, *The Spirit of Democratic Capitalism*, Michael Novak has touched capitalism with a spiritual wand which renders contemporary American liberalism obsolete.

The Austrian Influence

All these writers build on a solid base laid by Ludwig von Mises in his great book *Human Action*. Comparable to it, and even more widely circulated, was the first alarm sounded by Friedrich Hayek with his more popular book, *The Road to Serfdom*. These two notable scholars

were part of the Austrian school of economics which has growing support in all intellectual circles. Liberty is no longer out of fashion.

This new variety of liberalism is not just Adam Smith *redivivus*. It is something completely new and appropriate to the present position of life on this little blue planet. For example, George Gilder has correctly pointed to the benevolent nature of capitalism. This is a phase of Adam Smith which is frequently overlooked. It was present in his book, *Theory of Moral Sentiments*, but omitted from *The Wealth of Nations*. Gilder sees capitalism as a sort of exemplification of the Biblical injunction, "Cast thy bread upon the waters."

The new political economy of liberty and hope takes full account of the benevolent nature of this system, whether it be called the market economy, capitalism, free enterprise, or by some other name. When Henry Ford was building black automobiles and amassing a huge fortune, his primary concern was better transportation for less expense to the American public. I have known his family well. Many of his original colleagues in the enterprise testify to the fact that he thought of himself primarily as a benefactor. I have just finished serving as chairman of a committee to write the history of the John A. Hartford Foundation. As I study the lives of John and George

Hartford, I realize that these founders of the Great Atlantic & Pacific Tea Company were primarily motivated by a consuming desire to provide the people of the world with better food for less money.

Profit Rewards Service

The beauty of the free market is that service to humanity is rewarded by profit almost in direct proportion to the quality of the service rendered. The truly successful entrepreneur of our times is a person of social awareness, compassionate concern for the people around him, and fully aware of the fact that the pursuit of money for its own sake is self-defeating. The beauty of the free market is that the person who correctly perceives the needs of other people, and meets this need in a resourceful fashion with the necessary disciplines of good management and the marketing genius of a successful promoter, finds himself rewarded for the effort. Profit can be a major motive, but it is only possible when worthy goods are produced and valuable services are rendered. The entrepreneur or the corporate executive who cares and serves can live up to his own inner hero image.

The great founders of American business have been lampooned and pilloried as robber barons. Some were robbers indeed, but many were motivated by true benevolence, and practically all of them thought of

themselves as heroes. The late T. V. Smith wrote a chapter in his book, *Live Without Fear*, which begins, "No man is an s.o.b. to himself. In fact, each person is a sort of hero to himself."

This new approach of a redefined natural liberty tends to reduce the adversarial relationship between labor and management. I was greatly pleased to hear Douglas Fraser speak approvingly of the employee stock ownership plan at Weirton Steel. A few years earlier, no union leader would have dared consider any arrangement that would reduce union power, even though it had obvious benefit for the people involved. While labor leaders make loud declarations of the conventional wisdom which lingers as contemporary American liberalism, the rank and file of the people who do the work of America are enchanted by the possibility of individual initiative and freedom which might enable them to improve their own position. People like the possibility of doing things on their own without too much dependence on unions and government.

Union influence is waning, and the popular enchantment with government to solve all human problems has begun to fade into disillusionment. Many workers are willing to work with their companies on realistic terms to prevent bankruptcy and insure continuity. They have redis-

covered the wisdom of Samuel Gompers who said, "The company that does not make a profit is the enemy of the working man." The new natural liberty will require more cooperation between management and labor.

An End to Protectionism

This new cooperation is essential to successful foreign trade. The tired solution of protectionism is not adequate to deal with contemporary issues. Technological advance in the fields of transportation and communication has reduced the size of the world until the public philosophy must be aware of its global implications. Those who advocate barriers against foreign competition make no mention of the price rise for the American public which is implied. More and more people are rediscovering the correctness and pertinence of David Hume, who more than two centuries ago declared for international free trade. Those who try to make a moral issue out of "buy American" should consider the moral imperative to build better products at less cost. The philosophy of liberty requires that people be free to buy wherever they get the best product for the least investment. If American production costs are too high and the products are inferior, the market is sending its inevitable signal that we must learn to produce better products at less cost.

The new natural liberty differs from past liberalism in that we have more and better information and more technological facility than ever before. We are beginning to understand the nature of life on this little planet. We have become aware of the intricate ecology of everything around us. The interdependence of everything in our ecological world has reached the level of poignant awareness—and all of this in the recent past. When one natural condition is altered, all the others are somewhat affected. Some of us have learned, also, that the economic and political world is quite as interdependent as the world of nature.

The contemporary American liberal argument that our world system is too complicated to be trusted to a free market is a contradiction of patent fact. Like the ecosystem, the political economy of the world is too complicated to be placed in the hands of planning politicians and bureaucrats. The new natural liberty recognizes this fact and cries out for relief from the notorious failure of socialist solutions. The blindness of our conventional wisdom is evident in the fact that it has taken us so long to learn that the market is much more able to deal with vast and intricate problems than is any bureaucratic genius or pretentious political planner. Everybody knows better than anybody. No one person is wise enough, or strong enough, to

think, plan and prescribe for everybody else.

The principal factor in bringing on the political economy, which I have called "the new natural liberty," is the realization that our conventional wisdom of turning to the government for everything has betrayed us. Our experiment with the war on poverty turned out to be a war on the poor. Our benevolent effort to provide free health service has sent the health costs soaring so that the system is in jeopardy. The political attempt to bring about equality by the Robin Hood method of taking from the rich to give to the poor has helped the rich and hurt the poor. Our attempts to regulate our industries have priced us out of the world market and injured everybody. The gray dawn of hope is enabling us to discern the procedures that will free us to work with the natural laws of the political economy instead of against them. Nobody is wise enough to plan for everybody. "The miracle of the market," to quote Leonard Read, is that the market reflects the initiative and imagination of everybody.

Hardening of the Attitudes

Those who repair to government for everything suffer from hardening of the attitudes. They seem to be unaware of government as an instrument of coercion which has a monopoly on violent force. Enchant-

ment with government obscures the meaning of voluntary action and association which flourish under liberty. Those who prate of partnership of public and private sectors fail to recognize the difficulty which inheres in partnership between those who believe in freedom and those who believe in coercion. Government has an important role, but it does not consist of running everybody's life and making subjects out of citizens. The new natural liberty calls for fewer laws, less bureaucracy, less presumption that Washington knows best, and more reliance on free individuals working to improve their conditions and fulfill their lives.

The findings of the Club of Rome show a grim future for humanity. The Malthus specter of limited resources and burgeoning population reappears. The one resource which is never in short supply is the creative imagination, the individual initiative, and the resourcefulness of individuals in a free society. The liberalism of Adam Smith's day freed the people from the cartels and monopolies of the state which were a lingering influence of mercantilism. The new natural liberty could free people from the burdensome government and stifling regulation of the conventional wisdom which I have subsumed under the title, "Contemporary American Liberalism." This paper is a call for a new birth of liberty.

The Skeletal Remains

One of the most notable murals of America is located in the dining hall of Dartmouth College. José Clemente Orozco was the artist. Orozco had lost a hand in a chemistry explosion when he was a student, but he had an enormous reservoir of talent. His feeling for humanity was profound. The Dartmouth mural has the title "Epic of Culture of the New World." He shows Christ chopping down his cross with an axe as a protest to the human rejection of his gift of peace. He shows Quetzalcoatl, the Mexican god of arts and crafts, turning away from his own country which had rejected him. In a most shocking and striking fashion, he shows the modern world rejecting its great opportunity for peace, prosperity and happiness.

The scene is the operating room of a modern hospital. The doctors in attendance are attired in academic robes, rather than the usual white gowns of physicians. A woman is lying on the operating table and giving birth to a baby. These, also, are in academic attire. But the most shocking fact is that the doctors, the nurses, the mother, and the still-born child are all skeletons! Outside the window, the revolution flames red.

This mural exemplifies the reluctance with which the intellectuals, especially those of the academic community and those who man the

media, cling to the socialist-tinged theory of political economy, which I have called "contemporary American liberalism." Joseph Schumpeter correctly pointed out the fact that intellectuals show antipathy toward capitalism and the free market. The intellectuals feel somewhat dispossessed and lacking in power. They, therefore, identify with those who are aspiring to power, such as labor union leaders, some politicians, and the powerful revolutionaries. They tend to look on business with envy, and therefore, hate. They have lost their identity with the free market centers of power, capital and promise.

A Life Without Hope

The conventional wisdom of contemporary American liberalism is, therefore, a skeleton mother bringing forth a stillborn skeleton child. The promise of a truly free world in which, in the poetic language of The Old Testament, "each could sit under his own vine and his own fig tree" is dismissed. Instead, some intellectuals write of zero sum economics and a tightly-controlled society which distributes the rapidly depleting resources of the planet. They are blind to the hope that lies in the inexhaustible supply of creative individuals who have imagination and resourcefulness.

This spell of Marxism will continue in some academic halls and

among some news people. The government-centered theories of John Maynard Keynes, offered only for a special situation, will persist with those who look to government for everything. But the flaming red of a new moral revolution is just outside the window. It is the red sky beginning of a new period in which individuals are free and the market operates. This new natural liberty radiates benevolence. It trusts the creative initiative of each individual person. It speaks to the depths of the human nature, with its love of liberty which is as old as the human race.

G. K. Chesterton challenges humanity to a courageous reappraisal of our human predicament when he wrote a sort of prayer for our time:

*From all that terror teaches,
From lies of tongue and pen,
From all the easy speeches
That comfort cruel men,
From sale and profanation
Of honor and the sword,
From sleep and from damnation
Deliver us, Good Lord!*

An audio-cassette of this article is available at \$10.00 from The Foundation for Economic Education, Irvington-on-Hudson, N.Y. 10533

The Early History of FEE

I've been invited to share some recollections about the early days of the Foundation for Economic Education. It must have been sometime in 1944 or 1945 that a handsome man dropped in to see me at the *New York Times*, where I was then writing the economic editorials, and introduced himself as Leonard Read, general manager of the Los Angeles Chamber of Commerce.

The free-enterprise philosophy had already become almost a religion with him. He told me he was looking for a wider audience to which to explain that philosophy, and was thinking of setting up a libertarian foundation of his own.

In 1946 Leonard had raised the money, set up the Foundation for Economic Education here at Irvington, and invited me to become one of his original trustees and officers.

It is astonishing how soon Leonard's action began to produce important results. Friedrich Hayek, in London, impressed by Read's initiative, raised the money the next year, 1947, to call a conference at Vevey,

Switzerland, of 43 libertarian writers, mainly economists, from half a dozen nations. The group of ten of us from the United States included such figures as Ludwig von Mises, Milton Friedman, George Stigler—and Leonard Read. That was the beginning of the still flourishing and immensely influential Mont Pelerin Society, now with several hundred members from dozens of countries.

Another effect of Leonard's initiative soon followed. Other libertarian foundations were set up in emulation. Baldy Harper, who had been working as economist for FEE from its first year, left in 1958 and started his Institute for Humane Studies in 1963 in California. Soon Antony Fisher set up like organizations in England, Canada, and eventually here. I recently learned from Antony that he is now watching over eighteen institutions in eleven countries. Manuel Ayau in Guatemala established his libertarian Universidad Francisco Marroquín. Groups in other Latin American countries have set up their own equivalents of FEE. It would take too long to name all the present institutions here and abroad, even if I knew of them all, that owe their

Henry Hazlitt has a long and distinguished career as economist, journalist, author, editor, and literary critic. This article is excerpted from his remarks at the Leonard E. Read Memorial Conference on Freedom, November 18, 1983.

origin directly to Leonard Read's example.

Let me return to the early days of the Foundation. The original officers were David M. Goodrich, chairman of the Board (he was then also chairman of the board of the B. F. Goodrich Company); Leonard Read, president; myself, vice-president; Fred R. Fairchild, professor of economics at Yale University, secretary; and Claude Robinson, president of the Opinion Research Institute, treasurer. There were sixteen trustees. They included H. W. Luhnnow, president of William Volker & Company; A. C. Mattei, president of Honolulu Oil Corporation; William A. Paton of the University of Michigan; Charles White, president of the Republic Steel Corporation; Leo Wolman, professor of economics at Columbia; Donaldson Brown, former vice-president of General Motors; Jasper Crane, former vice-president of Du Pont; B. E. Hutchinson, chairman of the finance committee of Chrysler Corporation; Bill Matthews, publisher of the *Arizona Star*; W. C. Mullendore, president of the Southern California Edison Company; and the officers of FEE.

You can see from this list what Leonard Read's persuasive powers must have been.

FEE opened its doors on March 16, 1946. Most of the spring and summer was spent in the library, as renovation continued on the main

building. The staff, as of September 1946, consisted of Leonard Read as President, Herbert Cornuelle as assistant to the President, W. M. Curtiss as Executive Secretary, "Baldy" Harper as Economist, Orval Watts as Editorial Director, and A. D. Williams, Jr. as director of public relations.

Leonard's first move was to publish an outline of the aims of the Foundation and its proposed activities. He listed no fewer than fourteen of these that would be "among those to be considered for program inclusion" as the resources of the Foundation would permit. I condense them here: (1) encouragement, including financial assistance, to scholars, (2) special studies of current economic or political issues, (3) pamphlets applicable to "hundreds of economic problems," (4) leaflets for mass distribution, (5) a journal (this was realized in mid-1954 when FEE took over *The Freeman*), (6) books: the abridgment, publication, and distribution of classical works such as, for instance, *The Wealth of Nations* and *The Federalist Papers*, (7) the promotion and publication of satisfactory textbooks, (8) a "pamphlet-of-the-month club," (9) a radio program, nationwide, (10) organize advisory and study groups in every state and in every community in America—not political action groups, (11) analysis of collectivistic trends so that new

interventionist proposals can be examined and refuted before they have been adopted, (12) a lecture institute, (13) arranging for graduate students in economics and potential instructors to accept short-term positions in industry to acquaint them with actual production problems. And finally, (14) a study of the methods of financing and integrating all these activities.

And then in an amazingly short time a stream of publications began to pour forth. There were more than a hundred in the first few years. Some of these were one-page leaflets, some small folders, some moderate-length pamphlets, and some were in effect short books. I must confine myself to mentioning only a few of these, in their order of publication. The earliest I find is *Profits and the Ability to Pay Wages*, by Professor Fred Fairchild of Yale. This came out in August, 1946; it ran to 64 pages. A month later came a 22-page pamphlet called *Roofs or Ceilings?*, an attack on rent control, sent in by two young fellows from the University of Chicago, Milton Friedman and George J. Stigler, both destined to become future recipients of the Nobel prize in economics. FEE distributed 36,000 of these, plus a special condensed version of 500,000 copies for the National Association of Real Estate Boards.

Next, still in 1946, came a 74-page reprint of Andrew Dickson White's

famous monograph, originally written in 1876, on *Fiat Money Inflation in France*. FEE eventually distributed 52,000 copies of this. In January, 1947, FEE published an 88-page study called *Wages and Prices* by Professor Jules Bachman of New York University.

Next, in 1947, came *Planned Chaos*, a 90-page pamphlet by Ludwig von Mises. Lu had been put on the payroll by Leonard from the first year of the Foundation. Next in 1947 FEE began to publish Henry Grady Weaver's *Mainspring of Human Progress*, and to date has distributed 670,000 copies of it. The edition I have runs to 287 pages.

Late in 1947 a short book of mine—95 pages—was published called *Will Dollars Save the World?* in paperback and hard-cover. Appleton-Century printed the hardback edition at \$1.50.

I'd like to say a few words about it, because it illustrates a disheartening consequence—or lack of consequence. By pre-arrangement with Appleton, Leonard ran off a first printing in paperback of 80,000 copies. (This was over my protest, because I thought he would get stuck with them. But he sold out practically the whole edition.) Then in January, 1948, the *Reader's Digest* reprinted a 6,500-word condensation of the book not only in its American but in all twenty of its foreign editions, a total circulation

then of about 13 million copies. One immediate consequence is that FEE's own sales of the paperback came to a halt. Another was that I was asked to testify first before a Senate and then before the corresponding House committee on the then pending foreign-aid bill. But with all this undreamed-of publicity, I haven't a shred of hard evidence that my book or the *Reader's Digest* condensation of it saved the American taxpayer one slim dime in our foreign-aid outlays.


For that matter, I see no evidence that the Friedman-Stigler pamphlet did anything to slow down rent control. Nor can I think of any other of FEE's publications that had any direct effect on actual legislation.

On the surface, as I have said, this seems dreadfully disheartening. But it must be acknowledged that the American ideological situation is much better than if FEE had never come into being. Our institution has inspired the formation of dozens of others. Increasing numbers of people now know what is wrong. True, we have inflation everywhere, but few countries now try to combat it with general price controls. FEE has provided precisely what its title promised—economic education. Even Adam Smith's *Wealth of Nations*, let us remember, did not begin to change actual legislation until many years after its original appearance.

Let me resume our history. In 1948

FEE published F. A. Harper's 71-page pamphlet on *High Prices*, and in 1949 Harper's 159-page book *Liberty: A Path to its Recovery*. Frederic Bastiat's 75-page pamphlet, *The Law*, was translated by Dean Russell and published by FEE in 1950. So far, the Foundation has distributed 344,000 copies.

I come to one final item. It was in December, 1958, that Leonard first published his essay entitled "I, Pencil." The theme of that article, as most of you will remember, is that "no single person on the face of this earth knows how to make a pencil." It is a little classic—the essay of Leonard's that is certain to be long, long remembered.

But now, in recalling this impressive history of FEE publications, I must express just one regret. Leonard was long eager to have FEE publish a monthly magazine. His ambition was fulfilled in 1954 when he took over *The Freeman*, which John Chamberlain and I had been editing as a fortnightly. Since then *The Freeman* has published many admirable articles, and has become an imperative part of FEE's activities. But it seems to have displaced some of those special studies of current economic issues which I regard as an indispensable part of the program of a truly effective libertarian institution. I hope that this activity can soon be restored. 



Our Fair Share

A constant cry peals across the land: "give us our fair share." A variety of results is expected by these claimants. For example, advocates may seek "a fair share" of manufacturing profits or insured employment for the workers, a reduced rate for utility users, "tenant rights" for inhabitants of rented premises, subsidized bus fares and public transit systems, guaranteed health and medical insurance coverage, and a whole host of other demands. This essay proposes an analysis of the meaning underlying this clamor.

Initially, reflect upon the contention that the public or a segment thereof deserves "a fair share." First, the call presumes that the speaker merits a different or additional right. Second, the proposition presupposes that such right belongs to the seeker as a matter of entitlement and as a principle of fundamental justice.

Third, the appeal posits the propriety of limiting the corresponding rights of other persons in favor of the orator, or fails to recognize that such an exchange necessarily takes place in the stated situation. These three presumptions generally prove incorrect.

Stripped to bare essentials, proponents of the concept of "a fair share" rely upon the doctrine of entitlement to justify transfer payments and transferred rights. The foundation of entitlement rests upon what Dr. Gary North so aptly describes as "the politics of envy."¹ "A" desires something possessed by "B." The strictures against coveting seem less enforceable than those condemning theft, so "A" dreams and schemes for a method of relieving "B" of his liberty or his property.² The modern method is disarmingly simple: "A," alone if he possesses sufficient power, or in league with companions similarly situated if he does not, effects his dreams and realizes

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that which he covets by force of law. He converts his desires into edicts, secures the stamp of official approval upon them and enjoys the fruits of someone else's labors.

Unfortunately for "A," the human creature contains innate social-moral-psychological responses against wrongdoing, even when sanctioned by law. At least some of the "A's" of the world feel uneasy about their gains achieved at the benefit of others. To alleviate these symptoms, they turn to the medicine cabinet for some doctrinal relief. There they discover "entitlement" which, if not possessing the curative powers of penicillin, at least offers the temporary relief of aspirin.

The Doctrine of Entitlement

Entitlement refers to the postulate, expressed in varying ways and with differing degrees of intensity, that in addition to the propriety of state-mandated transfer payments to achieve egalitarianism or some other purportedly good end, both the state and the creative segments of society owe these distributions to the recipients as a matter of right. One can debate whether the term "right" is connotative or conclusive in nature. Whatever the outcome of that controversy, those who benefit from the productive efforts of others tend to demand continuation and increase of these payments in the grand names

of fairness, justice and equality. Reduced to essentials, this justification translates into a concern for their own position with no consideration for "fairness and justice" to the unwilling donor.

The doctrine of entitlement contains two conceptual errors: It assumes propriety of the transfer and it presupposes the right of one to take from another. Neither assumption proves valid upon reflection and analysis.

First, contemplate propriety. What analysis deems it proper to take from a producer a portion of the value he has created for transfer to another? The concept of propriety conjures up notions of justice or fundamental fairness. One cannot condone such a taking or label it "fair" when viewed in light of the position of the producer except in situations where the producer has breached a voluntarily-entered agreement, carelessly caused a calamity to occur to another, or initiated aggression against some peaceful person. If fairness connotes equal and proper treatment of all parties to a transaction,³ then the creator becomes the victim, and loses his property (created value) and a part of his freedom to boot. One can only conclude that the egalitarian wealth-spreader employs fairness and propriety in quite a one-sided and unreal sense reflecting his own social value judgment coercively applied to others.

Second, examine the concept of the overpowering right of the donee to deprive his victim of the product of the latter's labors. Propriety concerns the appropriateness of governmental action; right relates to the appropriateness of individual action. No convincing argument can be offered in support of deprivation under the doctrine of entitlement in the absence of a consensual bargain or a negligent or intentional prior initiation of force by the current transferor.

Transfer Payments Deny Property Rights

Transfer payments consist of "property," a brief means of expression defining value created by the efforts of the producer-owner. Property thus represents an extension of one's very life, his power to create, his ability to choose his own destiny. Elimination of the potential to create and to retain human output necessarily enslaves an individual and reduces his humanity, his essential nature, which consists in part of the ability to make meaningful choices. The essence of all entitlement contentions must rest upon the proposition that the taker is more properly entitled to goods, services, and ideas than is the creator of those products.

What possible reason justifies a coerced transfer? In the lexicon of the modern egalitarian, equality as

a principle mandates transfer payments to even out existing natural or artificial differences. Passing for the purposes of this essay the possibility of achieving enforced equality by any system of redistribution,⁴ focus upon the philosophical aspects of the equation reveals the barrenness of the purported analysis.

The fair share advocate perceives the inequality of appearance and talents naturally attendant upon the human condition; he decries this individuality, which he views as unfair disparity, and urges dull and desolate sameness, the absolute of reduction to the lowest common denominator. Down with Haydn and Monet, with Voltaire and Confucius! Seek the gray identity of those creatures who contribute little or nothing to creativity and culture. Unconsciously or intentionally, his every action leads necessarily and convincingly to this cheerless end.

At the base, two aspects undergirding egalitarianism appear: a presupposition to power and a denial of essential humanity. First, the seeker after enforced equality wishes to impose an orthodoxy upon everyone about him to fit them into his subjective mold. He knows only power; persuasion and rationality dissatisfy him because they lead inflexibly to consequences contrary to his preconceptions. Second, the egalitarian dislikes what he sees when he looks at humanity. He

wishes not to alter those things within his puny power, such as the uplifting of man's material and spiritual existence by the development of new labor-saving devices or the composition of a beautiful work of art. Instead, his quest is to achieve the opposite, by beating down those about him who display any degree of innovativeness or originality. Yet reflection reveals that the egalitarian position amounts to a stubborn denial of the essence of humanity: the awe of unique creation and the mechanism of meaningful choice which unavoidably leads to differences in outlook, ability, goals, and appearance.

The Statist Position

A root misconception colors the fair-share approach to entitlement: the belief that individual differences derived from the nature of man and by virtue of his individual choice-making attribute constitute a malevolence demanding eradication by collective coercive action. The statist presumes to know the course of action best suited for each person in society. He assumes the role of modifier of human nature, he imposes his own subjective standards upon unwilling citizens who fail to conform to his view, and he decides who in society deserves (is "entitled to") a given share of production or created value. Nevertheless, he displays no special knowledge or train-

ing which qualifies him for this momentous task of decision-making which, in final analysis, should be better left to each individual actor as it affects his destiny.

Reduced to fundamentals, the traducer exhibits the modern tendency to elitism. No longer does mankind seek a Jeffersonian aristocracy of talent and virtue; the current aristocrat seeks power to the end of control of human lives. He understands the political and practical means of communication, manipulation, and subjugation, and he applies this knowledge to direct others to do his bidding. Whether well- or ill-intentioned, the elitist, a "dictocrat" in Leonard Read's phrase,⁵ reduces people entitled to a counting choice to pawns on a giant chessboard or puppets on a Pyrrhic stage.

The egalitarian becomes the elitist precisely because he pretends to possess the ability and the right, in addition to the power, to quell creativity and to channel human conduct into prescribed forms and institutions—and he does so by application of charged code-words such as entitlement which lend a degree of justification, authenticity, and validity to his endeavors. Entitlement is the mask, egalitarian is the appearance and the elitist is the reality in the play we witness today.

Those who quest for a fair share opine that they are entitled to something more and greater than that

which they have produced—they wish to control part (or all) of the fruits of the labor and ingenuity of others. Thus, witness the teeming hordes who envy the entrepreneur who constructs a power plant, transformers and distribution lines in an effort to bring the wonders of electricity within reach of a fingertip. The multitudes convert this envy into a shrill or harsh insistence that they—the consumer—deserve special favors in the sense that they should pay less than market prices for the output generated by the dint of effort, stored labor and native genius of other individuals.

Or consider the prattle of renters who summon landlords to the dock in an effort to change the nature of the place of habitation without paying the price. Natural law decrees that every price must be paid, either by the buyer or the seller, by the producer or the user, by the owner or the tenant. Fair share advocates shunt the payment to the shoulders of others by employment of a juridical talisman.

Distributive Justice

The legal amulet employed consists of the distributive theory of social justice, the dogma devoted to effectuating entitlement in the satisfaction of envy. The distributive theory of social justice supplies the rationale “explaining” why income and value should be redistri-

buted among members of a community. It suffers from the same root fallacies as the doctrine of entitlement and it partakes of the identical mistakes as the current corruption of equality into egalitarianism.

Whatever the intention of the purveyors of the doctrine, “distributive justice” cannot be classified properly as “neutral”—it implies to the reader or the listener that distribution of income, assets, resources, or things of value must take place by means of market intervention, and it further implies that some such distributive scheme relates to a concept of justice.

Society—that informal consensual grouping of persons—always determines the distribution of things of value. The propounder of the distributive theory uses force to mold recipients and their destiny; the believers in natural justice (respect for free nonaggressive choice) prefer the voluntary antics of the market. Under any term employed, the political-economic concept of distributive or social justice carries with it a meaning which implies both a power and a right residing in actors who do not produce a product to determine its ultimate use and enjoyment.

Even some avowed supporters of liberty needlessly “concede” that no rational method allows determination in the abstract of a superior method of distribution.⁶ To the con-

trary, both abstractly (rationally) and empirically, a market system of creation, production, and delivery proves superior to any other scheme.⁷ Really, only two possibilities exist:

(a) A market system wherein each participant "votes" his subjective value structure in a dollar democracy, by bidding the excess value he has created for the excess value he desires which someone else has produced, thereby determining not only what is produced but also how assets (incomes) are distributed;

(b) A command economy, wherein some or all choices are made by persons other than the producers and users, thereby artificially distributing or deflecting choices, assets, and income from those directly affected to those in power under the political apparatus.

Fair share egalitarians suffer from a dilemma which follows from two central facts: (1) Economic distinctions in an open society occur as a result of differences in aptitudes, motivations, and circumstances, but (2) government action to eliminate the differences entails such exclusive coercion that society ceases to be free:⁸

In an open society, attempts to eliminate, or even substantially to reduce, income differences extend coercive power, i.e., inequality of power between rulers and ruled. This also implies politicization of economic life, a situation in which

economic activity depends largely on political decisions, and in which the incomes of people and their economic *modus vivendi* are prescribed principally by politicians and bureaucrats. How far-reaching is the required coercion and politicization of economic life will depend upon the degree of economic equality the rulers intend to achieve; they will depend also on the various aptitudes, motivations, and circumstances of the groups and individuals among whom economic differences are to be reduced.⁹

Thus, the egalitarian faces two counterproductive forces: first, political programs designed to level incomes or assets generally do nothing of the sort; instead, they shift income and assets from the productive to the politically powerful; second, redistribution of income and assets necessarily entails the use of force—because it contra-indicates the natural tendencies of human beings—to such a degree that it destroys the free society which makes possible the production of excess goods, services, and ideas to permit life at levels above poverty or mere existence.

Equality of Opportunity

Some thinkers supporting the "fair share" position rail against an inequality of opportunity. Such a contention merits attention despite its ambiguity and intended emotive appeal. By and large, human beings seize their own opportunity; it cannot be conveyed to them by an om-

nipotent government, any more than a loving father can insure that his progeny will perform well in business or the arts. In many instances, inequality of opportunity merely restates the natural and necessary uniqueness of human beings in ability, desire and other features.

In some instances, the challenge to inequality of opportunity conceals a dislike for inherited assets. Assets merely represent labor which has been stored and capitalized (made productive of future goods, services, and products) rather than consumed. The modern leveler, much like his seventeenth-century forebear, desires elimination of such differences so that each person in each generation starts afresh. Such a scheme presents a superficially appealing charm obscuring quite a wicked interior.

First, consider the absurdity of an extension of the leveler position: Would such a theorist require each individual to develop all machinery and all ideas from scratch, without building upon the accumulated wisdom of the past? If so, who among us could reinvent the wheel or even a pencil?¹⁰

Second, consider the necessary practical implications of the artifice: Would the egalitarian destroy all accumulated wealth (a great waste of costly and finite resources) or would he transfer it to someone else? The obvious answer, and one reflect-

ing actual practice, is the latter alternative. Inheritance and estate taxes generally shift saved assets from the object of the producer's affection to other, unrelated members of society who often do not create but do consume and, more importantly, vote for the political officials who undertake distribution. The doctrine justifying this social distribution of property: entitlement.

"Might Makes Right"

A more salient inquiry arises regarding the transfer of accumulated or inherited wealth to effect a leveling and "equality of opportunity," when one considers the propriety of these transfers. Only one justification exists for a transaction which takes created value from the producer against his will and gives it to another more favored by the law—the doctrine of power or might-makes-right.

One accumulates wealth in one of two ways: by coercion or by contract. If a thug steals one million dollars from an individual or an enterprise, he has acquired great wealth by force of plunder.¹¹ If a creative man or woman renders services or produces labor-saving devices desired by many others and thus acquires one million dollars in trade value, he or she has acquired great wealth by contract—by bargains freely entered between individuals, each seeking to satisfy his desires according to his particu-

lar subjective value structures. The law can justly demand the return of loot to its rightful owner; it should not affect an involuntary transfer of freely, fairly, and nonfraudulently accumulated property to someone who did not create it.

Seemingly, the traducers of the market decry the *entitlement* of creators of value to their own creation. Instead of recognizing that accumulated wealth derived contractually usually results as the product of better choices, these myopic transfer agents attribute foul and malevolent deeds to the creators or their descendants. Yet the creation of wealth occurs precisely because man must predict what his fellow man will subjectively value, and some individuals prove more able predictors than others.

The person who makes the best usage of a finite resource, who offers the surest service, or thinks of the most innovative idea, by and large, will receive more trade goods ("money") from his consumers (traders) than will someone less motivated and lacking in some qualities of prescience. While someone may suggest, subjectively, that a certain scion of one who has accumulated property does not deserve, or make good use of, that property, it does not lie within the rightful power of that other person to make that choice. The creator of value should be able to choose how to use his cre-

ated value, who shall receive it, and under what circumstances. What other person possesses a higher claim?

The Moral Factor

A moral factor overrides the entire question. If every human choice constitutes a moral act, then the essence of morality (making the right choice between good and evil) resides in the power to choose meaningfully between alternatives. To the extent that the fair-share advocate obviates other individuals' power to choose, he commits an immoral act even if his choice can be labeled "right"—and no one can apply that label effectively because no one other than the victimized actor who lost his choice can assess his subjective value under his conditions.

In comparing and contrasting justice and social justice, one writer finds them antithetical:

So-called social justice is man's greatest injustice to man, anti-social in every respect; not the cement of society, but the lust for power and privilege and the seed of man's corruption and downfall.

Finally, social justice in no way fits the claim of its advocates: an expression of mercy and pity. These virtues are strictly personal attributes and are expressed only in the voluntary giving of one's own, never in the seizure and redistribution of someone else's possessions.

Morally and ethically motivated citizens can condone a philosophy of so-called

social justice only if they fail to see its terrible injustice.¹²

Social or distributive justice deifies force and coerces peaceful people, robbing them of their choice-making ability. True justice expresses concern and respect for an individual's non-aggressive free choice. Social justice exudes false sympathy and prattles about equality, all the while exhibiting the clenched fist of force. True justice accords with the ultimate morality of choice. What, then, is "our fair share"? It is precisely that which we create and acquire in non-aggressive manner during our tenure on this earth. It is nothing more and it is nothing less. ☸

—FOOTNOTES—

¹See Gary North, III *Remnant Review* (No. 19, October 6, 1976), p. 114; (No. 7, April 7, 1976), p. 38.

²He seldom seeks to deprive "B" of life any more because the "A's" of the world recognize that death of a producer finally terminates production of those coveted goods, services, and ideas. So much better then to keep "B" alive and producing.

³Such a definition amounts to a tautology, given the common usage of the terms, e.g., what is proper is what is fair, and what is fair is what is proper.

⁴Professor Cotton M. Lindsay, in an introduction to *Two Essays on Income Distribution and The Open Society* (International Institute for Economic Research, Reprint Paper 4, January 1977), p. 1, writes: "And yet, detailed analysis

of redistributional results of many government actions indicates that the direction of this income transfer is the reverse of what most people are alleged to regard as 'fair.' From the Social Security System and minimum wage legislation to government support of agricultural prices and higher education, one sees an array of programs which generally end up serving individuals in the middle and upper-middle classes as primary beneficiaries. Taxes fall upon both the rich and the poor, but the poor are disproportionately underserved by these programs."

⁵Leonard E. Read, *The Love of Liberty*, (Irvington-on-Hudson, N.Y.: The Foundation for Economic Education, Inc., 1975) especially Chapter 8, "The Roots of Concord and Discord," pp. 46-52.

⁶Irving Kristol, "What is 'Social Justice'?" *Wall Street Journal*, August 12, 1976.

⁷This paper may not present the optimum place to debate this particular issue in depth. The works of Mises such as *Human Action* and the Bastiat trilogy seem apt places to commence a defense on this point. Ludwig von Mises, *Human Action*, 3rd rev. ed. (Chicago: Henry Regnery Co., 1966); Frederic Bastiat, *Economic Harmonies, Economic Sophisms and Selected Essays on Political Economy* (all published Princeton, N.J.: D. Van Nostrand Co., Inc., 1964).

⁸Peter T. Bauer, "Egalitarianism: Art of the Impossible," *The Times Literary Supplement* (London, England: July 23, 1976).

⁹*Ibid.*

¹⁰See Leonard E. Read, "I, Pencil," reprinted in *The Freeman*, November 1983.

¹¹Strangely, the same opprobrium does not seem to attach to plunder achieved by operation of the law, as where those in authority employ the Federal Reserve System and the Treasury Department to milk citizens' savings of several trillion dollars over forty years by means of the tax commonly termed inflation.

¹²Leonard E. Read, "Justice Versus Social Justice," *Who's Listening?* (Irvington-on-Hudson, N.Y.: The Foundation for Economic Education, 1973), p. 97.



Dime Store Economics

"One, two, three, *pull!*"

"Unghh!"

"Y'all on that side aren't pulling hard enough. Ready? One, two, three, *pull!*"

"Unghh!"

Was this the sound of galley slaves in the glory days of the Roman Empire? Or of medieval serfs straining to pull a nobleman's barge upstream?

No, it was the summer of 1983. The grunts and groans came from about a dozen salespeople on their hands and knees, straining to maneuver a 15-foot long counter full of soap and shampoo into its final position. The store at which I work part-time while attending college was being remodeled.

Though known to countless

neighborhood customers simply as "the dime store," our store is part of a national chain and had been selected as the first in the city to be remodeled. The changes were drastic indeed: new counters, new tile, new paint and yes, even new merchandise.

There simply had to be a method to this madness. No company as old as ours would spend so much money on blueprints and diagrams, and so much of its employees' time, for absolutely no reason.

The reason, of course, was quite simple: profit. Those folks in the regional office who created so much work for us did not do so merely to frustrate us, much as we might have thought that was their intention. On the contrary, their goal was the company's goal: to seek profits and to avoid losses.

In a store such as ours, profitabil-

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ity comes through selling more at a lower cost per sale. Every aspect of the remodeling, therefore, was at least theoretically directed toward increasing sales and reducing costs by providing customers with a more attractive environment in which to shop.

For weeks, confusion reigned supreme. No employee could ever be 100 percent certain where in the store a given item could be found on any given day. The manager was reputed to have quipped to a long-time customer looking for notebook paper, "Just stand still long enough and you'll probably see it go by."

It was against this background that a customer approached me one day (as I was using a hammer to pound nails into the wall) and asked a pretty logical question: "Why are you going to all this trouble when you'll just re-do it again in another 25 years?"

I told him how much better the store would look, how much more convenient the new arrangement would be for customers, and so forth. But after he left the question remained in my mind and set me to thinking. Why, indeed?

The same question must have been on everyone's mind a month later when merchandise was still being shuffled around for apparently no reason. Goods on one side of a counter switched places with goods on the other side. Merchandise on the left

side of counter A moved to the right side of counter B, barely six feet away. "We spent all day yesterday setting up those ten feet of counter space," one employee complained, "and when I came in this morning, somebody'd moved it again!"

A key element in the whole scheme is the arrangement of merchandise in the most convenient and pleasing manner. The constant migration of merchandise until it found a final home was like a giant jigsaw puzzle. Both management and employees were seeking to place each item in its optimal location so as to render total sales as large as possible.

The realization of this fact brought home to me the incredible power of the price system. In striving for profit, our store was simply striving to please our customers in some very specific ways. It would not be exaggeration to state that each decision to relocate an item was very much an entrepreneurial decision. Each move was carried out in the hope that the new state of affairs would be more satisfactory than the old one.

Though few involved in the effort have even heard of Ludwig von Mises, all were acting as he would predict:

If a businessman does not strictly obey the orders of the public as they are conveyed to him by the structure of market prices, he suffers losses, he goes bankrupt, and is thus removed from his eminent position at the helm . . .

The consumers . . . determine precisely what should be produced, in what quality, and in what quantities. They are merciless bosses, full of whims and fancies, changeable and unpredictable. For them nothing counts other than their own satisfaction.¹

Within a very few weeks, consumers will begin to tell us with their dollars whether or not they like the new arrangement. One thing is certain: their decision will be based on their own subjective valuations. In their quest for their own satisfaction, consumers will be entirely indifferent as to how much time, money and effort was put into the remodeling. They are concerned with results. If they do not like the changes, it will do no good to tell them about how much labor and capital was expended.

This is, of course, the Austrian subjective theory of value in action. The company's efforts will have value only if consumers value the results. Value exists only in the human mind, not in any object or collection of objects.

Unbelievable as it may first sound, then, the experience of one store corroborates a host of fundamental economic principles. The firm is merely

the middle man between the owners of resources and consumers. Consumers reward service with purchases if they are pleased, and profits result if costs are kept down. The subjective valuations of consumers, therefore, determine the uses to which resources will be devoted. The "higgling of the marketplace" ensures that those resources—the petroleum used to make gasoline, the wood in a broom handle, and even the steel of which store fixtures are made—will go to the most highly-valued uses. Moreover, all of this activity takes place voluntarily, requiring neither force nor direction from above.

At last, I've arrived at a worthy answer to the customer's question. Why did we go to all that trouble when the job will be re-done again in another 25 years? Because we believe that's what our customers want. It is ultimately the wishes of the consumer, not the caprice of the corporate executive, which determine how the store should be decorated, what lines of merchandise should be dropped or added, and even whether brown towels should be displayed next to green ones or blue ones.

If there be anyone who doubts the existence of consumer sovereignty and Adam Smith's "invisible hand" in modern America, he or she ought to help remodel a dime store! ☸

¹Ludwig von Mises, *Human Action*, 3rd. Rev. Ed. (Chicago: Contemporary Books, 1966), p. 270.

THE CASE OF THE STOCK MARKET: *Freedom vs. Regulation*



THOSE who consider liberty as a primary value are naturally very reluctant to support any imposition of government authority. This is not to say that state action is always inappropriate, but the standards for determining instances when the state should intervene are strict and unyielding.

When calling for government regulation in any sphere of endeavor (whether economic, social, or political), it is prudent to bear in mind the fundamental principles upon which our country was founded. Due process, presumption of innocence, and limited government should be driving forces behind the analysis of any proposed government intervention.

Given the aforementioned principles, prerequisites can be derived which will serve as a model for evaluating the efficacy of proposed reg-

ulation.¹ First, some readily identifiable event or phenomenon must have occurred (or is likely to occur) which needlessly and unfairly damages a distinct group of individuals. Second, this damage should neither be the result of infrequent law-breaking nor be addressed by existing laws. Third, a cost-effective free market alternative is *not* available. Fourth, a cost-effective government-imposed remedy is available. Fifth, the proposed regulation should not violate constitutional rights. And sixth, the burden of proof should be placed on the advocates of the proposed regulation, not on those who oppose it.

This article examines the regulation of the stock markets with respect to these prerequisites and concludes that the Securities and Exchange Commission (SEC), the federal agency tasked with regulating securities, has failed the test miserably. Indeed, if the SEC were

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to subject its own history and practices to the same scrutiny it focuses on the corporations it regulates, its commissioners, staff, and Congressional sponsors would be more than just a little embarrassed.

Prerequisite No. 1: Some event or phenomenon has occurred which unfairly damages a distinct group of individuals.

The 1920s was a period of uncommon optimism and speculation in the stock market. The decade was characterized by an almost constant bull market. There were occasional setbacks but recovery was always swift and strong. All of this came to an end, however, on October 24, 1929, the date known on Wall Street as "Black Thursday." On that day, the market began a sudden and dramatic slide downward to the surprise of nearly everyone. Fortunes were lost overnight and the country was thrown into the depths of the Great Depression.

The stock market crash of 1929 and the ensuing depression were a puzzle to most people at the time. Part of the cause was thought to be the widespread abuse of securities markets by insiders and inadequate disclosure of financial data by corporations. The disastrous effects of the Federal Reserve Banks' cheap money policies in the late 1920s and protectionist trade measures such as the Smoot-Hawley tariff were much more

important reasons for the economic collapse, but few thought so at the time.

Shortly after his election, President Roosevelt appointed Ferdinand Pecora to head up a Senate investigation of abuses in the securities markets. The Pecora Committee, as it was called, documented numerous instances of alleged stock market fraud and abuse. The Committee's revelations sparked a public furor and proposals for government regulation were soon forthcoming. Public demands for reform led to the enactment of two very important laws which together form the cornerstone of securities market regulation. The Securities Act of 1933 requires issuers of new securities to file a registration statement with the federal government and issue a prospectus to the public. The Securities Exchange Act of 1934 requires disclosure on a regular basis for firms which have their securities publicly traded. The latter act also established a federal agency to administer both acts, the Securities and Exchange Commission. The primary purpose of the legislation, then, was to redress abuses believed to be inherent in unregulated markets—abuses which were presumed to have cost naive investors dearly.

Unfortunately, very little empirical research was conducted at the time securities regulation was first debated in Congress. Evidence pre-

sented in support of government control was largely anecdotal in nature. A reasoned assessment of the costs of alleged abuses to the parties who were supposed to have been hurt by them was never conducted.

The SEC's present scope of regulatory power includes not only disclosure requirements for new issues and publicly traded companies, but also constraints on insider trading, controls over the stock exchanges, antifraud regulation, regulation of investment companies (e.g., mutual funds) and investment advisors, and rules on corporate governance.

Prerequisite No. 2: The damage does not occur infrequently and existing laws are not sufficient to deal with it.

Benjamin Anderson, writing in the late 1940s, agreed that Congress was correct in its pursuit of truth in securities and its prohibitions against stock manipulation. But he felt that Congress and the SEC had clearly gone too far: "The normal functioning of the security business . . . is clean and sound . . . Every day transactions involving tens of millions of dollars . . . are made by word of mouth. . . . Transactions between the brokers on the floor of the exchanges are made by a word or even a nod of the head, each man making a memorandum of his own part in the transaction, but neither man giving the other a written docu-

ment. Disputes regarding these transactions are very rare. . . . A very high order of integrity is necessary to make such a system work. Occasionally, however, criminal acts occur, as in every field . . . For these occasional criminal acts, there is need for criminal law and punishment. But there is no more need for the kind of supervision of multitudinous details in which the [SEC] engages . . . than in any other field."²

Just like brokers, dealers and investment bankers, accountants were also singled out for blame. Many opinion-makers believed that arbitrary accounting practices in the late 1920s encouraged fictitious financial reporting and, thus, contributed to stock price manipulation. Specifically, accountants were charged with arbitrary write-ups of asset values for the purpose of inflating financial statements, enabling companies to appear more profitable than they really were. The significance of this charge cannot be overstated for it served as a prime justification for government intrusion in corporate accounting practice and is widely accepted to this day.

How common were write-ups of assets in the years just prior to the Great Crash? A recent study, which examined the accounting policies of 110 NYSE companies chosen at random, shows that contrary to popular belief, accountants in the 1920s did *not* write-up asset values routinely.³

In fact, write-offs (declines in book value) were much more common. For those companies that did write-up asset values on their books, rarely did the amount exceed 5 per cent of total assets and *never* were write-ups reflected in the company's income statement (they were always shown in surplus accounts on the balance sheet). The conclusion drawn from this evidence is that accounting practices of the late 1920s were *not* a contributing factor to the Great Crash.

Prerequisite No. 3: A cost-effective free market alternative is not available.

In the absence of government regulation, corporations are still compelled to disclose information about their financial affairs. They do this partly because of economic incentives and partly because private stock exchanges may impose rules on members. For example, prior to the securities acts, all companies listed on the New York and American Stock Exchanges were required by the Exchanges to make their financial statements publicly available. Also, over 90 per cent of all companies traded on the NYSE in 1933 were audited by independent certified public accountants. The legislation requiring periodic financial reporting and the audits of that information was not passed until 1934.

The most persistent critic of securities regulation, George Benston, states the case for voluntary disclosure simply and elegantly. According to Benston, corporations have strong incentives to disclose information in a free market.⁴ Prospective shareholders and creditors, whose funds the corporation wants to attract, demand information. Corporations that do not disclose in a free market run the risk of suspicion. And once a corporation begins disclosing, its managers find the practice difficult to give up.

In a free market, providing financial information that is audited by CPAs enhances investor beliefs that corporate resources will be used productively. Whenever managers have less than a 100 per cent ownership interest in a company, they have incentives to waste or misuse resources if the benefits to them exceed their share of the reduced profits. For example, managers may be inclined to spend lavish sums on personal office furnishings when the cost can be passed on to others. This problem is known in academic circles as "agency cost." Investors are aware of this problem and so those in control must find a way of convincing investors that they do not intend to divert corporate assets. One way to do this is to install a system of accounting control and convince investors that the system is working. That is why corporations would

hire CPAs even in the absence of regulation. CPAs are entrusted with determining the credibility of management's representations in the financial statements not because they are inherently more trustworthy than others but because their reputation and ultimately their livelihood depends on professional integrity and expertise.

Benston's theory becomes especially powerful when applied to the case of dishonest corporations (those that deliberately try to deceive investors). First, we must consider whether the SEC is effective in preventing the dissemination of false information. Benston points out that financial statements have proven to be inefficient vehicles for cheating investors. Accounting data presents a history of past events, yet potential investors are forward looking; that is, they seek information that helps them assess the present value of future cash flows. Therefore, crooks are more likely to mislead investors by floating rumors and spreading tips than by issuing fraudulent financial statements. Next, we should ask if crooks are capable of deceiving investors. The problem here is that those who use financial statements to defraud investors must either bribe the independent CPAs or do without their services. Either prospect is not conducive to a successful fraud.

Great Britain continues to rely on a corporate disclosure system that is

privately run. Although Britain has laws that govern disclosure by companies most of the functions performed by the SEC in this country are performed by the London Stock Exchange, which is not an agency of government. Unlike American securities regulation, British laws are self-contained and allow very limited discretionary power for government administrators. The result is a system that is not only less cumbersome, less costly and more flexible, but also has fewer frauds, proportionately, than our own capital markets. Clearly, a cost-effective market alternative can and does exist.

Prerequisite No. 4: There is a cost-effective regulatory remedy.

According to supporters of government-mandated disclosure, the more investors know about a corporation, the better their investment decisions will be. As more information becomes publicly disseminated, stock prices approach the underlying value of the securities being traded. In other words, stocks become fairly priced. Disclosure, it is argued, increases the fairness of capital markets and renders the task of price manipulation more difficult.

The problem with this line of reasoning is that those who apply it nearly always ignore the fact that information costs money to produce. In a free market, corporate disclosure is governed by the same prin-

ciples that govern resource allocations elsewhere in the economy. Resources would flow into corporate disclosure activity until the cost of additional resources exceeded the perceived benefits. When the SEC requires more disclosure than there would be in a free market, corporations are forced to devote more resources than efficiency demands.

Do the perceived social benefits of efficiency and fairness allegedly caused by mandatory disclosure exceed the costs? This is a difficult question to answer but, unfortunately, SEC supporters have rarely even tried. Even friendly critics of the commission frequently take it to task for its reluctance to perform any sort of cost-benefit analysis on proposed regulations.

George Benston has addressed the issue of whether there are some observable benefits from government regulation of corporate disclosure practices. The essence of Benston's position is that required disclosure has not led to an increase in the efficiency of capital markets.⁵ Since competitive markets are already efficient, required disclosure adds nothing and because it costs money, we would be better off without it. His analysis is based on the idea that disclosed information should be perceived as valuable by market participants. Benston's methodology, therefore, is designed to determine whether disclosure leads to observ-

able and significant changes in stock prices. Based on observations of disclosure practices and stock price movements, he concludes that government-mandated disclosure does not have an economically significant impact.

Another issue we should consider is the effectiveness of government regulation on the trading of insiders. A study conducted in 1974 examined changes in trading volume and profitability of insider trading after each of three important legal decisions rendered in the 1960s.⁶ Because significant change in the properties of insider trading was not observed following any of these decisions, the author concluded that regulation had no apparent effect. In other words, taxpayers were paying for a service with no apparent equity or efficiency benefits.

A recent estimate of the costs of SEC-required disclosure to corporations, deliberately biased on the conservative side, puts the cost of conforming with periodic reporting requirements at \$213 million in 1975.⁷ The cost of new issues disclosure was placed at \$192 million. These figures have not been adjusted for subsequent inflation or the cost of additional requirements, but 1983 costs are likely to be well in excess of \$1 billion. This evidence is lost on those advocates of government regulation who seemingly view information as a costless good.

The SEC imposes costs on business in other ways that are virtually impossible to quantify but are quite real nonetheless. For example, bureaucratic interference in the securities markets increases the time it takes for new products to reach the market. In some cases, potentially profitable investment vehicles may never reach the investor because sellers find the time delays and costs prohibitive. In fact, evidence has been presented suggesting that although SEC interference may have reduced the risk of new stock issues, it has also had the effect of reducing the average return on such issues.⁸ In other words, the SEC does not necessarily force out poorer quality issues, just riskier ones. For investors who are willing to incur high risk for the prospect of high return, their options have been limited.

Prerequisite No. 5: The proposed regulation should not violate Constitutional rights.

Roberta Karmel, in relating her experiences as an SEC Commissioner (1977-1980), describes a disturbing trend among Commission staffers toward a flagrant disrespect for the rights of business people.⁹ Harold Williams, SEC Chairman under President Carter, is charged with attempting to guide the SEC toward ever greater control over publicly held corporations and promoting an anti-business atmo-

sphere. Williams pursued certain policies not to secure investor interests but rather to promote his ideas about corporate governance. Investor protection became a facade behind which Williams and his followers justified their notions of proper public policy (namely an expanding role for government in the securities markets). Although Karmel still believes that the potential for corporate wrongdoing is a problem worthy of SEC attention, clearly the lack of government accountability is far worse.

An even more disturbing report exposes the SEC's suppression of first amendment rights through its regulatory supervision of investment advisors.¹⁰ Emboldened with powers allegedly bestowed by the Investment Advisors Act of 1940, the Commission has seen fit to censor certain investment advisory publications and, in some cases, even prohibit publication altogether. This grievous attack on freedom of speech and press continues.

Prerequisite No. 6: The burden of proof should be placed on the advocates of regulation.

Determining the effects of any regulation is a difficult and often frustrating experience. George Benton and other critics of securities regulation have not "proven" that the SEC has failed to provide any benefits to investors. They do show us,

however, a preponderance of evidence suggesting that the presence of such benefits has not been proven either. And in a country where people value the protections afforded by limited government, the burden of proof should lie squarely on those who support government regulation of the securities markets. Such proof was not required when securities regulation was first debated in the Senate hearings of 1933, and has yet to be required by those who set government policy.

So Why the SEC?

As we have just seen, when subjected to the stringent standards listed at the beginning of this article, the supporters of securities regulation have much to answer for. Why then are we still subjected to these burdensome securities laws? The answer lies partly in the self-interest of various constituencies which are affected by the laws. The most obvious of these constituencies are the staffers and commissioners of the SEC who possess considerable discretionary power, not to mention their impressive government salaries. Also securities lawyers and certified public accountants owe much of their livelihood to the SEC. Contrary to what we may think, the SEC is not a thorn in their side, for many of these professionals have made fortunes off the agency by helping their clients cope with the

burden of regulatory requirements. Security analysts and portfolio managers also benefit from government-mandated disclosure. They need financial information in order to do their jobs and the more information they can get the better. And since they do not have to pay for the information, quite naturally they are at the forefront of demands for even greater disclosure.

One intriguing theory suggests that the securities laws were passed because Congressmen were anxious to *appear* as having addressed the problem of stock market abuses.¹¹ Since stock fraud and inadequate disclosure were *perceived* as important causes of the 1929 Crash, anti-fraud legislation and government-mandated disclosure were *perceived* as the solution. According to this theory, the SEC's budget is still determined by politicians concerned more with appearance than substance. This attitude is reflected in the actions of the SEC and helps to explain the near total absence of cost-benefit analysis.

Since there is no such thing as a free lunch, who pays for this legislation? Not suprisingly, taxpayers (who fund the SEC's operations) and shareholders (who ultimately bear the cost in reduced corporate profits).

But if the rest of us are forced to bear these costs, why do we allow it to continue? One reason is that

investors have been deluded into believing that confidence in our financial markets would be undermined without regulation. But another more subtle reason has to do with the per capita costs and benefits of the regulations. Because SEC employees, securities lawyers, CPAs, and security analysts have much more at stake in these laws on a per capita basis, they are more inclined to go to the trouble and expense of preserving their domain. The rest of us foot the bill but the per capita charges are not perceived as large enough to merit an effort at repeal.

Conclusion

We should not view the current debate over securities regulation as simply a contest between private capital and public interest as most lawmakers are inclined to do. After all, government policy makers are themselves private individuals with their own self-interests to pursue. The question is really one of which group of private decision-makers will determine how capital resources are allocated in the American economy. A system which allows investors applying the time-honored tradition of *caveat emptor* to make their own choices is far superior to a system in which government administrators, insulated from the risks and rewards of the marketplace, decide what investment opportunities can be made available. When investors

are allowed to make their own choices, unconstrained by government control, *they are the ultimate authority.* ☉

—FOOTNOTES—

¹R. K. Elliott and W. Schuetze, "Regulation of Accounting: Practitioners' Viewpoint," in *Government Regulation of Accounting and Information*, A. R. Abdel-khalik, ed. (University Presses of Florida, 1980).

²Benjamin Anderson, *Economics and the Public Welfare* (Liberty Press, 1979), p. 455.

³G. D. Dillon, "Corporate Asset Revaluations: 1925-1934," *The Accounting Historians Journal*, Spring 1979, pp. 1-15.

⁴G. J. Benston, "Security for Investors," in *Instead of Regulation*, R.W. Poole, ed. (Lexington Books, 1982), pp. 169-205.

⁵G. J. Benston, "The Value of the SEC's Accounting Disclosure Requirements," *The Accounting Review*, July 1969, pp. 515-538 and "Required Disclosure and the Stock Market: An Evaluation of the Securities and Exchange Act of 1934," *American Economic Review*, March 1973, pp. 132-155.

⁶Jeffrey F. Jaffe, "The Effect of Regulation Changes on Insider Trading," *Bell Journal of Economics*, Spring 1974, pp. 93-121.

⁷Susan Phillips and J. Richard Zecher, *The SEC and the Public Interest* (The MIT Press, 1981).

⁸Gregg A. Jarrell, "The Economic Effect of Federal Regulation on the Market for New Security Issues," *Journal of Law and Economics*, December 1981, pp. 613-675.

⁹Roberta Karmel, *Regulation by Prosecution* (Simon and Schuster, 1982).

¹⁰Michael McMenamin and William Gorenc, Jr., "Subverting the First Amendment," *Reason*, January 1983, pp. 23-28.

¹¹Ross L. Watts, "Beauty is in the Eye of the Beholder: a Comment on John C. Burton's 'The SEC and Financial Reporting: the Sand in the Oyster,'" in *Government Regulation of Accounting and Information*.



HOW TO REDUCE CRIME



CRIME remains a silent contender for the number 1 domestic ill. It won't go away. Criminal experts are prone to explain this by saying that crime is "intractable," that there is little we can do. This claim is false. Crime is complex, to be sure, because it involves factors beyond law enforcement such as the strength of the family, neighborhoods, schools, and churches. But crime is simple in the sense that government officials can reduce crime by doing their job, namely, by making crime too unprofitable to practice.

No added resources are needed by the criminal justice system in order to accomplish this. Government finds it easy enough to spend money, but difficult to spend it productively. Be-

tween 1960 and 1982, for example, the number of serious crimes known to the police jumped from 3.3 million to 12.8 million, while government spending on police, courts, and corrections was doubling as a share of GNP, rising to one per cent of total output. Furthermore, victimization surveys show that only about one-third of crimes are reported to the police.

The key to making our cities less dangerous is to change the rules of the game. We must reduce the enormous daily waste of time and effort that makes it so expensive to arrest, convict, and punish the guilty.¹ While the machinery of government and its bureaucrats is always plagued by weak accountability and inefficiency, the law enforcement problem has increased dramatically over the last twenty years. Since 1961 the criminal justice system has been transformed from a law enforcement

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system into a thicket of criminal rights and make-work projects for nearly 2 million lawyers, judges, social workers, psychologists, criminologists, prison officials, and other bureaucrats. More people now produce less justice.

The quadrupling of crime over the past twenty years is due to a top-down revolution, as all revolutions in public policy are. Friedrich von Hayek points out that political opinion over the long run is determined by the active intellectuals. That is why in every country that has moved toward socialism, there was a long preceding phase during which socialist ideas governed the thinking of most intellectuals. Expanded rights for criminal defendants, sociological theories of crime, theories of rehabilitation, and dubious legal processes have followed the same path.

The Short Run: Rebuilding External Constraints

Suppose that we had a *carte blanche* on crime policy and a mandate to reduce crime. What changes would be prudent and effective? I do not claim that my recommendations are feasible in short-run political terms, only that they are sound ways to reduce crime. The basic short-run strategy is to raise the criminal's chances of arrest and conviction and increase the effectiveness of punishment, all without added burden on

the taxpayer. This is far from impossible, provided these five recommendations were followed:

1. Avoid worsening the problem through increased community "rehabilitation" and other "therapeutic" treatments instead of prison terms.

2. Repeal the laws which make the crime problem worse than necessary, such as drug laws, gun control laws, rules restricting the use of prison labor, and those granting coercive privileges to organized labor.

3. Revise the exclusionary rules, suppression of evidence, inordinate delays, technical reversals, instability in criminal procedures, bias in favor of criminal defendants, and disregard for the rule of law by Supreme Court majorities.

4. Make greater use of private incentives and private contractors for police, prosecution, and corrections work, so that the taxpayers get more for their money.

5. Make sentencing fit the crime, not the criminal: Punishment should be usual, even-handed, determinate, prompt, shorter, more severe (though not cruel) and served in full.

The cardinal rule for any physician is "First, do no harm," and recommendations 1 and 2 reflect this philosophy. The likely prospect is that things will get worse before they

get better because criminal policies are still dominated by unsound ideas and unsound advisers. Legislatures are losing their earlier resolve and bowing to public pressure over the last few years. The people selling therapy for criminals are succeeding once again based on the argument that prisons are crowded and there is no sense in spending more money on failed policies. The legislature in Texas recently accepted this idea, pulling up short just as more plentiful and longer prison terms were beginning to make a dent in crime rates. So the first order of business is to fend off more of the same policies which caused the crime epidemic in the first place.

Perhaps the most controversial recommendation is to repeal the criminal drug laws (and laws against other victimless crime), cases in which the cure is worse than the disease. Over 20 per cent of criminal arrests are for drug violations and these clog up the courts, preoccupy police resources, sustain the infrastructure of organized crime, raise the price of opiates so that as much as 30 per cent more street crime occurs, promote corruption, and have failed miserably in every respect. Similarly, gun laws are misguided attempts to control crime "on the cheap" which never have worked and cannot work in America. They are counterproductive and reduce citizen protection.² The numerous re-

strictions on the use of prison labor have reduced the output of the economy, raised the prison bill for taxpayers, and denied prisoners wider employment opportunities.³ Even the prospects of rehabilitation have been harmed by these protectionist measures. Another labor policy adding to the crime problem is the tacit right of labor unions to use "the weapons of labor" in order to create artificial scarcities of labor via violence and threat of violence. The special privileges of labor unions, both by statute and common law, should be revoked. Not only would this directly reduce violence, it would also reduce the close association between organized crime and organized labor.⁴

In addition to discontinuing some things, the public sector should do some things that presently are not being done. The most important step is to rebalance our biased criminal procedures. It is no exaggeration to say that the Warren Court has the blood of thousands of crime victims on its hands. Without the ability to convict the guilty promptly and *conclusively* in fair if less-than-ideal procedures, nothing can substantially reduce crime. With all of the privileges granted to the accused in today's courts, we are fortunate to have as little crime as we have.⁵

The techniques of the marketplace can improve the productivity of the public sector. Police departments, for example, should be at least

partially rewarded on the basis of *gains* in reducing crime rates. The crime data should be checked by independent auditors. Private security agencies should be allowed to bid for contracts to supply police services where it is legally feasible. Based on experience, these measures can emerge on a piecemeal basis around the country, learning as we go.⁶ Similarly, private incentives and contractors can be more widely used in prosecution and corrections. When the duty of protecting a citizen from criminal harm is left solely to government, there are times due to neglect, malice, or political intrigue that prosecutors fail to act on behalf of the victim. If criminal law were amended to allow wider private rights of enforcement in the courts, then the citizen can protect himself if the government does not, and enforcement will be much more energetic. Prisoners should have more productive opportunities, with the profit motive allowed wider scope on both the demand and supply sides of the highly restricted market for prison labor services and in prison-made products. The ingenuity of the marketplace and competition should be harnessed to serve the cause of crime reduction.

Recommendation 5 is to change sentencing policies. We should eliminate false advertising: make sentences shorter but served in full. Sentences should fit the crime, not

the criminal. The present philosophy about the appropriate procedures for determination of guilt and assignment of punishment basically should be reversed. Evidence about the accused's criminal background, for example, should be allowed in weighing the probability of guilt or innocence, but should be ignored for sentencing. We do it for traffic fines or tax evasion and should do it for criminal offenses as well. Perhaps juveniles should receive special consideration but punishment basically should fit the act, not the age nor the criminal record of the guilty party. One of the tragedies of the current arrangement is that juveniles initially receive tender-loving-care at the hands of the criminal system and are almost seduced into a criminal life. Not taking the system seriously, some of them end up serving long sentences as habitual criminals for crimes so old that nobody can remember them.

Severity of punishment can be humanely increased through greater use of solitary confinement. This serves the cause of justice because anti-social individuals and criminal bands destroy social cooperation, so let them bear the logical results of their actions. The English penal system used this technique with great success in days gone by, and their abandonment of the procedure has been a factor in the British crime epidemic. Solitary confinement also

has the virtue of decreasing schooling in criminal skills and criminal contacts. Prisoners also should work, but I favor the carrot of productive, remunerative employment opportunities rather than the stick of breaking rocks all day.

And what about the death penalty? I personally favor its reinstatement to administer just deserts for the absolutely worst crimes. Life imprisonment in an era of color TV and coed prisons cannot do justice for the acts of a Richard Speck. We terminate vicious animals, and if we believe that society is worth protecting we should be willing to execute the vicious killers that spring up among humans. Our present unwillingness to execute the most grotesque evildoers speaks loudly to criminals about our society and its ideological climate.⁷ As Friedrich Nietzsche said, "There is a point in the history of society when it becomes so pathologically soft and tender that among other things it sides even with those who harm it, criminals, and does this quite seriously and honestly."⁸

The Long Run: Rebuilding Internal Constraints

The rise of crime has not been an isolated social phenomenon. For instance, there is a striking parallel with the demise of discipline in the schools. Why? The basic reason is that a large, influential segment of

public opinion came to believe that students should not be punished—made unhappy, reprimanded, scorned—for doing things that are wrong. As a substitute we ended up with "special counseling programs" and other non-answers. Those opposed to punishment share Rousseau's view of man, feeling that social constraints inhibit healthy human development, that people are born friendly and considerate. Pro-punishers believe that man is a mixture of good and bad, but that our basic instinct is to look out for number one and trample anyone who gets in the way of what we want. Under the weight of painful experience, our schools may be shifting away from Rousseau's views, but it can only be effective if adults are willing to face up to things, to show some backbone. Without serious steps to restrain the law-breaking minority, of course, the reversion to savagery is never far away.

The breakdown of the personal qualities of self-restraint, honesty, integrity, foresight, self-reliance, and consideration for others is indissolubly linked with the welfare state. For what is the redistributive state but a glorification of envy? There is an irreconcilable conflict between the rule of law, which depends on limited government, and the welfare state, which depends on a limitless government. As government has passed more and more laws and reg-

ulations, individual liberty has shrunk and disorder has grown. The rule of man has been substituted for the rule of law.

Crime and the Welfare State

The welfare state does not respect private property. It takes from the politically uninfluential and gives to the politically influential. Redistribution by government is not called stealing, though the same act is if performed by a private individual rather than a government official. Neither shoplifters nor more serious criminals think of themselves as stealing; they say that they just "take" things. In a way, they are right because crime and most of what takes place under the heading of politics amount to the same thing.

Changing the incentives faced by criminals is relatively easy from a technical point of view. Just make punishment swift, sure, and severe. It requires a firm but limited government. But if government is to restore the rule of law and protect private property, government itself must abide by the law. And this is not consistent with the welfare state.

Collectivists like to say that a war on poverty is also a war on crime. I agree with this statement but not in the sense that collectivists mean it. Collectivists mean more coerced redistribution, generous welfare benefits, more social workers and bureaucrats. The consequences of these

programs have been family dissolution, illegitimacy, mass unemployment, demoralization, and non-existent work skills. Redistribution perpetuates poverty, intensifies it, and therefore increases crime. The real war on poverty occurs daily in the marketplace. Capitalism, entrepreneurship, commerce, and the creation of new wealth is the real war on poverty. Capitalism encourages independence, self-reliance, honest dealing, expanded employment opportunities, and therefore less crime.⁹

New job opportunities in the private sector reduce the relative attractiveness of crime and do not call for more government training and welfare programs. They demand less welfarism. Government should get out of the way and allow the marketplace to create more opportunities and wealth. Many factors influence the labor market conditions that potential criminals confront. For example, federal minimum wage laws and union wage rates prevent many young people, whose services are not worth \$3.35 or more per hour, from finding legitimate work. Stealing then is more attractive because they cannot find occasional jobs to pick up spending money. They also fail to acquire the skills, like basic reliability, that would allow them to raise their value in the marketplace. Many other policies adversely affect crime rates, including monetary and fiscal policies. The graduated tax rates, for

example, used to finance destructive social programs retard economic growth and employment opportunities.

Robbery and tyranny by the state is a reflection of the general breakdown of moral law, as it was in ancient Rome, when people had lost all respect for the sanctity of private property. If the lights go out in any major American city, many thousands of people will go on a crime spree, as they did in New York City in the blackout of 1977. The intellectuals have spent decades telling people that they are underdogs in an unjust and decaying society, and that violating the laws against theft or rape is a form of social protest, a form of higher morality.

The long run problem of producing more considerate people means greater reliance on the private market and less on government. It is no surprise that a decline in criminal behavior occurred with the growth of capitalism, and that greater criminality has been associated with the rise of the welfare state and socialism. Reviving internal constraints means gradually reversing the growth of Leviathan. If we are to solve the problem of crime, as with other ills of the welfare state, we must work toward a society where economic and social policies are determined by free markets, not centralized coercion.

The underlying problem is to change the intellectual climate in this country toward liberty and justice and away from collectivism and injustice. No one can avoid this intellectual battle in our politicized era. The purpose of the criminal justice system must become the pursuit of justice once again. ☉

—FOOTNOTES—

¹Also see Ernest van den Haag, "Making Crime Cost and Lawfulness Pay," *Society*, 19 (July/August 1982), p. 22.

²For evidence, see David T. Hardy, "Gun Control: Arm Yourself with Evidence," *Reason* (November 1982), pp. 37-41.

³For a dramatic example, see Jeffrey Shedd, "Making Goods Behind Bars," *Reason* (March 1982), pp. 23-34.

⁴See Morgan O. Reynolds, "Unions and Violence," *The Freeman* (February 1983), pp. 98-106, and "Contradictions of Unionism," *Journal of Political, Social, and Economic Studies* (Winter 1982), pp. 387-409.

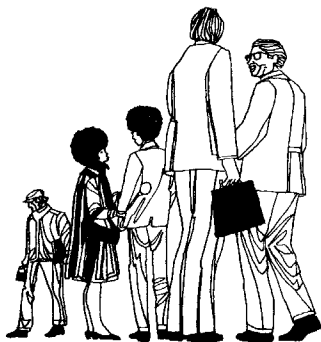
⁵For the arguments, see Steven R. Schlesinger, "Criminal Procedures in the Courtroom," especially pp. 192-200 on the exclusionary rule in *Crime and Public Policy*, edited by James Q. Wilson (San Francisco, CA: Institute for Contemporary Studies, 1983).

⁶Theodore Gage, "Cops, Inc.," *Reason* (November 1982), pp. 23-28.

⁷Walter Berns, *For Capital Punishment* (New York: Basic Books, 1979).

⁸Friedrich Nietzsche, *Beyond Good and Evil*, trans. Walter Kaufman (New York: Vintage, 1966), sec. 201., p. 114.

⁹For corroborating views, see Christie Davies, "Crime, Bureaucracy, and Inequality," *Policy Review*, 23 (Winter 1983), pp. 89-105; James Q. Wilson, "Crime and American Culture," *The Public Interest*, 70 (Winter 1983), pp. 22-48.



UNIONS AND GOVERNMENT EMPLOYMENT

SEPTEMBER 9, 1919 was a date that altered government employment and the duties associated with it. For this was the time the Boston police force went on strike, causing an alarming state of violence, riots and looting previously unheard of in the country. The Boston police strike marked the beginning of a long and protracted struggle aimed at the unionization of government employees.

The strike at that time was doomed to failure, for public opinion was against it. The policemen who participated in the strike were discharged, with public approval. When Samuel Gompers, head of the American Federation of Labor which had called the strike, petitioned Governor Calvin Coolidge to reinstate the strikers, the Governor replied: "There is no right to strike against the public safety by anybody, anytime, anywhere." This statement enjoyed al-

most unanimous approval, and helped Coolidge attain national recognition which ultimately catapulted him to the vice-presidential nomination in 1920.

The Boston police strike occurred as the economy was readjusting from the severe pressures of the First World War. During the war, a War Labor Board was formed by the federal government, which encouraged the organization of labor unions. This was the first time the government created conditions favorable for the unionization of employees. So, it is not surprising that as many as five million employees were union members by early 1920.

The Boston police strike was only one of many strikes that took place during this time. It has been estimated that over 3,000 strikes occurred in 1919 involving approximately 4 million employees. Yet, the difference between the Boston police strike and the others was that the

latter were aimed at private industry whereas the former was directed not only against the government but against the entire Boston population. People instinctively knew the unfairness of such a strike since it touched everyone in Boston, whether or not they wanted to be involved in the controversy. The stark differences between public and private employment became clearer, and people generally agreed that there could not be such a thing as a right to strike against the public safety.

Compulsory Union Bargaining Began in Private Sector

In order to understand the full measure of compulsory public-sector bargaining, it is instructive to study the origins of private collective bargaining and its effects on the unionization of employees in the private sector. The unionization of government employees took place after the principles of majority rule, exclusive representation and collective bargaining were entrenched in private labor relations.

After the abolition of the War Labor Board when the war ended, union membership declined from its all-time high of 5 million members in 1920 to 3½ million members by 1923. During the depths of the Great Depression, union membership hovered around 3¼ million members, and it was not until the passage of protective Federal legislation that

union membership substantially increased. Under the Norris-La Guardia Act of 1932, the jurisdiction of the courts to issue injunctions was severely restricted in cases involving labor disputes. Similarly, under the National Recovery Act in 1933, collective bargaining was encouraged. Although this statute was later to be found unconstitutional, its encouragement of collective bargaining was enshrined in the Wagner Act of 1935. The effect of this legislation was substantial. The Department of Labor has stated that:

The 2-year expansion of total union membership brought about a rise from less than 3 million in 1933 to 3¾ million in 1935. In the following 2 years (the first 2 years of the Wagner Act), membership almost doubled, advancing to 7¼ million. The largest gains during the latter period were made in the automobile, rubber, and aluminum industries, in which workers were organized on an industrial basis. Many of the older organizations, including such unions as the International Ladies' Garment Workers' Union, the International Association of Machinists, and the International Brotherhood of Teamsters, Chauffeurs, Warehousemen and Helpers, also registered substantial membership increases. The extent of these gains is even more impressive when it is realized that the total labor force increased only 2 percent between 1935 and 1937, and that nonagricultural employment, the main source of union membership, increased less than 15 percent.¹

Union membership continued to increase during World War II and peaked in 1953, when 25.5 percent of the private sector work force was unionized. Membership decreased thereafter to approximately 16.2 percent by 1978.² It is not surprising that although recent labor leader pressures have failed to amend the National Labor Relations Act, other efforts aimed at the same goal of increasing unionization of employees have met with startling success.

President Kennedy signed Executive Order 10988 on January 19, 1962 whereby collective bargaining was recognized as a right of certain Federal employees. Although the terms of the Executive Order prohibited strikes and mandated that all agreements entered into must meet civil service regulations, the stage was set for further inroads. As one commentator put it: "Kennedy's Executive Order triggered a series of bargaining laws in states with substantial private sector unionism like Michigan, New York, Washington, and Pennsylvania. Only a dozen state governments, mostly in the South and West, do not have some kind of mandatory bargaining law to promote public employee unions today."³

The situation in the federal government has been substantially altered by the passage of the Civil Service Reform Act of 1978 which enshrined the principle of compul-

sory collective bargaining for most Federal employees.

Membership in public-employee unions has soared during the twenty-year period between 1960 and 1980. By 1960 eleven percent of government employees were unionized, whereas by 1980 the figure had increased to 50 percent of a total of over 15 million government employees.⁴

The recent surge in the unionization of government employees is in marked contrast to the decline in the unionization of the private sector. With government employment becoming more significant in the economy, it is essential that we understand how this differs from employment in private industry.

Market Guidelines

Perhaps the most salient distinction between the private sector and the government is the fact that private enterprise is guided in its behavior by the market and especially by the demand for its services. Businesses base their decisions on the market price for goods and services, and the consumer ultimately has the power to decide whether or not to purchase the items offered. There is always the incentive to be efficient in the provision of goods and services since real or potential competitors may offer a better price.

Government, on the other hand, has no such guidelines. Revenues are

based on the taxes collected from the population. Efficiency in the provision of goods and services has no effect on revenues. Nor is there danger of losing the market to the private sector because in most instances competition is forbidden. The Postal Service, for example, has a monopoly in the delivery of first class mail. Regardless of the efficiency of the Postal Service, there is no danger that a private entity will offer alternative modes of delivering such mail. Even where competition is not forbidden, it is impractical in many cases because the government has the power to tax and may offer its services at below-cost prices. Public schools, for instance, have the advantage that no direct charges are imposed on the users of their services, whereas those who attend private schools not only have to pay for the private schooling but must sustain the public school system as well.

Since there is no incentive to economize or lower costs, and since there is no possibility of effective competition, government has considerable leeway in the assignment of priorities to provide goods and services. And since there is no market price for government services, its actions are in a sense arbitrary. Ludwig von Mises elaborated this point:

A police department has the job of protecting a defense plant against sabotage. It assigns thirty patrolmen to this duty.

The responsible commissioner does not need the advice of an efficiency expert in order to discover that he could save money by reducing the guard to only twenty men. But the question is: Does this economy outweigh the increase in risk? There are serious things at stake: national defense, the morale of the armed forces and of civilians, repercussions in the field of foreign affairs, the lives of many upright workers. All these valuable things cannot be assessed in terms of money.⁵

These facts tend to complicate the employer-employee relationship in the public sector. There are no objective standards by which to judge and reward the productivity of government employees. In a private enterprise, the profit and loss system provides an objective framework upon which to judge the contribution made by each employee. It is true that arbitrary actions on the part of the employer may take place in the private sector. It is conceivable that an employer may act rashly and may in fact discharge his most efficient employees, retaining the least productive. But if he acts in such a fashion, he will do so at his peril.

Non-economic Factors

The public employer, lacking a market method of judging his employees, turns to other non-economic considerations. At one time partisan politics played the most important role in the employment of government employees. The spoils system

became so much a part of political reality that it took President James A. Garfield's assassination in 1883 by a disappointed office seeker to initiate the enactment of the first civil service law. This statute, known as the Pendleton Act of 1883, "created a Civil Service Commission to administer a new set of rules which required appointments to be made as a result of competitive examinations and prohibited assessments on office-holders for political purposes. By law these new rules were applied only to some 14,000 positions, about 12 per cent of the total, but the President was empowered to extend them at his discretion. At the turn of the century there were not far from 100,000 in the classified civil service; at the end of Theodore Roosevelt's administration the number had more than doubled, and when Wilson left the White House it had increased to almost half a million. At the same time most states were passing civil service laws."⁶

The situation has changed even more dramatically; the Supreme Court has held that patronage dismissal from government employment violates the U.S. Constitution. The Court stated in *Elrod v. Burns*,⁷ that patronage dismissals could only be justified in policymaking positions so as to guarantee that the policies which the electorate has mandated may be implemented. In yet another case, *Branti v. Finkel*, the

Court indicated that patronage dismissals may only be justified if "the hiring authority can demonstrate that party affiliation is an appropriate requirement for the effective performance of the public office involved."⁸ It may reasonably be said that the spoils system is no longer an important factor in the employment relationship in the government. However, this does not alter the fact that the public employer has no objective measure by which to judge the efficiency and productivity of his employees. Even in those government agencies where there is a provision of services for which there is a market price (like railroads and the provision of electric power), the agency is operated with other than a profit motive and thus lacks an objective standard.

The Power to Abuse

There is no question that government employees have the constitutional right to form and join unions. This is a part of the freedom of association guaranteed by the Constitution, and is as it should be in a free society. However, to extrapolate from that right of association a concomitant right to engage in collective bargaining is a quantum leap.

The theory of collective bargaining, which is embodied in our national labor policy, confers upon unions the exclusive right to engage in bargaining with an employer over

the terms and conditions of employment, in behalf of certain employees. This exclusive right is in itself a very broad delegation of power, as each individual employee correspondingly loses his right to deal with his employer over those terms and conditions. The union that enjoys this exclusive right to engage in collective bargaining has the economic self-interest to raise the wages and other conditions of employment of those employees it represents at the expense of the rest of the work force. Such collective bargaining has had various effects. Some companies have not been able to compete as a result of the high wages exacted by the unions they must bargain with. Others have not been able to hire as many employees as they would have preferred. When we take these effects of collective bargaining, not to mention the consequences of prolonged strikes, it becomes obvious that unions in government will tend to exert an inordinate amount of power over the budgetary decisions of the government. As Sylvester Petro pointed out:

So long as taxpayers remain a diffuse, unconcentrated group, while public-sector unions enjoy the compact political power derived from the laws granting them the privileges of exclusive bargaining statutes and of compulsory collective bargaining, the taxpayers must fight a losing battle.⁹

Although it is difficult to estimate

the actual income generated by public-employee unions, an expert recently estimated that \$750 million a year is a conservative figure.¹⁰ Clearly, public-employee unions have an acute interest in promoting compulsory public sector bargaining.

Essential Differences

Among the many other differences between the government and private employers is the economic advantage enjoyed by the government. Taxpayers must subsidize the government's expenditures regardless of their demand for the services offered. As previously noted, the possibilities of private competition are curtailed. All of these factors enhance the entrenched power of public-employee unions. Besides, since government is usually the only supplier of many services, a strike, however short its duration, can inflict tremendous damage to the population. This in turn causes the politicians to yield to exorbitant union demands so as to lessen the public outcry caused by the strike.

The politicians responsible for maintaining labor peace in the government must reconcile two conflicting demands. On the one hand they must pacify the concerted efforts of public-employee unions to raise labor costs while on the other hand they must stem any outcry that may surface on the part of the population at large to avoid profligate spend-

ing. This effort at reconciling these opposing demands is usually resolved in terms favorable to the public-employee unions since these organizations have formidable lobbying power. Public employees have an economic interest in voting for candidates who will be more generous in settlements with public-employee unions. It is not surprising that "public employees participate in elections at substantially higher rates than the general citizenry does, thereby forming a more potent voting bloc than their share of the work force might suggest."¹¹

A Political Process

The easiest way for politicians to reconcile the conflict between the general taxpayers' clamor to reduce spending and the strong pressures exerted by public employee unions has been to grant many of the benefits demanded as long as they are to be financed over the long term. There is no short-term need to raise taxes, and both the unions and the taxpayers are satisfied. This development is similar to the so-called "uncontrollable" items in the Federal budget where benefit increases have been mandated over a number of years. Since the legislation took place in the past, no politician needs to suffer the consequences of being singled out as responsible for the increase in spending.

Public-sector bargaining is part

and parcel of the political process since its outcome directly influences the budgetary decisions of the government. This becomes even more acute whenever a strike takes place: "A strike designed to get for the strikers more than the legislative appropriation calls for is thus a political act, not an economic one; its purpose is to supplant the budgetary decisions produced by the political processes of representative government with a form of action which can only be called an act of political aggression or extortion."¹²

Although most public-employee collective bargaining statutes contain prohibitions against strikes, government officials have become reluctant to impose any sanctions on the strikers. In 1980 there were 536 work stoppages involving 224,000 government employees.¹³ It seems safe to assume that the reason few sanctions have been taken has been due to the powerful political influence enjoyed by public-employee unions. Yet, one must consider that during the 1981 Professional Air Traffic Controllers Organization strike the government took an unusually strong stand and proceeded to discharge all those strikers who refused to return to work. This severely strong action was politically acceptable and shattered the myth that it is impossible for a government official to deal effectively with the issue of strikes in the public sec-

tor. But the issue posed by public-employee unions goes beyond whether or not public employees should have the right to go on strike. The question that should be addressed is whether or not compulsory collective bargaining should be the guiding principle for labor relations in the public sector.

The clear differences that exist between a private and a public employer demonstrate the vulnerability of both the government and the taxpayers to the pressures exerted by public-employer unions. Compulsory public-sector collective bargaining will increase government spending inordinately with the consequent adverse effects on the budgetary and policy-making process. It should be remembered that the costs of collective bargaining include all the disputes that may arise during the term of the collective bargaining agreement. Clearly, collective bargaining in the public sector is not the most appropriate mechanism to handle labor relations in government.

Mandatory Arbitration

There are some who share a negative opinion about compulsory public-sector bargaining but feel that the ideal solution is to refer all disputes to compulsory arbitration. In this fashion, it is argued, arbitrators will decide the fairness of the union demands as well as the reasonableness

of the employers' position. Yet, this argument overlooks an important consideration. By empowering independent arbitrators to impose contract settlements mandating new terms and conditions of employment, the people at large will have given up their capacity to hold anyone accountable for the particular settlements. Instead of bringing about a solution to the problems posed by the public sector bargaining, mandatory arbitration will only aggravate them.

If the government were to change its policies and refuse to engage in collective bargaining, would this open the door for arbitrary treatment of government employees? The fact is that government employees have rights protected by the Constitution which are not open to employees in the private sector. We have already seen that the spoils system has been effectively curtailed as a result of recent Supreme Court decisions. In addition to this, the Supreme Court in *Perry v. Sinderman*¹⁴ granted public employees who face dismissal the right to a hearing so that they may establish whether or not they had a "property interest" in their jobs.

The instances in which public employees have been dismissed are minimal. In 1978, for example, "only 300 of 2.8 million federal employees reportedly were dismissed or terminated for incompetence."¹⁵ In addi-

tion, public employees may not be disciplined for their exercise of First Amendment rights. As all of this reveals, government employees enjoy certain rights that guarantee that they will not be subjected to arbitrary actions on the part of their employer. In addition, of course, public employees enjoy economic security since the government does not run the risk of going out of business. All in all, government employees enjoy greater job security than do employees in the private sector.

Government should rededicate itself to the purposes of the original civil service statutes. A pay scale cognizant of the realities of the market, along with the constitutional and statutory protections afforded public employees, assure them fair treatment without subjecting the government to the shackles of public-employee union pressures. If we continue to pursue the policies of compulsory public-sector bargaining, we will lose further control over the behavior of the government and its spending decisions. As Sylvester Petro has said:

Compulsory public sector bargaining dilutes governmental sovereignty by transferring the loyalties of public employees from their government employers to their union. It dilutes popular sovereignty by pitting public employees as a group against taxpayers as a group. In-

stead of serving taxpayers, government employees and their unions extort from them.¹⁶

It is in our power to change those policies which have brought forth compulsory public-sector bargaining; if we do not, the events of September 9, 1919 may no longer be incidents of the past. ☸

—FOOTNOTES—

¹United States Department of Labor, *Brief History of the American Labor Movement*, 1976, p. 23-24.

²Myron Lieberman, *Public-Sector Bargaining* (Lexington: D.C. Heath and Company, 1980), p. 2.

³Vol. 4 *Government Union Review* (1983), p. 6-7.

⁴*Ibid.*, p. 3.

⁵Ludwig von Mises, *Bureaucracy* (New Rochelle: Arlington House, 1969), p. 50.

⁶S. E. Morison, H. S. Commager and W. E. Luchtenburg, *A Concise History of the American Republic* (New York: Oxford University Press, 1977), p. 414.

⁷427 U.S. 347 (1976).

⁸445 U.S. 507 (1980), at 518.

⁹Vol. 10 *Wake Forest Law Review* (1974), p. 134.

¹⁰Lieberman, *op. cit.*, p. 13.

¹¹Vol. 4 *Government Union Review* (1983), p. 14.

¹²Vol. 10 *Wake Forest Law Review* (1974), p. 101.

¹³United States Department of Commerce, *Statistical Abstract of the United States* (1982-83), p. 411, table 685.

¹⁴408 U.S. 593 (1972).

¹⁵Vol. 4, *Government Union Review* (1983), p. 13.

¹⁶Vol. 3, *Government Union Review* (1982), p. 23.

CHARACTER EDUCATION

LEONARD READ once made the prescient remark that, now that we had succeeded in separating church and state, the next big battle would be to separate state and school.

With the hold that compulsory public education has on this country, the struggle suggested by Leonard Read has hardly begun. Even the most independent private schools have to go to government for accreditation. Sometimes they can't even get that: ministers in Nebraska are jailed for starting church schools in competition with the public school system. The Amish, who persist in their attempts to teach their own children, are persecuted and hauled into court. But, with the big decline in the so-called SAT scores in the past few years, public dissatisfaction with our government-run school system is undeniably mounting.

Since, after a century and more of indoctrination by the followers of

Horace Mann, the public schools are not going to be abandoned within foreseeable time, there will be efforts within the system to do something about those bad SAT scores. Frank Goble, who runs the Thomas Jefferson Research Center, thinks the answer to the problem is to restore the teaching of ethics. In a book written in collaboration with B. David Brooks, *The Case for Character Education* (Green Hill Publishers, Ottawa, Illinois, 168 pp., \$7.95), Mr. Goble makes an eloquent pitch for his contention that if the schools will only add the fourth "R" of responsibility to the basic "Rs" of reading, 'riting and 'rithmetic, the SAT scores will dramatically improve and classroom vandalism will tend to disappear.

The Goble-Brooks book definitely shows there is a correlation between student behavior and academic achievement. With the growth of ethical relativism in the Seventies,

both the verbal and mathematical test scores began to tumble. Where the average verbal test score was 478 in 1963, it plunged to 427 in 1979 and 424 in 1980. The 1963 average score in mathematics had been 502; in 1979 it was 467, and in 1980 it fell off another point to 466.

While it is possible that the teaching might have become more negligent in the decade of the Seventies, or that the SAT tests themselves had become subtly more difficult, Mr. Goble does not have to go very far to assemble a whole host of negative behavior statistics, beginning with drug use and ending with suicide and homicide, to prove his correlation. He quotes Health, Education and Welfare Secretary Califano's statement to Congress that "schools that should be centers of teaching and learning . . . have become centers of danger and violence for teachers and students." Teen-agers spend only a fourth of their waking hours in school—but forty per cent of the robberies they perpetrate or suffer and thirty-six per cent of the assaults on teen-agers occur in the classrooms or school hallways and grounds. The streets themselves are much safer places for kids.

The Teaching of Ethics

The teaching of ethics has tended to fade out because ethics is connected with religion, and the separation of church and state has been interpreted by the courts to preclude

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.

anything in the classroom that smacks of religious indoctrination. Kids can't even pray silently to themselves for divine guidance. But Mr. Goble defies the American Civil Liberties Union to tell him that the First Amendment means the schools can't teach things like responsibility, citizenship and generally approved codes of behavior.

"Character," says Goble, "refers to those aspects of personality—mental habits, attitudes, values, personal goals—that influence personal behavior." A person of good character will have persistence, tact, self-reliance, generosity and loyalty. Character building can be stressed without relation to any specific religion or system of government, which means that any school can go in for it without running into constitutional roadblocks.

Mr. Goble would have a hard time

proving that character in itself can make a person more nimble at mathematical calculation or the writing of good prose. Crooks can be intelligent, and good souls can be dumb. But it still remains true that it is easier to learn to parse sentences and to do long division in classrooms where order predominates and ambition is encouraged. It takes a genius to concentrate in a boiler factory.

The Goble-Brooks book relies on case histories to make the correlation between behavior and academic excellence come clear. The story of what happened in the schools of Modesto, California, is typical. Stressing the "fourth R" of responsibility, Modesto decided in 1976 to go back to the basics in everything. It cut out the old habit of automatic promotions. Competency tests had to be passed year by year or no diploma would be awarded. Written student conduct codes setting forth student rights and responsibilities were distributed to parents. The conduct codes, with specified punishments for infractions included, had to be signed by the parents and returned to the school.

The results of the Modesto program have been most impressive. It did not wipe out vandalism, but the work of the graffiti artists and window smashers was held to a 6.9 three-year increase where other California schools were reporting a twenty

to twenty-five per cent increase in destructive practices each year. Meanwhile, the Modesto reading, writing and arithmetic scores gained markedly in comparison to what the other state schools were showing.

Teaching at Home

In New Hampshire two parents, Bob and Nancy Wallace, decided not to wait upon the improvement of the public schools. It was not so much the ethical standards of the schools that bothered them; their two children, Ishmael and Vita, happened to have special self-starting characteristics, and they would have suffered if bound down to the ordinary classroom pace. In an appealing book called *Better Than School* (Larson Publications, Burdett, New York, 256 pp., \$11.95 paperback), Nancy Wallace recounts the adventures of a happy and dedicated mother and father in educating their children at home. They had the devil's own time in wresting permission for a "home school" from their local Board of Education in New Hampshire. (Ithaca, New York, did better by them after they had moved to be near Cornell University, with its needed library and cultural facilities). But, save for the once-a-year administration of state tests, the Wallaces kept the government out of their hair. The result, apparently, has been two superbly educated kids—and a couple of educated parents, too. ©

**NATION, STATE, ECONOMY:
CONTRIBUTIONS TO THE
POLITICS AND HISTORY OF
OUR TIME**

by Ludwig von Mises

Translated by Leland B. Yeager

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Reviewed by Bettina Bien Greaves

THE noted free market economist, Ludwig von Mises, was a native of the old Austro-Hungarian Empire. By 1914, he was in his early thirties and his years of compulsory military service had been all but completed. When World War I broke out, however, he was called to duty immediately. He served throughout the war, a large portion of the time in the cavalry on the eastern (Russian) front where, as he lamented later, he "could rarely find time to read a newspaper." (*Notes and Recollections*, p. 66). Shortly before the war ended, Mises was transferred back to Vienna where he had been living previously. He was there when the Central Powers finally collapsed.

War's end found Europe in turmoil, hunger widespread, national boundaries in disarray, and communist terrorists eager to stir up trouble at every opportunity. As op-

portunity permitted, Mises returned to his intellectual pursuits. One question uppermost in the minds of many persons at that time was what had caused the strife that had led to the war just ended. This book, first published in German in 1919 and only now translated into English, explores the answer.

As the title indicates, Mises deals with the concepts of "nation," "state," and "economy," their respective similarities and differences. To appreciate the situation in post World War I Europe, with its countless intermingled minorities, many with different languages, dialects, cultures, religions and special interests, an understanding of these concepts is essential. Unfortunately, little attention was paid to the explanations Mises presented in this book. Longstanding international conflicts continued to fester in spite of the attempt to implement in Europe the then-popular idea of national self-determination. As a result, when Hitler came along he had only to stir these issues up again, until in time they erupted into World War II. Mises' message is important to us today also, for the same issues are at the root of current international conflicts.

Nineteenth-century Europe had been trending toward the freedom ideas of classical liberalism. To understand the origins of German nationalism which led to World War I,

therefore, it must be explained how liberalism, always pacifist and anti-militaristic, was overthrown. "[T]he last trace of the liberal spirit had first to disappear from Germany and liberalism had to become regarded as a kind of dishonorable ideology before the people of poets and thinkers could become a weak-willed tool of the [imperialist] war party." (p. 3) This was accomplished primarily thanks to a combination of interventionists—(1) working class socialists, who favored "democracy" initially, and (2) the bourgeoisie, industrialists and militarist authoritarians.

Mises contrasts the principles of classical liberalism with those of the interventionists. "The basic idea of liberalism and of democracy is the harmony of interests of all sections of a nation and then the harmony of interests of all nations (p. 44). . . . Full freedom of movement of persons and goods, the most comprehensive protection of the property and freedom of each individual, removal of all state compulsion in the school system . . . are the prerequisites of peaceful conditions." (p. 96) Liberalism stood for the international division of labor, free trade and free migration. Frictions in a truly liberal society can usually be resolved peacefully, through discussion, debate, election and voluntary agreement.

Authoritarianism and socialism,

although nominally opposed to one another, shared quite a few non-liberal, protectionist positions. Because of their opposition to socialism, many entrepreneurs and industrialists aligned themselves with the privileged, authoritarian, class. And many socialists, opposed to monarchy and a privileged nobility, upheld the idea of democracy and "fought for the right to vote, freedom of the press, and the right to form associations and assemblies as long as they were not the ruling party [but when] they came to power they did nothing more quickly than set these freedoms aside." (pp. 44–45). However, both groups, authoritarians and socialists alike, were interventionist. Both were advocates of national self-sufficiency and protectionism. Both favored a status society in which certain special groups had the power and authority to suppress minorities. And the policies of both led in time to militarism and conquest. The only way to settle controversies under an authoritarian or socialist regime is by resorting to force and authority.

Prior to World War I, Europe was a polyglot patchwork quilt of linguistic and cultural communities, each anxious for independence and the freedom to control its destiny. The non-liberal governments of that day, however, could not grant this independence or freedom to the separate linguistic groups within their

borders without relinquishing some of their own power and authority. Mises devotes considerable attention to the role of language as the basis of "nationality" and to the conflicts that arise under non-liberal regimes when different linguistic and cultural groups are geographically intermingled and overlapping. He deals especially with the conflicts among the many different language groups located within the pre-World War I borders of Prussia and Austria-Hungary, conflicts that contributed directly to the start of both World Wars.

Under liberalism, production is expanded as the world becomes ever more closely linked by the widespread division of labor and far-flung international trade. It is a sort of poetic justice that the imperialistic German government, having rejected free market principles, had to turn to free enterprisers during World War I to keep their war machine operating. "War," Mises wrote in 1919, long before nuclear bombs were even dreamed of, "has become more fearful and destructive than ever before because it is now waged with all the means of the highly developed technique that the free economy has created." (p. 216) And today, war is even more dreadful to contemplate. It is not surprising, therefore, that many concerned persons now clamor for peace. Unfortunately, however, most of those who

agitate for a nuclear freeze or to ban the bomb are "socialists" or "interventionists" who advocate the very government policies that lead to domestic and international conflict. "Philanthropic pacifism," Mises wrote in 1919, "wants to abolish war without getting at the causes of war." (p. 88)

Mises explains that the path to lasting peace depends on adopting the freedom philosophy of classical liberalism.

He who has made the harmony of the rightly understood interests of all strata within a nation and of all nations among each other the basis of his world view can no longer find any rational basis for warfare. He to whom even protective tariffs and occupational prohibitions appear as measures harmful to everyone can still less understand how one could regard war as anything other than a destroyer and annihilator, in short as an evil that strikes all, victor as well as vanquished. Liberal pacifism demands peace because it considers war useless. . . . He who wants to prepare a lasting peace must be a free-trader and a democrat and work with decisiveness for the removal of all political rule over colonies by a mother country and fight for the full freedom of movement of persons and goods. . . . Liberalism rejects aggressive war not on philanthropic grounds but from the standpoint of utility. (pp. 86-87)

The cause of peace would be better served if, instead of mounting massive protests and demonstrations, concerned persons were to speak up

for the repeal of special privileges, subsidies, welfare programs, progressive taxes, protectionist measures, barriers to world trade and free migration, and the like. Such steps would accomplish more toward eliminating the causes of war than picketing at nuclear missile sites.

To those who fail to recognize that the hope for peaceful interpersonal relations rests on utilitarianism and classical liberalism and who, as a result, reproach their advocates for considering only "the satisfaction of material interests and neglecting the higher goals of human striving," Mises has an answer:

Nothing is more absurd than this criticism. It is true that utilitarianism and liberalism postulate the attainment of the greatest possible productivity of labor as the first and most important goal of policy. But they in no way do this out of misunderstanding of the fact that human existence does not exhaust itself in material pleasures. They strive for welfare and for wealth not because they see the highest value in them but because they know that all higher and inner culture presupposes outward welfare. . . . Not out of irreligiosity do they demand religious freedom but out of deepest intimacy of religious feeling, which wants to make inner experience free from every raw influence of outward power. They demand freedom of thought because they rank thought much too high to hand it

over to the domination of magistrates and councils. They demand freedom of speech and of the press because they expect the triumph of truth only from the struggle of opposing opinions. They reject every authority because they believe in man. (p. 215)

This book, written so long ago, offers important insights to us today for understanding current problems. Professor Yeager provides a helpful introduction explaining the European background situation at the time Mises was writing. This early work is a worthy addition to the collection of Mises books available in English. Mises himself realized its importance, for he referred to it as follows in his 1940 recollections:

It was a scientific book with political design. It was an attempt at alienating the affections of the German and Austrian public from National-Socialist [Nazi] ideas, which then had no special name, and at recommending reconstruction by democratic-liberal policy. My book remained unnoticed and was seldom read. But I know that it will be read in the future. (*Notes and Recollections*, p. 66)

Now that *Nation, State, and Economy* has been rendered into very readable English by Professor Yeager, perhaps that future is here.



**NATURAL RESOURCES:
BUREAUCRATIC MYTHS AND
ENVIRONMENTAL MANAGEMENT**

by Richard L. Stroup and John A. Baden
(Pacific Institute for Public Policy
Research, 635 Mason Street,
San Francisco, CA 94108) 1983
148 pages ■ \$25.00 cloth, \$9.95
paperback

Reviewed by Brian Summers

THE battle lines over environmental issues seem to be clearly drawn. On one side stand private landowners and businessmen, supposedly bent on plundering natural resources. Opposing them are government bureaucrats, who seem to form the environment's last line of defense. Almost all environmentalists side with the bureaucrats.

But according to Richard Stroup and John Baden, the environmentalists are on the wrong side. Private owners face economic incentives which are fundamentally different from the political incentives facing government bureaucrats. After carefully examining these incentives, the authors conclude that private ownership of natural resources offers the best hope for enlightened resource management.

Consider, for example, the 107 million acres of public forestland managed by the federal govern-

ment. The bureaucrats in control, no matter how well intentioned, have no economic incentive to promote efficient timber production. Instead of logging where marginal returns are the greatest, the U.S. Forest Service responds to political pressures. Bureaucratic mismanagement squanders scarce resources, deprives the nation of needed lumber, raises housing costs, and increases the number of acres that have to be cut to produce a given amount of lumber.

But wouldn't private forest companies do even worse? Wouldn't they strip forests bare and then move on? Not if they owned the forests. As private forest companies such as Boise Cascade and Weyerhaeuser have shown, it is in their economic self-interest to maintain their forests and plant seedlings—if for no other reason than to sell the forest to the next private owner.

In addition to forestland management, Stroup and Baden analyze air and water pollution, toxic waste disposal, the development of fossil fuels, nuclear and alternative energy sources, wildlife sanctuaries, rangeland management, and water resources. Through the use of basic economics and concrete examples, they make a compelling case for private ownership in a market economy as the best possible solution to environmental problems. ☐

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VOL. 34, NO. 4

• APRIL 1984

Social Responsibility—

A Page on Freedom, No. 5

Brian Summers 195

Profits are earned through responsible business behavior.

What Killed Ma Bell?

Melvin D. Barger 196

A bureaucratic structure gives way to competition.

The Public Be Damned . . . Again!

**Thomas E. Schaefer and
Sid Streicher** 205

Both customers and suppliers will gain from competition.

Unionism Revisited

Clarence B. Carson 209

Correcting some possible misconceptions concerning the nature of labor union policies and practices.

Does Welfare Diminish Poverty?

Howard Baetjer Jr. 219

Never use the law to benefit some at the expense of others.

Women, Work and Wages

Hans F. Sennholz 225

Why women are better served, paywise and otherwise, in a free economy than under socialism.

To Save the World

Edmund A. Opitz 239

Concerning the importance of keeping the peace but otherwise letting things alone.

Book Reviews:

249

"America by the Throat: The Stranglehold of Federal Bureaucracy"
by George Roche

"The Economics and Politics of Race: An International Perspective"
by Thomas Sowell

"Idols for Destruction: Christian Faith and Its Confrontation with
American Society" by Herbert Schlossberg

"Double Crossing" by Erika Holzer

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Social Responsibility

PROFIT-SEEKING businessmen are often accused of neglecting their social responsibilities. But in a free and open market, profit-seeking itself performs an important social function.

To see this, we need to understand free market pricing. In an unhampered market, the businessman adjusts his asking price so as to just sell all his products. If he tries to charge more than this market-clearing price, he loses so many customers to competitors that he can't sell all his wares. If he charges less than the market-clearing price, the demand for his product exceeds his supply. Only at the freely determined market-clearing price can the businessman sell as many items as he wants, and customers buy as many items as they want.

The intelligent businessman is well aware of this. He knows that he can't make profits by simply raising his prices because he would soon lose

customers to his competitors. There is only one thing he can do—cut costs of production. Thus, the businessman tries to use his men and materials in the most efficient manner possible. And, because he must pay market wages, prices, and interest rates, he tries to minimize the number of people he employs, the amount of capital he uses, and the quantity of natural resources he consumes in producing his goods and services. In other words, he tries to practice conservation.

Thus, in a free and open market, with no government subsidies or other special favors, businessmen earn profits by using as little as possible to provide consumers with as much as possible. The greater the profit a businessman earns, the more scarce resources he leaves for other people to use. What is irresponsible about that? 

—Brian Summers

THE FOUNDATION FOR ECONOMIC EDUCATION, INC.
IRVINGTON-ON-HUDSON, NEW YORK 10533



What Killed Ma Bell?

MA BELL, the world's biggest company and largest private telephone system, went to her Eternal Reward on January 1. Although she was reincarnated as a new, slimmed-down AT&T and seven regional holding companies, the successors to the old Bell System will be vastly changed from the giant telephone company which was such an intimate part of American life for most of this century. The most significant changes are the separation of AT&T from the Bell operating companies and the introduction of increased competition in the telephone field. Most of us who believe in free market economics think the change will be beneficial.

But before we say a last farewell to Ma Bell, we should at least hold a post mortem to find out the true causes of her demise. What killed Ma Bell? Why did she have to die? How did her terminal condition arise?

Mr. Barger is a corporate public relations representative and writer in Toledo, Ohio.

Some believe the Bell System was brought down by the U.S. Justice Department. The Justice Department had wanted to break up AT&T for a long time and had first attempted it with a 1949 civil suit. While that lawsuit had been settled by a 1956 Consent Decree which left AT&T virtually intact, a second Justice Department suit filed in 1974 was more successful and resulted in the dramatic divestiture settlement which was announced on January 8, 1982 and carried out two years later.

Another hero of the AT&T breakup is Federal Judge Harold Greene, who presided over the case and inserted some of his own convictions in the settlement—such as the order divesting the new AT&T of its lucrative Yellow Pages operation. Perhaps it was Judge Greene's unfriendliness that convinced AT&T management to accept divestiture rather than even harsher terms in a final ruling later on.

Finally, Ma Bell may have been

partly done in by her critics. The Bell System had made a lot of enemies over the years. TV comedians like Joan Rivers roasted the telephone company before audiences of millions, while crusaders like Ralph Nader lashed out at the system in books and articles. None of this helped a company that craved and needed the public's support and good will.

It's true that all of these forces played a part in Ma Bell's demise. Yet the real cause of her demise may have been her long status as a "regulated natural monopoly." While this regulation may have appeared to be Ma Bell's great strength, it was also a weakness that proved fatal over time. And in the 1960s, a number of serious problems developed which AT&T was not equipped to solve under the old status.

The Key to the Problem

Perhaps the key to understanding Ma Bell's illness and demise is in a little-known but important book entitled *Bureaucracy*, by Ludwig von Mises.¹ First published in 1944 and largely reflecting Mises' experience with governmental bureaucracies in Europe, the book shows why bureaucracy is necessary for certain types of organizations and why it becomes harmful or ineffective for other types of organizations. Unlike those who merely denounce bureaucrats, Mises had a sympathetic un-

derstanding of bureaucracy as "a method of management which can be applied in different spheres of human activity." He noted that bureaucratic methods are a necessity for handling the apparatus of government, and that what people consider as an evil is not bureaucracy as such, "but the expansion of the sphere in which bureaucratic management is applied."²

Mises defined bureaucratic management as "management bound to comply with detailed rules and regulations fixed by the authority of a superior body." But business management, on the other hand, is management directed by the profit motive.³ For a profit-seeking organization, "success" is not whether the organization closely follows certain rules and procedures, but whether it is profitable.

In the United States, however, many private companies—while still profit-seeking organizations—have been driven toward bureaucratization by government interference of one type or another. The most bureaucratic types of private organizations are those whose prices or activities are regulated and those who engage in a great deal of government business or depend on the government for the right to carry on their business. In a sense, many of these private businesses have to serve two masters: they must be profitable, and yet they must carry

Bureaucracy

A private business is doomed if its operation brings losses only and no way can be found to remedy this situation. Its unprofitability is the proof of the fact that the consumers disallow it. There is, with private enterprise, no means of defying this verdict of the public and of keeping on. The manager of a plant involving a loss may explain and excuse the failure. But such apologies are of no avail; they cannot prevent the final abandonment of the unsuccessful project.

It is different with a public enterprise. Here the appearance of a deficit is not considered a proof of failure. The manager is not responsible for it. It is the aim of his boss, the government, to sell at such a low price that a loss becomes unavoidable.

LUDWIG VON MISES

out rules and regulations which might inhibit their ability to compete. They are, to quote Mises, expansions of "the sphere in which bureaucratic management is applied."

The Bell System was a victim of bureaucratized management, although it was a privately owned corporation and operated on a profit-seeking basis. But its profit-seeking activities were carefully monitored and restrained by authorities. Bell was subject to three of the four methods which, Mises noted, government authorities apply to interfere with the "height of profit" in private companies: 1) The profits that a special class of undertakings is free to make are limited; 2) The (government) authority is free to determine the prices or rates that the enterprise is entitled to charge for the commodities sold or the services rendered; and 3) The enterprise is

not free to charge more for commodities sold and services rendered than its actual costs plus an additional amount determined by the authority either as a percentage of the costs or as a fixed fee. (Not applicable to Bell's case was the fourth method described by Mises, which allows the enterprise to earn as much as it can, with taxes absorbing all profit above a certain amount.)⁴

Most private companies encounter some political interference with their profit-seeking activities. But public utilities and defense contractors usually receive the most direct controls because, to a certain extent, they owe their existence to government favors. In the case of the Bell System, this government control went back more than 70 years, and it set the company up for serious trouble when changes came in the late 1960s.

The Leadership of Theodore N. Vail

Bell's venture into bureaucratized management started in the 1907-1919 period under the leadership of Theodore N. Vail, whom Bell people revere as the architect of the modern system: "Alexander Graham Bell invented the telephone, but Theodore N. Vail invented the Bell System," Bell people have said.⁵

What Vail invented was a unique way of organizing the system under private ownership while getting government approval of the concept of a "natural" monopoly which should be operated "in the public interest." A number of competing telephone systems had blossomed in the early part of the century, and in some cases people served by one system could not be connected with people hooked to another in the same area. To Vail, this was wrong and inefficient, and he apparently did not believe that market forces would solve this problem. Moreover, the most serious threat to AT&T was not competition from other companies; it was the threat of being taken over by the federal government to be run as an arm of the Post Office. This was a very real concern, and in view of the fact that other major countries ended up with government-owned telephone systems which often performed badly, we owe Vail a great debt for keeping the U.S. telephone industry in private hands.

No Friend of the Market

But Vail was no friend of the free market or of competition. A distinguished business philosopher, he produced a number of essays and speeches which show that he clearly favored using the power of government to help him reach the goals he sought for the telephone industry. "One Policy, One System, Universal Service," was his emphasis, and he also said, in 1911, that a "public utility giving good service at fair rates should not be subject to competition at unfair rates."⁶

This seemed a reasonable idea in a time when the public was indignant about the profits of huge corporations and trusts. The concept of giving good service and accepting only "fair" rates in return seemed to show remarkable restraint. It also seemed reasonable to accept government regulation. Vail noted in a 1915 speech that the telephone was considered a necessity: "Society has never allowed that which is necessary to existence to be controlled by private interest." But he defended the monopolistic aspect of the Bell System because of its efficiency and devotion to service and the public interest, and he felt that regulation would work well provided men "of the highest standard" could be appointed to the regulatory bodies for life, with careful provisions made to safeguard their independence from corporate or political pressures.⁷

Although Vail's beliefs appeared wise and sound, any present day student of business and government would know he was not talking about the real world of commerce and politics. For one thing, "fair rates" sounds marvelous in a speech, but it becomes elusive when regulatory officials actually try to make rate decisions. Few subjects today are more controversial than the rates charged by public utilities, and "rate hearings" by state commissions are sometimes the scenes of near-violent demonstrations with frequent heckling and name-calling.

No Government Body Can Be Free from Political Pressures

It is also unrealistic to believe, as Vail apparently did, that any government body can be free from corporate or political pressures. What he idealized, of course, was a statesmanlike group that would make profoundly wise decisions in the public interest and without the aim of benefiting or penalizing any part of society. As we know, however, all regulatory bodies are subject to pressures of various kinds, to say nothing of the convictions and prejudices held by individual members. And even lifetime appointments do not make people "independent" as Vail wanted them to be. For one thing, persons on lifetime appointments always know that their status, if necessary, can be changed by

public vote, and they are also vulnerable to other public sanctions.

Still, it is to Vail's everlasting credit that his prescription for the Bell System did work well for many years. AT&T built what was considered the best telephone system in the world. Bell System officials usually won cooperation from federal and state officials and were left free to manage the telephone business in most important ways. They carried out their mission of service with great skill, and they also took care not to flaunt their monopoly position. The telephone operator was always pleasant and helpful, the service truck always arrived promptly, and Bell people would go to any lengths to get systems working again when there was storm damage.

Technical Advances

Moreover, the system moved ahead on the technical front, and we came to expect frequent improvements: rotary dialing that eliminated need for calling the operator, direct dialing of long distance, WATS service, and better telephones. With a system that covered more than 80 per cent of the nation's telephones, Bell could do extraordinary things to get long distance calls through when circuits were busy in certain areas. With service like that, why would anybody want a different kind of telephone system?

But trouble was never far away

from the Bell System. One of the prickliest matters was Bell's ownership of Western Electric, the manufacturing subsidiary that produced most of the equipment for AT&T. A plus-\$12 billion-a-year business in 1982, Western Electric had long been under attack. Indeed, it was to force the divestiture of Western Electric that prompted the U.S. Justice Department's 1949 civil suit against Bell. To AT&T, Western Electric was a necessary part of its operations and helped it to assure a high quality of service. To others, it was simply another manufacturer that was able to maintain a government-sponsored monopoly position because the 22 Bell operating companies were captive to it and had to buy most of their equipment from Western Electric. Some believed that Bell officials manipulated Western Electric's bookkeeping, and the like, to produce tax advantages for the company. Whatever the facts, there was no denying that Western Electric held a monopoly position that simply wouldn't have existed in a nonregulated environment. This was a festering issue with companies that had the expertise and technology to compete with Western Electric, but were denied entry to the market.

More serious trouble came for the Bell System as a result of its rate-making and costs policies. In 1934 Congress passed the Communications Act which gave the newly

formed Federal Communications Commission jurisdiction over AT&T (although state regulatory bodies also controlled the local Bell companies). According to a recent AT&T publication, the Communications Act "put into law the long-standing AT&T principle of providing universal telephone service at reasonable cost. One result was to subsidize lower residential rates by raising the cost of long distance service and business services—an action that set off a continuing controversy in the ensuing years."⁸

The Achilles' Heel

This rate-setting policy, seemingly an advantage in the 1930s, became the Bell System's Achilles' Heel in the 1960s. It also shows, more than almost anything, how far the Bell System had been able to stray from the usual constraints that face business organizations in the marketplace. No business with competitors can deliberately reduce its prices to one group of customers while making up the difference by overcharging other groups. This would be certain to bring at least two undesirable effects: 1) There would be excess demand for the underpriced commodities or services, bringing additional losses to the business, and 2) competitors would swoop in to capture the overpriced part of the business, making the original pricing strategy unworkable.

But Ma Bell could adopt such a pricing policy because of the telephone company's monopoly position, which the government protected. Company officials knew that certain parts of its markets were tempting targets for potential competitors. But both Bell policy and public policy, backed by the police power of government, kept raiders out of these markets. More than almost anything, this policy showed how responsive the Bell System was to political moods and trends. The practice of holding down residential rates and overcharging long distance users was really a subtle form of the "soak the rich" policies that had come to dominate government thinking in the 1930s. It is also true that residential users, as a group, command more votes in state and federal elections than do long distance and business users. What the rate policy really meant is that long distance and business users were being taxed, with Ma Bell as the collector, to subsidize residential service. This gap became very large over time. An Ohio Bell official said early in 1983, "We're collecting, on the average, about \$12 a month for basic local service from each residence customer. The gap between this \$12 price and the \$25 cost is currently recovered from other services priced considerably higher than their costs."⁹

This unusual rate-making policy might have continued virtually un-

noticed for a number of years except for two developments. One, the FCC in 1968 issued its famous "Carterfone" decision which opened the way for business and residential use of interconnecting equipment. Then, aided by new technology, a company called MCI was given FCC authority to proceed with long distance services in a selected market. A 1978 federal appeals court decision later upheld MCI (and others) in serving long distance customers, previously a Bell fiefdom.

The Bell System's Dilemma

Critics of the Bell System approved of these moves and there was widespread agreement that it was about time AT&T faced some "real competition." Dismayed AT&T officials tried to fight back by accusing competitors of "cream skimming," i.e., taking the most lucrative markets and ignoring other telephone services. This is the same argument the government uses to protect its monopoly on first-class mail, and it actually has merit. It really is not fair to place one organization under tight control, with bureaucratic management, and then suddenly expose it to competition from other firms who are free to select their markets. Mises would have understood the Bell System's dilemma immediately: It was following pricing (or rate-making) rules that had been worked out over time by public au-

thorities. Its assignment had been to promote widespread use of an essential necessity, the telephone. It carried out this mission and then, abruptly, FCC and federal court decisions brought a radical change in the rules.

It's hard to say what the long-term effect of these new rules will be, but it's clear that the Bell System was already being devastated by competition even before the 1982 divestiture announcement. A large number of all new business installations were non-Bell, and MCI and Sprint have captured part of the long distance market. Competitors' shares of both long distance and business markets could balloon to enormous size unless AT&T is able to counter this competition.

Lack of Flexibility

Meanwhile, the Justice Department in 1974 had again filed suit to force the divestiture that has now taken place. AT&T Chairman Charles L. Brown noted that Bell—which had been barred from entering the computer field by the 1956 Consent Decree—faced a “fence with a one-way hole in it”—a hole that admitted Bell's competitors but did not permit the company to compete back.¹⁰ It's also true that the Carterfone and MCI decisions were of the same order. Bound by regulation and excessive rules, the company simply did not have the flexibility to strike

back at these new competitors in the way any lean, marketing-oriented company is likely to do.

Even without divestiture, giant AT&T would eventually have come to grief if it had attempted to continue under close regulation while new competitors plucked away at its choicest markets. For one thing, where would it have found the revenues to continue subsidizing residential service? And how could it have elevated residential rates to reflect their true cost when these matters are controlled by state public utility commissions? The company was in a no-win situation, and Bell officials were glumly aware of it.

What killed Ma Bell? Well, a number of forces moved against her in the end: competitors, critics, the FCC, the Justice Department and federal courts. But she really passed on because her method of management—the bureaucratic management that is useful for public institutions—is ill-suited for competitive battles. From the sound of their advertising and the restructuring they're undergoing, AT&T and the new Bell offshoots are becoming more attuned to the demands of the marketplace. They'll need to become attuned. There are lots of hungry competitors out there who want a piece of the action, and there will be dramatic shootouts in pricing, services and technology.

People who hail the new competition in the telecommunications field should not be too critical of Ma Bell in her era of monopoly. Her performance and service were marvelous compared with the performance and service of government-owned telephone systems elsewhere. If the choice is only between a government-owned, government-operated enterprise and a private, profit-seeking enterprise regulated and controlled by government, the Bell System record seems to say that the latter is better.

The mistake, which both the public and Bell accepted, was in believing that anybody should be granted a business monopoly enforceable by law. It's true that the early telephone industry appeared chaotic and inefficient when two telephone systems in the same area could not connect with each other. In short order, however, the needs of the customers, merger, or improved technology would have overcome this problem. And "natural" monopolies, to the extent that they exist, become outmoded. The railroads, for example, once had a monopoly on fast overland transport; this was quickly bypassed by the trucking industry in the 1930s. In the same way, the telephone companies' natural monopoly on service in a given area may soon be bypassed by a profusion of new technologies.

The 22 Bell operating companies, which will continue to be regulated under the umbrellas of the seven holding companies, may have trouble maintaining their position when new methods of bypassing them are marketed. AT&T itself, with its prestigious Bell Laboratories, Western Electric, and Long Lines may become a strong competitor in pushing these new technologies. But its protected, captive market is gone.

Ma Bell was a grand old lady in her day. We might agree with Art Buchwald, who called her "the only monopoly I ever loved." But we wouldn't really want her back. ☼

—FOOTNOTES—

¹Ludwig von Mises, *Bureaucracy* (Cedar Falls, Iowa: Center for Futures Education, 1983; N.Y. 1969; an unaltered, unabridged reprint of the 1944 Yale University Press edition).

²*Ibid.*, p. 44.

³*Ibid.*, p. 45.

⁴*Ibid.*, pp. 65–66.

⁵Alvin von Auw, *Heritage & Destiny* (New York: Praeger Publishers, 1983), p. 5.

⁶Theodore N. Vail, *Views on Public Questions*, 1917. A privately published collection of writings and speeches.

⁷John Brooks, *Telephone* (New York: Harper & Row, 1975, 1976), p. 144.

⁸AT&T *Communications*, a pamphlet published by the new AT&T to explain the divestiture and the services it will offer in the future, p. 6. From AT&T, New York.

⁹W. E. MacDonald, *The New Ohio Bell in the Age of Information*. Speech before Toledo (Ohio) Rotary Club, February 28, 1983.

¹⁰Alvin von Auw, p. 29.

Thomas E. Schaefer
Sid Streicher

The Public Be Dammed . . . Again!



FEW of us non-saints live fully by what we preach. We excuse ourselves, of course, by admitting we're human. But there are limits to how far we can tolerate a gap between what we preach and what we do. When the gap gets too large, we must ask if we really believe what we preach.

In the realm of free enterprise, the gulf between American rhetoric and American practice has grown so large as to force the question: Do we really believe in competition?

•**Item:** A recent segment of the ABC-TV show, "Good Morning America" described cosmetic surgery performed in a California physician's office. The procedure is less expensive than having it done in a

hospital. The reporter quoted a hospital administrator who complained that loss of revenue from surgery performed outside the hospital would cause increases in hospital charges to make up the lost income. The physician replied that increased competition should force the hospital to lower, rather than raise, its prices.

The saddest part of this tale is not the upside-down view of economics displayed by the hospital administrator. His complaint, as soon as a whiff of competition appeared, typifies an attitude. His ignorance is deplorable, but the mind-set that led him to complain is frightening.

Increasingly, in knee-jerk fashion, we look to government, not to the market, to solve our problems. Surely it is logical to turn certain economic functions over to government, or other institutions. However, these practices have been car-

Dr. Schaefer is Professor of Management at the University of Texas of the Permian Basin.

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ried to such extremes that it is difficult to see how public interests are being served.

The Public Be Damned?

In the late 1880s, the New York Central railroad decided to discontinue the Chicago Limited, a fast, extra-fare passenger and mail train which ran between New York and Chicago. Reporters interviewed William Henry Vanderbilt, son and heir of the Commodore. They asked, "Don't you run it (the train) for the public benefit?" Vanderbilt's famous answer, "The public be damned," was only part of what he said. The rest of his reply was, "I am working for my stockholders. If the public want the train, why don't they pay for it?"

Vanderbilt's question touched both sides of the supply-demand equation. Had the public wanted that fast, extra-fare train, they would have paid for it by buying tickets to ride it. The railroad chose to discontinue the train because it was not profitable. When alternatives to trains became more plentiful in the forms of trucks, airplanes, and automobiles, the railroads became less and less profitable, and there were widespread changes in railroad operations.

Traditional View Under Attack

The ability to turn a profit traditionally has depended on a firm's ability to compete for the customer's

dollar. Increasingly, however, firms, through government, seek to control competition while masquerading as friends of the consumer. Their efforts often turn out to be anything but friendly.

•**Item:** A spokesperson for the American dairy industry recently described it as the most efficient in the world. *Compared to what?* Price supports provided for dairy products by the federal government have removed competition from the dairyman's world. Producers can produce as much as they want, without regard to supply and demand. What the consumers don't buy at the supported price, the government will. Even the Edsel would have been a winner if Ford had had that kind of help in 1958!

•**Item:** A recent article in the *Wall Street Journal*, headlined "Truckers Ask U.S. to Forbid Rate-Cutting." A 1980 law made it much easier to get into the trucking business, and increased competition soon followed. About 6500 more regulated truck businesses operate today than in 1979.

The crux of the truckers' complaint is "shippers are taking full advantage of the overcapacity," and there is "a feverish scramble to force the best deal out of each carrier." This is what the free market is all about. But the truckers want the ICC

to restrict rate-cutting. They claim lowered rates violate tariffs filed with the ICC. For whose benefit? The trucking companies will be forced to compete, and they don't like it. As deregulation produces lower prices for shippers, truckers will have to fight to stay in business. They don't look forward to the experience. The dairy industry has similar reservations about the prospects of free market competition.

•**Item:** Greyhound Bus Lines is ready to discontinue service to some towns in upstate New York because of extremely low passenger traffic. Greyhound cannot justify the service when so few seats are occupied. The outcry from the affected towns is piteous. Elderly people are quoted to show how they will be immobilized if the buses stop running into their towns. The State of New York has been asked to take steps to insure that Greyhound does not discontinue the service. Once again, here is anticompetitive bias at work.

If there is sufficient demand for bus service in upstate New York, somebody will provide it, even though Greyhound may not. If a profit can be made, an entrepreneur will seek to make it. If no profit can be made, how can we justify forcing an organization to provide the service?

Do we, then, really believe in competition, or do we merely mouth

the words and back away when one of our own vested interests is involved? Is it un-American to suggest that Greyhound be permitted to stop carrying a few senior citizens on otherwise empty buses? Are we against Motherhood if we believe Elsie the Cow ought to sell her milk on the open market and pull in her horns when supply exceeds demand? Is it too much to ask that American businesses serve their clients in a competitive market?

Real Source of Wealth

The prime source of wealth for nations, as for individuals, lies beyond resources of oil or iron, corn or wheat. Wealth, as demonstrated throughout history, lies in internal worlds of will and idea. As the economist Joseph Schumpeter insisted, the root of abundance is competition and entrepreneurial activity. Entrepreneurs, dedicated to risk-taking and the building of the earth, may be suppressed. They are now being suppressed throughout our land. But a government which obstructs competition writes its own economic obituary.

The attitudes which nourish wealth may be temporarily neglected without causing permanent damage. The spirit of the free market is so deeply ingrained in our heritage that no minor force may destroy it. But people cannot live off their capital forever. The broaden-

ing circles of anticompetitive attitudes which now rage through all levels of our society threaten the proverbial goose and her golden eggs. We can avoid a reckoning only by encouraging the will to physical and spiritual excellence that resides in the free soul.

The effort of the California doctor to compete with the local hospital is really a test case. If the hospital, which sees the government as its real client, appeals to that client and forces the doctor to retreat, our heritage will suffer a loss. If the doctor prevails, we will have a small victory in the effort to resurrect those

elemental attitudes which make Americans "fighters, dreamers, creators of new worlds."

Let The Market Work

We believe the market system ought to be allowed to work. We believe consumers, whether individual or corporate, will benefit from market functions. And we believe American business will be stronger for it.

The alternative, facing us on every hand, is a legalized twentieth century version of "the public be damned." But this time, it may be too late for public action to prevent the damning. ☉

A Miracle in Process

WHAT happened to the automobile and the ball point pen is illustrative of what has happened throughout American industry. The speed with which comparatively new products have disappeared from the market to make way for still newer ones has been fabulous if not miraculous. In fact, the word miracle might not be too strong. It is the miracle of a market where consumers are free to call the shots, where they are free to inspect every product offered to them and to act on their own judgment. It is a market where it is not considered immoral for consumers to act on their own judgment. In short, it is a market that is free.

In such a market, the consumer has every producer and would-be producer in the world striving to give him more of the things he wants and at the lowest prices possible. They are not striving toward that end because of any special love they might have for the consumer. They are striving to please the consumer because that is their only route to their own economic survival. It is the producer's search for newer and better ways of satisfying the consumer that keeps the flow of newer and better products pouring into the market, thereby assuring a wide variety of goods available for almost every purpose.

IDEAS ON



LIBERTY

UNIONISM REVISITED



In 1980-1981, several articles of mine on unionism were published in *The Freeman*. They were not published serially, but rather as separate articles from time to time. This past year, these articles, plus an introductory and concluding chapter, were published by Western Goals as a paperback book—*Organized Against Whom? The Labor Union in America*.

Since the time when I wrote most of this book, a major change has occurred, or become more obvious, in the status of unionism. Labor unions have been declining: declining in the proportion of the number of their members to the work force, declin-

ing in the clout they can exercise over employers, and declining in popularity. Indeed, the proportion of union to non-union workers had been declining for a good many years. Unions were still entrenched in heavy industries such as steel, coal, and automobile, but they had not gained much among service personnel or in lighter industries, as more workers were employed in these. In the late 1960s and in the 1970s, unions made up for some of their losses by organizing government employees, but that has tailed off in recent years.

As much as I might delight in taking the credit, I doubt that the publication of either the articles or the book had any appreciable impact on the decline of unionism. Although the sun does come up after the rooster crows, we are reasonably sure the rooster's crowing has no causal effect on the sun. There are other more probable and direct causes for the

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His most recent book, published by Western Goals, is the first in a 5-volume series, *A Basic History of the United States*. This first volume deals with *The Colonial Experience*.

decline of unionism. The economic climate has not been favorable for unions.

Unions Grow in Prosperous Times

Historically, unions have usually had their periods of greatest growth in membership in periods when the money supply was rapidly increasing, with an aura of prosperity prevailing. On the other hand, membership has usually declined, sometimes drastically, in periods of monetary deflation, or, as these are often called, depressions. This phenomenon is quite understandable. When money is plentiful and prices are rising and employment is general, unions are much more easily organized and can more readily obtain such things as higher wages for their members. On the other hand, when money is tight and prices are falling and unemployment spreads, unions cannot obtain higher wages, many members are unemployed, and employers turn to the market for workers when they can; union membership usually declines.

The United States had what amounts to a monetary deflation in the late 1970s and early 1980s—a depression, if you will. It was not so much caused by any actual reduction in the money supply as it was by high discount rates by the Federal Reserve accompanied by government competition for the available money to make up for high

Federal deficits. But the results were much the same as a large reduction in the money supply: tight money, high interest rates, widespread unemployment, increasing bankruptcies, greatly reduced business activity. The market adjustment to this situation is to reduce prices, including wages, in order to shift production to meet changing demand and to attract customers. There is resistance to reducing wages at all times, and resistance is especially strong by labor unions. In consequence, many unionized factories and other businesses have closed or drastically reduced their operations in the last few years. Unions are under heavy pressure to yield on work rules and restrictions as well as wages in order to reopen factories and increase work forces. In any case, all this has contributed to the current low and declining status of labor unions.

The Great Exception

There has been one major exception in our history to the decline of labor unions in a depression. It occurred during the Great Depression of the 1930s. In the midst of that depression, in 1936-1937, there was a major increase in union membership. Whole industries were successfully organized. This occurred mainly because there was a major change in the *political* climate. After a faltering effort in the first year of the New Deal, Congress had succeeded in

passing a law which empowered unions to organize and use their tactics with government support and little let or hindrance from anyone. This was done by the passage of the National Labor Relations Act in 1935 and the subsequent setting up of a National Labor Relations Board, manned by pro-union appointees. Thereafter, for the remainder of the 1930s, union organization proceeded vigorously and with considerable success.

This exception serves also as an introduction to a broader and more general point. The growth and decline of labor unions is not necessarily dependent upon inflation-deflation cycles. It may also depend upon the political climate. That, in turn, may depend upon public attitudes toward unions. In any case, the growth or decline of unions depends in some considerable measure upon worker attitudes and beliefs about unions. Ultimately, I suspect, the large scale existence of labor unions depends upon both public and worker acceptance of them as a normal part of an economy. If they are not so accepted they will tend to be at most occasional and temporary organizations, usually secret in character, and will not muster political or legal support.

A Changing Climate

Which brings me back to my little book, *Organized Against Whom?* The book was written as an effort to make

some contribution to the public understanding of unionism. The present decline of labor unions may have some further explanation than the fact that the recent depression has taken its toll. There has been some change also in the political climate. The most dramatic indication of this was in the Reagan Administration's handling of the air traffic controllers' strike. When the striking controllers who refused to return to work were replaced, there was surely a message in the action at least to government employees who are forbidden by law to strike. There are also indications, as reported both in the public media and elsewhere, that public sympathy and support for labor unions is at a low ebb.

Polls do not reveal, of course, how well or ill informed either proponents or opponents of labor unions are. Much of the opinion is almost certainly on the level of remarks most of us have probably heard over the years. For example, proponents of labor unions may say that they are in favor of the working man. Or, opponents may say that unions have performed a valuable service but that they have grown too powerful and gone too far. In any case, I take it that if opinion about unions is not going to shift much as the money supply does under the auspices of the Federal Reserve it needs a deeper and better informed basis than is indicated by such remarks.

Against Whom?

Organized Against Whom? focuses on certain central aspects of unionism and explores them both historically and analytically. The most obvious aspect involved is the answer to the question posed in the title: Who are unions organized against? The answer to this question is crucial both to our understanding of and sympathy toward unions. Union rhetoric claims that they are organized primarily against capital, in Marxist terms, or—in the contemporary formulations—management or employers. Union rhetoric also claims that they are organized for and represent labor generally, or “the worker.” On the contrary, my conclusion, supported by both reason and evidence, is that unions are most basically organized against other workers, that when a union is recognized by an employer he is in tacit alliance with it, and that the most direct results of unionism are unemployment and underutilization of workers. If this thesis is correct and acceptable, the person who declares that he is in favor of unions because he is on the side of the working man is confronted with yet another question: Which working man?

Organized Against Whom? also focuses upon the nature and character of the union over the years. It does so not only to clarify who unions are organized against but also where

they fit, if they do, within the economy and other institutions of society. Labor unions have an impact on—are organized against—more than other workers. Over the years, they have contested with governments, management, other unions (in what are called jurisdictional disputes), and related industries to those in which they are organized. Beyond that, of course, they have made living more expensive for consumers generally. As for the contemporary opponent of unions who gives as his reason the fact that they have become too powerful, the historical record indicates that unions from the early 19th century down to the present have been basically organized to exclude other workers from competition with them for jobs. Whether they are powerful or not, that is the nature of their undertaking.

Unions Are an Enigma

It is no easy matter to get at the nature of labor unions. At the ontological level, it may be impossible to determine exactly what sort of beings they are. They are an enigma: they are neither simply voluntary associations of persons nor political organizations. They are neither fish nor fowl, so to speak, though they resemble in some of their features a variety of other organizations. Though they frequently rely on some measure of coercion, they are not

governments. Though they operate within an economy, they are not economical in character. They resemble in important ways some sort of sect, a pseudo-religious sect because of their ideological underpinnings, and because of the government support they receive and the manner of their operations they are analogous to an established church.

It is, I say, quite difficult, if not impossible, to get at the full nature of labor unions. Yet it is, in my judgment, very important to try to do so, because it is in these terms that we must decide whether labor unions can be fitted into a peaceful society, a free economy, and a political system in which established religions are prohibited. Granted, I have cast my net more broadly than is common in dealing with labor unions, but I believe the subject warrants the treatment.

Some Differences

In an essay called "On Labor" in *The Freeman* (December, 1983), Percy Greaves has discussed *Organized Against Whom?*, and challenged some of my central points about the nature of labor unions. Since I believe that his challenges are based mainly on a misreading of what I was saying by lifting statements out of context or some differences about premises, I would like to examine both his challenges and the context of my points.

Mr. Greaves says that 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." But the statement quoted from *Organized Against Whom?* is a topic sentence, and it is immediately followed by qualifying and clarifying remarks. To wit: "I know many of the claims about them, know something of their tactics and methods, have a fairly clear idea of how they originated and developed, but beyond that I am stymied. I know that they are some sort of organization, but the kind, nature, and character of the organization is in doubt. More, I do not understand how and where labor unions fit into American society." The broader context is that the statement is made in the midst of an introductory chapter dealing with the enigmatic character of labor unions and the difficulties involved in determining the nature of some things. I fail to see the contradiction in saying that I do not know the nature of something fully and then proceeding to get as near an approximation of a grasp of its nature as I can. Learning begins quite often by becoming aware of the fact that we do not know something, and I was inviting the reader to join me in the quest.

Mr. Greaves misreads my mean-

ing entirely when he takes me to task for saying that "Violence is not essential to unionism." I used the word "violence" in its common significance, as my dictionary defines it, "rough force in action," for example, "*a violent blow, explosion, . . . etc.*" In short, I had in mind assaults on persons and property by unions. Now to the context. The preceding paragraph describes a violent confrontation between contending groups often cited as early union activity. The questioned sentence appears in this paragraph:

It should be emphasized, however, that violence is not essential to unionism. It is sporadic and temporary, like the contentions between union and management. What is essential to unionism is the limitation of the supply of labor available and some means to induce employers not to avail themselves of the general supply. Some sort of coercion or intimidation is necessary, however. . . .

And I go on to explain why. Yet Mr. Greaves comments on this as if I had failed to recognize the role of coercion in unionism. My point was otherwise.

Economic or Political?

His following objections go very nearly to the heart of my thesis. He quotes me to the effect that labor unions "are not economic organizations," "Nor is the labor union primarily a political organization." On this matter of whether or not labor

unions are economic organizations, I think he and I are using different definitions or premises. Mr. Greaves says, "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." Perhaps, and so is the Mafia.

But I prefer my own explanation of my statement, which is "If economy be understood as comprising those actions which are aimed at making available the greatest quantity of goods and services that are most wanted with the least expenditure of the means of production. . . , then labor unions do not fit into it. Their thrust is in the opposite direction, to raise the price of labor, to restrict the ways in which the means of production may be employed, and thus to increase the cost of production. . . ; they produce nothing; they transport nothing; and they sell nothing. They are *dis-economic* organizations." None of this is meant to suggest that unions do not have an impact on economics or that they have not depended upon government support. Mr. Greaves appears to believe that it does. He says further, "This book presents many incidents illustrating how labor unions have used both economic and political means to attain their present position of power." I can only repeat that I was making judgments about

labor unions as *organizations*, not denying or minimizing their economic and political connections.

Religious?

But that does not dispose of the question of the economic character of unionism, at least not for Mr. Greaves, for his above objections were only a prelude. He follows them by observing that perhaps his "greatest disagreement is with the author's assertion that 'Labor unions are religious, or religion-like organizations. Their immediate goals are ethical in character; their ultimate goals are religious. Their economic claims are ethical in character; [this is so whether they are pressing for higher pay or dealing with particular grievances of their members.]'" Mr. Greaves left out that last dependent clause without indicating that he had done so, though that may have been an oversight. In any case, contrary to Mr. Greaves' description, I did not merely "assert" the above, and that is important. The quoted statements come at the end of a fairly lengthy presentation of evidence and are intended as a summary of the import of this evidence. Moreover, there is an earlier chapter in the book which bears upon and provides some of the evidence for these conclusions.

Even so, it does not surprise me to learn that Mr. Greaves, or anyone else, might raise some questions

about my conclusions. They are not the usual terms within which labor unions are discussed, and the conclusions are in some measure original, I suppose. If they were simply assertions they probably should be dismissed out of hand. But they are not that at all. They are the crux of an extended effort to do two things. One is to make an historical explanation of the framework within which labor unions became accepted and received political support for their undertaking. The other is to get as near as I can to discovering the nature of the labor union as an organization.

In partial rebuttal of my position, Mr. Greaves says, "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." That labor unions often are earthy and concrete and seek more for their members I would not for one moment contest. Their desire for a greater return for their labor most, if not all, of us can understand. Nor do we have difficulty in understanding how people may organize to use extortion and intimidation to get more by excluding others from competition with them.

Ethical Claims

The difficulty comes in understanding how such activities may become socially and legally accept-

able, and how government may lend its support to them. The difficulty further is in grasping what sort of organization would result from this recognition and where it would fit among social institutions. My reading of the situation is this. Labor unions offer ethical justifications for their strange behavior. They claim that their members have been wronged—an ethical question—and that they can only receive justice—an ethical matter—by banding together and obtaining it. That the alleged injustice occurred in the economic realm does not alter the ethical character of their complaint. People side with them and union members find their justification in the belief that they have been or are being wronged.

Rooted in Socialism

Both the ethical claims and the justification of unionism are rooted in an ideology, the ideology most commonly called socialism. In its deeper dimensions, socialism is both a substitute for religion and religion-like itself. It is religion-like in that it establishes as its goal a kind of heaven on earth; that is, it is utopian. This becomes an article of faith, that as men follow collective modes they are acting toward the realization of that goal. It becomes the main purpose of life. Labor unions are offshoots of the socialist movement, both historically and theoretically. They

are a sect, if you will, within socialism. Unions claim special political immunities and privileges on the basis that they are right and justice requires their activities, and they are accepted by those who presumably believe their claims. There is much evidence, too, that they are more nearly a religion-like organization, than any other kind, but I will forgo the occasion to present it again, for it is somewhat lengthy.

Mr. Greaves did not deal with or concede the existence of the evidence and the reasons by which it is linked. Instead, he appears at first to misunderstand my point and then resorts to a definition to dispose of my position. He says that "there is nothing ethical or religious about the use of coercion, be it legal or illegal." If he means that ethics and religion are different categories of being than coercion, I agree, though I fail to see the relevance of the statement. If he means that coercion is in all circumstances unethical and contrary to religion, I disagree. Or if, as I had supposed, he thinks that I was somehow legitimizing unions by referring to their claims as ethical and their organization as religion-like, he is mistaken. An ethical claim may or may not be valid, and a religion may be false.

This last, however, Mr. Greaves does not concede. He says that religions "deal with matters that cannot be logically proved or disproved.

Religions are concerned with the irrational aspects of life." His argument can be syllogistically summarized this way. Major premise: religions are irrational. Minor premise: unions are rational, or have rational goals. Ergo: unions are not religious or religion-like. It happens that I disagree with both his major and minor premise and do not, therefore, accept his conclusion, but the important thing is that none of that is germane to my position. I did not conclude that unions are religion-like because they are irrational—whether they are or not. Rather, I based that conclusion on their connection with socialism, on the point that it deals with such things as the purpose of life, the end toward which things move, and that unions are sectarian-like in their behavior, among other things. Nor did I attempt to prove that unionism is a false religion. Rather, I propose that its political immunities and privileges be withdrawn on the grounds that they are in violation of the First Amendment prohibition against an established religion. That is, for me at least, an interesting idea and one, I hope, worthy of consideration.

Lawlessness Defined


The other objections by Mr. Greaves can be dealt with summarily. He says that "lawlessness is referred to as the 'state of nature'" in my book. I have been unable to

discover any statement resembling that in the book. I did refer to a state of nature, and described it as "a condition that would exist if there were no government." "Obviously," I also said, "in such circumstances every man becomes a law unto himself." I stand by that. Mr. Greaves questioned my view that "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." He thought that would in effect "repeal the First Amendment." I do not understand him. The First Amendment is a prohibition on the federal government, not a licensing of organizations. It provides for the free exercise of religion, freedom of speech, press, assembly, and the right of petition. No government recognition is required for men to associate in whatever way they will for peaceful activities.

He takes me to task for writing that "Congress is empowered to make laws regulating commerce." In his view, I should have made it clear that "The Constitution carefully limited that power to 'interstate commerce'." . . . The context of my statement may help to explain why I did not do so. I was summarizing the grounds on which Congress passed a law empowering unions. As I remember it, I was paraphrasing the preamble to an act. In so doing, I

was trying to reproduce with as much fidelity to the original as possible in a summary, neither approving or disapproving what they had said, nor offering advice on how they should have said it. If I had been describing the powers of the government myself, I would most certainly have noted the limitations, and anyone who doubts it may consult any number of my essays in which I have done so.

Now allow me to back off a bit. It is not for a writer to determine how well or how ill he has conveyed what he has to say. That is for the readers and reviewers. It takes two to tango, as the song says, and the two in this

case are the writer and the reader. If Mr. Greaves, or anyone else, has misunderstood me, the fault may have been mine. It seemed to me in the above that in most instances what I had written had been misconstrued to some extent, either because of my ineptness or because of differences in understanding of the matters under consideration. In any case, I welcome the opportunity to try to clarify some questions that arose. I do so because I believe that on the central points, or most of them, Mr. Greaves and I are in agreement, and I would not want any potential readers to be turned away because of any possible misconstructions of the material in the book. 

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DOES WELFARE DIMINISH POVERTY?

DOES government-provided poor relief decrease the amount of poverty? That it does is an assumption at the heart of our nation's very large antipoverty programs. In fact those programs were instituted for the purpose of making themselves obsolete. Shortly before passing the Social Security Act in 1935, for example, Franklin Roosevelt declared to Congress, "The Federal Government must and shall quit this business of relief. . . . Continued dependence upon relief induces a spiritual and moral disintegration, fundamentally destructive to the national fiber." Thirty years later, as he signed

the first antipoverty bill of the Great Society, Lyndon Johnson said, "We are not content to accept the endless growth of relief or welfare rolls. We want to offer the forgotten fifth of our population opportunity and not doles. . . . The days of the dole in our country are numbered."

The assumption that welfare helps the poor also explains why so many people today reject in practice the appealing old notion of classical Liberalism that government should play no favorites: that the force of law should not be used to benefit some people at the expense of others. While they recognize and perhaps regret that welfare *does* involve the force of law to benefit some (those considered poor) at the expense of others

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Howard Baetjer Jr. comes from Stevenson, Maryland. He received his undergraduate

degree from Princeton University in 1974. From 1974 to 1978 he taught English and coached the football team at St. George's School in Newport, Rhode Island. In 1978 he went to Scotland to study English literature at the University of Edinburgh, gaining a master's degree in that subject in 1980.

Experience with government intervention in Britain turned Mr. Baetjer to the cause of liberty. So, after a year back at St. George's, he left teaching to write the first drafts of his essay, *The Golden Rule of Laissez-Faire*, an argument on moral grounds for limited government and a free society. Since the fall of 1982 he has been enrolled in a master's program in political science at Boston College, concentrating on political philosophy. He will receive his degree at the end of May.

Howard recently has joined in the work of FEE as a full time staff member. He plans to continue studying, writing, lecturing, and practicing liberty in the effort to draw others to the free market way of life.

(everyone else), they feel the principle is justifiably violated since welfare diminishes need. But is this assumption true? Does welfare, when all is said and done, really help solve the problem of poverty?

There is good reason to believe that it does not. What is worse, there is substantial evidence that welfare impedes progress against poverty. In our country, worst of all, welfare seems to have *increased* poverty. What follows is a brief summary of the thinking and evidence that lead to this surprising conclusion. We would do well to consider it seri-

ously, for if it is true, our national antipoverty policy is doing great disservice precisely to those it is intended to help. In the words of Walter Williams, professor of economics at George Mason University, "compassionate policy requires *dispassionate* analysis" of policy effects. Analysis of welfare shows it to be a problem for poverty, not a solution.

Three Guidelines for Analysis

As one considers the problem of poverty, one should keep three basic truths in mind. The first of these is obvious, that is: poverty is finally

overcome only when people are self-supporting. It is not enough that they be living for the moment at an acceptable standard if they remain dependent, just as one is not cured of a disease when he is taking medicine that eliminates his symptoms. Thus an essential objective of any anti-poverty program must be to maximize self-sufficiency.

The second basic truth becomes clear only after some thought, that is: prosperity depends on production. Unless physical goods are produced in the first place and then replaced as necessary, there can be no prosperity for anyone. If this stock of goods is not constantly increased, higher levels of well-being overall are impossible. Other things being equal, the more goods there are in the world—food, shelter, medicine, electric light, shoes, water heaters, and so on—the more there is to go around and the less poverty there will tend to be. (Of course things are not always equal, and different people end up with different amounts of these goods, but the principle stands nonetheless: if there is literally not enough to go around, some poverty is inevitable. At the other extreme, if goods should become overabundant, their price would approach zero and the poorest could afford all they could use.) Thus an important means of reducing poverty is increasing production.

The third truth has more to do with

method, that is, to paraphrase Henry Hazlitt: good economics looks beyond obvious and short-term effects to see effects that are hidden and long-term. Applying this idea to welfare programs, we must look beyond the immediate advantages such programs provide to welfare recipients—the food stamps, medicaid, increased income and the like—and see other effects of the welfare process as a whole. For example, how do welfare programs affect employment, wage rates, productivity and prices (all of which are important to the poor).

With these truths in mind, before looking at any statistics, let us turn to some indirect effects of welfare that we would expect to occur.

Predictable Effects of Welfare

A first observation is that the incentives associated with welfare tend toward unwanted results (not that they necessarily bring about these results, only that they cause a tendency in that direction). The benefits go to people who, for a host of reasons, are relatively unproductive, while the funds to pay for them come, through taxation, from people who are relatively productive. Now we know that for human beings, benefits are positive incentives while taxes are negative incentives. Thus the welfare system tends to encourage unproductiveness and discourage productivity. A person who could

bring home only a few dollars more per week working than taking advantage of the welfare system has an incentive not to work. Accordingly welfare tends to diminish both self-sufficiency, since it leads more people to accept unemployment, and production, since the productive potential of those people is not turned into goods. The effect may not be a large one, but it is something to consider.

From a purely economic standpoint, we must look beyond the visible welfare benefits and compare them with other positive effects *that might have occurred* in the absence of welfare, but cannot occur in its presence. For an important example, consider that the billions of dollars which go into the welfare system are no longer available for other things—such as investment. Many dollars spent on welfare would otherwise have been invested in new tools, new buildings and the like. This investment would have had concurrent positive effects of creating new employment opportunities and raising productivity. With welfare, however, these contributions to self-sufficiency and production never come about.

A final effect of government-provided welfare that we would expect to find, knowing how human beings behave, is inefficiency and waste. This is a phenomenon we might call "government failure": the inherent

inability of government to do much of anything well. Since bureaucrats are paid out of tax revenues, which are collected regardless of whether or not the bureaucracy does a good job, there is little incentive for them to maintain high standards. Since the amount of taxpayers' money that passes through their hands depends on the size and perceived importance of their programs, the bureaucrats have an incentive to expand the numbers encompassed by those programs, and to find new reasons for increased funding. Since allocation of funds must for fairness' sake be by rule, a great deal of time and paperwork gets generated, and minimal scope is allowed for individual judgment about who deserves how much. Other problems of this kind could be identified.

A Look at the Record

Are these potential problems realized in fact? If so, how bad are they? According to the U.S. government's figures, the answers to these questions are, respectively, "yes" and "very bad indeed."

In regard to government failure, to begin with, there is a rather impressive disparity between the amount of money spent for the stated purpose of relieving poverty, and the amount the poor actually receive. In an article entitled "Where Do All the Welfare Billions Go?" (*Human Events*, February 6, 1982) M. Stan-

ton Evans points out some remarkable figures. In 1965, combined federal, state and local outlays for "social welfare" totaled \$77 billion. This was the beginning of the "Great Society" era. In 1978, the total was \$394 billion. "This means that, over the span of a dozen years, we increased our national outlays for the alleged goal of helping poor people, on an annual basis, by \$317 billion." But the number of poor people in the country, according to official estimates, has remained nearly constant in those years, at about 2.5 million. Here I quote Evans at length:

One has to wonder how it is possible to spend these hundreds of billions to alleviate poverty and still have the same number of poor people that we had, say, in 1968. Waive that objection for a moment, however, and simply compare the number of poor people with the dollars spent to help them: You discover that, if we had taken that \$317 billion annually in extra "social welfare" spending, and given it to the poor people, we could have given each of them an annual grant of \$13,000—which is an income, for a family of four, of \$52,000 a year.

In other words, with this colossal sum of money, we could have made all the poor people in America rich. . . . It prompts the more suspicious among us to ask: What happened to the money? . . . [A] tremendous chunk of these domestic outlays goes to pay the salaries of people who work for and with the federal government—including well-paid civil servants and an array of contractors and "consultants," many of whom have got-

ten rich from housing programs, "poverty" studies, energy research grants, and the like.

In the words of Thomas Sowell, "the poor are a gold-mine" for the predominantly middle-income bureaucracy.

But we might expect ending poverty to be expensive. The crucial question is what has happened to poverty itself. That question is partly answered in the statistic above that the number of official poor has remained at about 2.5 million; clearly poverty has not been eliminated. But what of poverty as a percentage of population—are we at least decreasing the proportion of poor people in the country? Alas, no. In an article called "The two wars against poverty: economic growth and the Great Society" (*The Public Interest*, Fall 1982), Charles A. Murray demonstrates that around 1968, when Great Society antipoverty spending was booming and unemployment stood at 3.5%, progress against poverty slowed, and then stopped.

The Problem Persists

Since 1950, the number of (official) poor as a percentage of population was approximately 30%. From then until 1968, the figure dropped steadily, to about 13%. But then, right in the heart of the Great Society years, when more money than ever was being spent to decrease poverty even faster, the trend line

flattened. After ten more years marked by ever-increasing outlays, the percentage of poor in our population had dropped only to 11%. Two years later, in 1980, it was back up to 13% again. The more we spent, the less progress we made.


Murray also discusses the figures on the proportion of people dependent on the government—that is, those who would be below the poverty line were it not for government benefits. This measure, which Murray calls “latent poverty,” is perhaps the best indication of progress against poverty because it best reflects self-sufficiency, or lack thereof. Like official poverty, latent poverty as a percentage of population decreased steadily until the late sixties, from about 33% in 1950 to 19% in 1968. In 1968, however, the trend reversed; the proportion of Americans dependent on the government began to increase. With the exception of one dip after 1975, it has increased since, back to 23% in 1980.

In short, despite doubled and redoubled outlays to try to do away with poverty, poverty is increasing in our country. We made much better progress when we were spending less.

These sad results fit well what we might expect from the theoretical expectations mentioned above. Where there are incentives against self-sufficiency and productiveness, people will tend to become less self-

sufficient and productive. The bigger the incentives, the stronger the tendencies. It should come as no surprise to see dependency increase when dependency is met with large cash and in-kind benefits. Perhaps these are not the reasons for the system's failure; perhaps entirely different forces are at the base of it. None spring to mind, however.

Quit this Business of Relief

In any case, welfare, the dole, poor relief—call it what you will—is a spectacular failure. More than that, if the reasoning presented here is sound, it is one of the vast tragic ironies of our age. It springs from the desire of good-hearted people to see poverty diminished, but in practice, apparently, it augments poverty. The fault is not in our intentions, but in our methods, our economic understanding, and ultimately, perhaps, in our principles. “To quit this business of relief,” to end “the days of the dole,” we might well find it best simply to *do it*. Let officials design policy—that is, do away with policies—according to the classical Liberal principle that “the force of law should never be used to benefit some people at the expense of others,” not even if those benefiting are poor. Let care of the really needy be returned to individual responsibility—to genuine, private charity and efficient, private organizations. 

Women, Work and Wages

To know the cultural condition of society is to know the position women hold in it. Their influence permeates the whole of life. They cultivate taste, refine manners, broaden views, and patronize the arts. Men mostly "go along" under their influence. Women support literature and music, champion painting and sculpture, and sustain educational, cultural, and social institutions. They are the mainstay of the churches, and the arbiters of taste, style and manners for both sexes. And yet, government statisticians inform us that American women earn only fifty-nine cents for every dollar earned by men. For a society that takes great pride in a long tradition of individual freedom and equality before the law, such inequality of income, if it is true, demands an immediate explanation.

It is probably correct that the average income of men exceeds that of women although any and all measurements of the difference must be rather suspect. They deal with historical data, not with purposeful individual action. Moreover, government statistics are political statistics

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designed to serve political ends. Nevertheless, the difference, whatever it may be, calls for an explanation. It is urgently needed to calm the waters that are agitated by old prejudices and new ideologies, churned by party politics and pressure group tactics.

The income differential permits two possible explanations: it either is just and moral, reflecting a difference in economic productivity of both sexes, or it is a grievous injustice that is rooted in man's behavior, custom, and institutions. If the latter should be found to be true, man must answer for the injustice inflicted on women, for man passed all laws, adopted all regulations, and established the economic and social order.

The Basic Choice of Orders

Economic production may be organized on the basis of private property in the means of production, commonly called "capitalism," or along the lines of state ownership or control of the means of production, which may be called "socialism" in its broadest sense, or more descriptively, the "command system." In capitalism, income flows directly from economic production. There is no separation of production from income creation, no "distribution" of the national product or dividend. Economic production is simultaneous income formation through a simple pricing process that is obli-

gious to extraneous factors, but keenly aware of the contributions made to production. Every man, woman and child receives the full measure of his or her contribution to the production process.

Socialism is an ideology of "just" distribution, which gives it great appeal and popularity the world over. Its *raison d'être* is "just" wages, and its objective is "justice" as defined by its authors. Some describe it as equal distribution per head of the population; some prefer distribution according to needs; yet others promote distribution according to merit and service rendered to the community. A few contemporary authors favor distribution according to "comparative worth." But no matter what version of "just wages" they should advocate, they all reject a close connection between production and distribution. They all rely on an economic czar or commander, or a committee of czars, wielding economic and political power. In their scheme of things income is assigned and allocated according to the commander's notion of merit and justice, which must ever be mindful of age, ability, sex, and many other factors. There is no market in which the consumers may value the producers' contribution to economic well-being, no value imputation and price calculation. But there are the commander's orders that assign work and allocate income.

Work and Income by Command

Distribution according to socialist justice not only opens the doors of arbitrariness, but also establishes a social ranking order similar to that of the military. In the Soviet Union, which is the Marxian stem of all command systems, income justice is derived from the preservation and promotion of the Soviet order as judged by the men in power. Personal income and position are assigned according to the contributions made to the Soviet system, which makes all incomes "political rewards" for services rendered to party or state, and endows all positions with "political ranks" in the service of the Soviet order. It is managed by a new elite consisting of (1) members of the Communist Party and government officials, (2) officers of the armed forces, (3) writers, artists, scholars, and scientists who promote the system, (4) economic executives who manage the production process. The number of independent women in this new Soviet nobility is minute.

Nearly one-half of all Soviet laborers are women, even in occupations that demand great physical exertion and usually are thought to be male. There is little consideration for feminine physique and family obligations. The Soviet woman must labor from dawn to dusk, like a demon for work, not only in her primitive household but also in a vo-

cation or profession. Like nowhere else in the world, the married woman and mother of children is forced to labor alongside men in mines and factories.

Women in Mines

In the words of a foreign visitor to the Soviet Union, "I cannot forget the sight of the women whom I met underground in the Kusbass coal mines, not far from the Mongolian border. It is true they did not labor directly as miners, but they operated the machines, ran the trains, and pushed the loaded wagons in the hoisting cage. It always touched me painfully when, in the dim light of my oil lamp, I saw women in unshapely garbs, with ugly headcovers which are a blend of hardhats and scarves, with stark black faces, doing heavy and dangerous work. They obviously felt out of place, had sullen faces, and answered the master's questions in a grumpy and irritated manner."¹

In an economic command system, many men and most women are exploited ruthlessly by government, which may be the sole employer in the system. The particulars of exploitation may differ from country to country, may vary in fascism, socialism, or communism, but they all spring from a common root: the separation of income from production and the dispensation of "economic justice" by political force.

The Private Property Order

In free and unhampered markets the consumers are the ultimate bosses of the production process. Their choices and preferences not only issue the production orders, but also create the jobs that fill the orders. They even pay the wages and determine the rates for all participants in the production process. In most cases the consumers are quite unconcerned about merchants and manufacturers. It does not matter whether they are white, black, brown or yellow, whether they are male or female, or worked five hours or fifty hours. Their only concern may be the quality and price of the product that promises to contribute to their personal well-being. The housewife rarely inquires into the race, color, creed, or sex of the manufacturer of the washing machine she may buy. But she undoubtedly is keenly interested in the quality and price of the product.

It is conceivable that consumers seeking personal services may discriminate among the providers of the services. The white piano student may want a white instructor, the black athlete a black coach, the yellow visitor a yellow companion. It is even conceivable that the female patient may prefer a female doctor or the male criminal a male defender. But it is equally feasible that individuals may prefer the opposite sex. The male patient may choose a fe-

male doctor and the female client a male attorney. The macho chief executive may surround himself with competent female executives, and the female school supervisor with capable male teachers. But even in all such cases of discrimination the question of quality and price usually enters into the buyer's consideration.

Consumers Discriminate

Consumer preferences always are discriminatory acts and as such affect the income of producers. Discrimination in production orders constitutes discrimination in income allocation. In short, some people earn more than others because consumers discriminate. If it is true that women only earn fifty-nine cents for every dollar earned by men, it is logical to infer that consumers, most of whom are women, discriminate against women. Women do not discriminate against women on the basis of sex, but rather on grounds of productivity in the market place. They tend to allocate orders and income according to the services rendered for their well-being. Despite all the temptations of discrimination on the basis of sex, they prefer economic well-being over bias and prejudice. If this is true and women do earn less than men, it must be concluded that many women earn less because they produce less in the market.

The Issue of the 1980s

Feminist activists summarily reject this conclusion. They are convinced that men conspire to hold women down and keep them in low-paying jobs, that labor markets inflict harm on women and violate egalitarian and feminist principles. Jobs and income, they argue, are moral and legal entitlements, that flow from natural rights. If the demand and supply forces of the market order do not guarantee such rights, women must seek refuge with the command system that will assure the rights. Political action and government coercion must set *just* rates for every job.

The doctrine of "just wages" may belong to the armory of socialism or may have deep roots in Medieval economic thought. During the Middle Ages the center of economic thought was the doctrine of *justum pretium*, which provided the rationale for a rigid social order. In final analysis, it was a "station-of-life" doctrine that allocated income and wealth according to the class or estate in which a person happened to be born. The "just wage" allotted a princely income to a prince and a serf's pittance to a serf. It did not concern itself with personal productivity, that is, the contribution made to someone's well-being, but emphasized the rights and privileges of class or estate as defined by the king.

In contemporary setting, the

Feminist drive for just wages finds expression in the movement for "comparable worth." Like the "just price" doctrine of ages past, the "comparable-worth" theory rejects market considerations and, instead, elaborates rights and privileges defined and granted by government. The latter differs from the former only as it builds on sex rather than class or estate. As the hottest item on the political agenda, it has been endorsed by every Presidential candidate and by hundreds of politicians who hope to use it to their advantage. The news media call it "the issue of the 1980s."

Like the "affirmative action" principle of the 1970s, the "comparable-worth" doctrine may become the law of the land through judicial decree rather than statutory authority of any kind. Federal judges all over the country are handing down orders against employers for discriminating against women. The state of Washington, for instance, was found to discriminate against office workers and ordered to come up with nearly a billion dollars to grant wage hikes and back-pay to certain state employees, mostly women.² Numerous other suits have been filed and Equal Employment Opportunity Commission charges made against several states, municipalities and other employers.

The "comparable-worth" doctrine rejects all market judgments of com-

parable worth that are visible in the form of equal pay for many different kinds of labor. In the market sense, the house painter who earns the same income as the headmaster of a school, or a band musician, or a business manager, has "comparable worth"; he renders services that are valued equally to those performed by the headmaster, the musician, the manager, and many others. But this is not the meaning of the term used by Feminist activists and Federal judges. Their committees rank jobs according to a complicated point system, based on paper qualifications, training, education, human relations, problem-solving ability, accountability, and working conditions. The points then are run through an expensive computer which invariably finds employers guilty of sex discrimination.³

Education and Income

The comparable-worth doctrine is an elitist theory that aims to substitute committee points for the preferences and choices of consumers. It seeks to suppress economic reasoning and instead promotes the primitive notion that government determination and control of incomes are preferable to market forces of demand and supply. It betrays an elitist contempt for manual labor, especially hard physical labor, and reveals an astonishing bias for college degrees.

Surely, education may develop character and impart knowledge on how to make a living and how to live. But it may not have a direct relationship with personal income. In the private property order consumers reward producers for the services they render, not for the academic degrees they hold or the money they invested in education. When education makes a person more productive in the rendition of marketable services, it tends to yield higher personal income. After many years of training a heart surgeon is likely to earn a satisfactory income.

Whenever education does not impart productivity and usefulness to others, it may make a person learned and wise, but does not afford higher income. The brilliant student of Sanskrit or Gothic may not thereby enhance his earning power. In a free society he is free to pursue his studies to his heart's desire. But he can lay no claim to any income other than that which his customers ascribe and allow. The learned scholar who chooses his own life style, but covets the incomes of others, is not so learned after all. He is a vain and selfish individual who, to make matters worse, may join the enemies of the market order and call for redistribution of other people's income and wealth by political force. Lamenting the "unfair" distribution of incomes, many elitist academicians and intellectuals readily pass sentence on

individual freedom and extol the virtues of one of the many varieties of the political command order.

As the affirmative-action doctrine of the 1970s did little to improve the economic lot of the minorities, so must the comparable-worth program of the 1980s be expected to be disappointing to the Feminists. The judicial decrees openly clash with the inexorable principles of human choice and action. Violating the laws of the market, the judges' orders are as futile as any order that would seek to revoke the laws of nature.

The comparable-worth program, wherever it is enacted, can be expected to depress the levels of living of most Americans as it raises costs and reduces output. But above all, it hurts the interests of many women whom it lifts right out of their jobs. After all, rising costs tend to depress demand. The program, wherever it is pursued with vigor and force, must be expected to cause unemployment especially among those women whom the judges meant to benefit. Moreover, it must be expected to distort the labor market by promoting the supply of "comparable-worth labor" and reducing the supply of physical labor that is primarily male. It will boost the number of trained typists, secretaries, and librarians, but reduce that of electricians, plumbers, and house painters. It will increase the number of volunteers for pleasant jobs in friendly offices and pleas-

ing environments, and reduce the number of people who report for dirty or dangerous or physically exhausting labor. In time, this distortion can be expected to restore the pay differential between librarians and house painters, or even make it greater than ever before. The market differentials will reassert themselves, legally or underground, despite all the judges' orders.

Women and the Law

Throughout the ages the market order has been most supportive of women's rights. After all, it is the consumers' order that welcomes the greatest efforts by producers regardless of race, color, creed, or sex. The political command order, in contrast, reveals an uninterrupted record of discrimination. It applies the force of government to benefit one class of subjects at the expense of another class. It thrives on the political support from its beneficiaries, and brushes aside the protests of its victims. Throughout the economic Dark Ages women have been among its favorite victims.

During the last century when women first invaded occupations that had been held formerly by men only, government erected numerous barriers to the employment of women. In most cases labor unions spearheaded the drive. They did not openly castigate the competition of women and demand their purge, but they

called for government intervention that would drive women off the labor markets. Unions advocated legislation to limit the working hours of women, fix minimum wages so that they would not be competitive with men, or even prohibit women from certain occupations. All these regulatory laws conflicted openly with the quest for legal and economic equality of women.

Studies of wages paid to women, conducted by labor unions or their political agents, invariably reveal that wages are largely insufficient to maintain a standard of "minimum health and decency." Consequently government must intervene, they conclude, to protect women and minors. The protection usually takes the form of forced increases in costs, which tend to eliminate the "protected" labor. All states now have legislation that limits women's hours of work in commerce and industry. Worst of all, they all have statutes designed to suppress the employment of women in their homes on a piece-work basis. Politicians and unionists decry it as the "Sweating System"; women call it the "Convenience System."

It is a method of industrial production in which productive work is done on the premises of the worker rather than in a shop or factory. It has been used most frequently in the garment industry, especially in inexpensive women's, children's, and

infants' wear, but also other products such as embroidery, artificial flowers, shoe ornaments, lamp shades, toys, jewelry, brushes, prepared foods, and many other items. The Convenience System is an ideal system for women with family obligations that may leave some time and energy for income production. Unfortunately, governments and unions are waging an unrelenting war against it.

Most states have legislation designed to eliminate industrial homework. Some states prohibit, under penalty of fine and imprisonment, the manufacture by homework of numerous articles such as food products, children's clothing, and tobacco. Others require the licensing of homeworkers and the inspection of homework premises. Federal attacks on the homework system have taken the form of minimum wage legislation, which is designed to eliminate the homework performed by women and children. All along, labor unions are raising their barriers to female employment through unrelenting seniority rules. Varying in detail, they discriminate against women in hiring, layoffs, promotions, and so on.

During the 1970s rapid technological improvements have reopened the doors for profitable homework by women. The computer-word processor, which is coming to the market at ever lower prices, is creating new

opportunity for women to perform clerical and accounting work, engage in research and provide information, from a home computer via modem to any other computer bank in the country. Exciting opportunities await a homemaker equipped with a terminal and knowledgeable in the ways of modern technology.

In the coming years government and labor unions may want to close this door again to female independence and opportunity. It will be interesting to observe the methods which the intervention will take: license or franchise, control of premises or equipment, interference with communication, imposition of minimum wages, or outright labor prohibition. Surely, politicians cannot be expected to leave working homemakers alone!

It is ironic and yet so revealing of contemporary thought and mentality that the same governments now haughtily legislate equality of the sexes. In June 1963 the Equal Pay Act was signed into law, providing for equal pay for women. The Civil Rights Act of 1964 outlawed employment discrimination on grounds of sex, race, color, or national origin. In 1965 two education acts, the Elementary and Secondary Education Act and the Higher Education Act sought to eliminate discrimination in schools. In 1972 the Education Amendments Act expressly forbade sex discrimination against students

and employees in federally assisted education programs.⁴ And yet, twenty years after the passage of the Equal Pay Act and despite all the laws and regulations that were to follow, American women are said to earn only fifty-nine cents for every dollar earned by men.

The legislative activity on behalf of women does not spring from the desire to remove old labor-law restraints on women. Having been imposed in the name of "protection," they probably will stay on the books. The activity must be seen as just another offshoot of the "command ideology" that seeks to use the law in an effort to promote an economic command system and reform human nature. It had, and continues to have, all the characteristics of a political ideology that endeavors to erase natural inequalities, to bring equality to white and black, old and young, and to make women the equal of men.

ERA

For more than a decade countless American women struggled to add the Equal Rights Amendment to the U.S. Constitution. Their efforts ended in defeat on June 30, 1982, when the deadline passed with three states short of the thirty-eight needed for ratification.

The wording of the amendment was innocuous enough: "Equality of rights under the law shall not be denied or abridged by the United States

or by any state on account of sex." In the end the proposal failed because most Americans suspected that the movement wanted more than "equality of rights under law." They saw the amendment as a manifesto for Feminist radicalism that finds conflict in every issue and seeks to reform human nature by political force. To them, the struggle for ERA was linked with the movement for abortion, homosexual rights, nuclear freeze or disarmament, and other controversial issues.⁵ Women's rights advocates were talking about the "gender gap" and "parting-of-the-ways" between men and women. But before they actually parted they showed marked preference for "liberal" politicians who promise to use government force in human relations, and revealed open hostility toward conservative candidates defending traditional values.

The political, social and economic ideology of ERA proponents has never been in doubt. According to Eleanor Smeal, the former president of the National Organization for Women (NOW), the amendment failed in the end because "the Republican Party led the attack." She released a list of 137 Republican state legislators who she said were primarily responsible. She also charged that "the Reagan administration is threatening the economic and social gains women achieved in the last decade."⁶ At other times she blamed

"the special corporate interests that profit from sex discrimination." This explanation differed little from those that would blame profit-seeking corporations for racial discrimination or class inequalities, or would indict corporations for low wages and obscene profits, for labor unemployment and consumer gouging, for air pollution and water poisoning, and for many human failings and vices.

Women's rights advocates applauded the Emergency Jobs Act (PL 98-8) that provided \$1 billion for jobs and services of benefit to women. In 1983 they lobbied for the Economic Equity Act (HR 2090, S 888 of 97th Congress), which promised changes in tax and retirement matters, dependent care, insurance rates, regulatory reform, and child support. Complaining about "ingrained patterns of discrimination," they are ever eager to call on government for more laws and regulations, closer bureaucratic supervision and greater government expenditures on behalf of women. They readily file discrimination lawsuits against employers in the hope that "affirmative-action judges" will find new ways of ruling in their favor. The Supreme Court, in fact, paved the way by ruling that women may file suit under the 1964 Civil Rights Act without having to prove discrimination. A woman merely needs to show that her sex was used in the determination of her pay scale, in order to obtain a judg-

ment against her employer.

It is difficult to judge the impact of the ERA movement. Although it was permeated by political and economic radicalism, it did reveal a powerful desire for sexual equality. It ushered in some changes in law and, more significantly, brought marked changes in tradition and custom. During the 1970s numerous states amended their constitutions to guarantee equal rights for both sexes. All kinds of institutional barriers came down, even a few labor laws. And above all, many mental barriers that were rooted in tradition and custom gradually disappeared.

Tradition and Custom

It is important to distinguish between tradition that is anchored in natural constitution and tradition created by institutional factors. Both together tend to obstruct women from moving into many occupations and employments in which they could have been more productive. Tradition and custom assigned certain vocations and professions to men, and relegated women to a sphere of "women's work" and "female professions." It is true, the doors were usually open to new trades and professions that appeared in response to new technology. But in occupations which men for a long time regarded as their own, tradition exercised a powerful restraining influence.

Custom, in general, is a practice that has become habitual. A businessman calls individuals who rely on him his "customers." Much of the common law in Anglo-Saxon countries is based on what had become customary and traditional. When customs command respect by virtue of being old they are said to have a glorious tradition. Their acceptance rests on the tacit conviction that their survival through the ages is proof of their worth and, therefore, justifies their preservation. The employment of men and women in certain occupations rested on the obvious differences in physical strength and capability, and represented a natural division of labor. The differences in physique assigned heavy labors to men, and life supporting, lighter housework to women. For thousands of years human survival undoubtedly depended on this natural division of labor.

What used to be an obvious necessity of nature may, in modern times, have become a tradition that no longer serves man's best interests. Modern technology may greatly reduce the disutility of labor, especially strenuous physical labor, and convert it to a pleasant push-button activity that can be performed by any responsible individual. Women now appear in labor markets that are traditionally male because modern technology may afford them labor productivity similar to that of men.

In this sense, technological progress in free societies necessitates continuous revisions of tradition and custom. The women's rights movement is on the side of progress whenever it is requesting such revisions.

It is especially important to question tradition and custom that are resting on man-made laws, especially labor laws. They may offer spurious justifications for legal obstacles and create mental barriers. The latter tend to be highest with fellow-workers and their trade unions, and lowest with employers, the most maligned group of society. Employers are always under the pressure to use labor most effectively and advantageously and, therefore, are least susceptible to costly tradition. They may be subject to natural inertia and reluctance to learn, like anyone else. But it is unlikely that employers will for long oppose female labor if it is found to be higher in productivity and lower in cost.

There is a Difference

To the dismay of most employers the use of female labor rarely affords any advantage. There are few women who devote their whole lives to income production, but many who dedicate their lives to their families. Rightly or wrongly, many employers are living in constant fear of losing their female workers to home and family. As one employer put it:

"There are many jobs we may teach a woman; but it does not seem worth the effort and expense to teach her because the brighter she is, the more likely she is to go off and get married, just when she is beginning to be of some use." Or, she may leave because she is pregnant, or her husband is transferred. Or she may refuse to be transferred for reasons of family. In fact, she may not even want to shop around in the labor market in order to sell her labor at the highest price. Family considerations may be more important to her. Therefore, she must expect to earn less than an equally capable male worker because she will be producing less.

Most women spend but a few years of their lives in economic pursuits. The common age at marriage being 21 to 25, they may spend a few years before they are married, and again later when the children have left the nest. The amount of work a wife may supply to the market may depend not only on her wage rate, but also on the total income of the family. Empirical researchers have found that female market labor responds negatively to husbands' incomes; the more husbands earn, the less likely are wives to work. But there is a positive response of a woman's ability to earn income to her inclination to work; the more she can earn the more she is likely to work.⁷

In recent decades women

throughout the capitalistic world have flocked from home to office or factory. In the United States, more than forty per cent of married women now are estimated to be earning extra incomes. This shift from home to market must be explained not only by the phenomenal reduction in physical exertion as a result of modern technology and application of capital, but also by the growing opportunity cost of home work. As American industry provided an ever increasing variety of goods at lower prices, it became more advantageous to buy them in a store than to make them at home. In other words, an hour's work in the office became more productive in providing goods for the home than an hour's work at home, which persuaded millions of married women to seek market employment. But even then they may want to limit their labor to times and places that allow for family chores. The office hours should not conflict with family hours, the place of work should not be too far from home, and above all, the production demands should not be overly exhausting, depriving her of the strength needed at home.

It is in the interest of all members of society that woman should develop her ego and join man as equal, freeborn companion and partner. She should develop her personality in accordance with her inclinations, desires and economic circumstances.

But the basic differences in sexual character and physique cannot be outlawed any more than other inequalities of the human race. She cannot escape the burden of motherhood, of childbearing and child-rearing that consume her energies and tend to remove her from the labor market. Pregnancy and the nursing of children take many years of her life and deprive her of the opportunity to be active professionally. While man may be pursuing ambitious goals, woman is a child-bearer and nurse, carrying the burden of human reproduction. In order to compete with man and develop her abilities in economic life she may have to renounce her womanly functions and deny herself the greatest joy, the joy of motherhood. A few extraordinarily gifted women manage to achieve both, perform great deeds in addition to motherhood.

Affirmative-action judges are blind to the obvious. They actually find employers guilty for considering sexual limitations and situations. Oblivious to human nature, they issue court orders that seek to suppress it. They are hurting the very individuals they seek to benefit. By raising the cost of female labor they are reducing its demand which, in simple economic language, is tantamount to creating unemployment. The "marginal" employees, whose productivity was barely covering their employment costs before the

judge's order, are rendered "sub-marginal" by the order; that is, they are made to inflict losses on their employers and thus, for purposes of employment, are made destructive rather than productive. In short, they are rendered unemployable. A Supreme Court decision that interprets the law in such an "affirmative" fashion may condemn many thousands of American women to long years of unemployment.

No society can rest for long on a judge's order and the power of the police to enforce it. A society, to prosper, must be built on the solid foundation of freedom and morality: these are the principal elements of its strength and the guarantors of its prosperity. ☉

—FOOTNOTES—

¹Klaus Mehnert, *Der Sovietmensch*, Deutsche Verlags-Anstalt, Stuttgart, 9th edition, 1962, p. 87.

²The federal judge ruled that the state violated federal laws by "direct, overt and institutionalized discrimination" that was "intentional" and is "continuing now." Unable to refute the comparable-worth doctrine, attorneys for Washington state argued that the judgment will have a "devastating" effect on the state's economy. The retail sales and use tax would have to be increased to 7.9 percent from 6.5 percent. Or, a 55 percent business and occupation surtax would have to be imposed. *The Wall Street Journal*, December 15, 1983, p. 18. This writer questions the attorneys' analysis. The judgment will merely create high rates of unemployment among the beneficiaries and greatly reduce the bureaucratic effectiveness of the state. To find employment many women may have to leave the state for other areas that offer market rates rather than court-ordered reparations.

³For a thorough discussion of the comparable-worth doctrine see: Ruth G. Blumrosen, "Wage Discrimination, Job Segregation and Title VII of the Civil Rights Act of 1964," *Journal of Law Reform*, Spring 1979 (V. 12, No. 3), pp. 399-502; Cotton Mather Lindsay, *Equal Pay For Comparable Work: An Economic Analysis of a New Antidiscrimination Doctrine*, LEC Occasional Paper, University of Miami Law and Economics Center, 1980; E. Robert Livernash, ed., *Comparable Worth: Issues and Alternatives*, Washington, D.C., Equal Employment Advisory Council, 1980; Suzanne E. Meeker, "Equal Pay, Comparable Work, and Job Evaluation," *Yale Law Journal*, January 1981, (V. 90, No. 3), pp. 657-680; Bruce A. Nelson, Edward M. Opton, Jr. and Thomas E. Wilson, "Wage Discrimination and the 'Comparable Worth' Theory in Perspective," *Journal of Law Reform*, Winter 1980 (V. 13, No. 2), pp. 231-301; Donald J. Treiman and Heidi I. Hartmann, eds., *Women, Work, and Wages: Equal Pay for Jobs of Equal Value*, Washington, D.C., National Academy Press, 1981.

⁴June Sochen, "Women and the Law," in *Encyclopaedia Britannica*, Book of the Year, 1980, pp. 485, 486.

⁵Probably the most effective opponent of ERA was Mrs. Phyllis Schlafly of Alton, Ill. In 1972, when the amendment was passed by Congress, almost unopposed, she launched a crusade against it. She founded a national organization, The Eagle Forum, and took her message coast to coast, charging that ERA would weaken the American family. After ERA's defeat, the Forum continued its "profamily" educational effort. Cf. *The Phyllis Schlafly Report*, Box 618, Alton, Illinois.

⁶*Congressional Quarterly, Weekly Report*, January 30, 1982, p. 160; July 3, 1982, p. 1586; April 23, 1983, p. 781 et seq.

⁷Cf. Jacob Mincer, "Labor Force Participation of Married Women," *Universities—National Bureau Committee for Economic Research*, Princeton, N.J., 1960, pp. 63-97. John D. Durand, *The Labor Force in the United States, 1890-1960*, New York, Social Science Research Council, 1968, pp. 216-217.



TO SAVE THE WORLD



Status quo is a Latin phrase meaning, in a modern translation, "the mess we are in." A great number of our contemporaries must understand it so, because never have so many persons and organizations come forward with such a variety of schemes for reforming other people and saving the world. This is the age of the Man with the Plan. The reformer, with his blueprints for social uplift, is in his heyday. I suppose that I too would be classified by some as a reformer, for I travel around the country making speeches and taking part in seminars. And the gist of what I have to say is that, indeed, things *are* in bad shape, but that they might be improved if we approached economic and political issues with more sense and in a different spirit.

If the distinguishing mark of a reformer is his yen to save the world, then I am not a reformer. But I live close enough to the tribe so that many of them send me their literature.

Across my desk come the outpourings of many earnest souls, offering salvation to the world if only the world will embrace their particular panacea. The panaceas peddled by these folk come in all sizes and styles, ranging from world government to a low cholesterol diet. In between are the socialists, the land reformers, the money reformers, the prohibitionists, the vegetarians, and those who believe that the world is in the strangling clutch of a far-flung conspiracy of sinister men who operate anonymously behind the scenes. As I read this material I am thankful that the world has so far refused to let itself be saved on the terms each and every one of these reformers lay down. These people differ wildly

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among themselves as to the details and precise nature of the remedy, but they are in basic agreement as to the general pattern reform should take. Reform—as they understand it—consists of A and B putting their heads together and deciding what C should be forced to do for D. William Graham Sumner of Yale, said something like this about a century ago.

Sumner was describing and exploring a tendency he perceived in the governmental policies of his day to expand the network of governmental interventions and regulations over society in the interests—allegedly—of upgrading the general welfare. This could not be done, he argued, except to the detriment of the productive part of the nation whose interests were to be sacrificed for the assumed benefit of selected individuals and groups. The A and B who put their heads together symbolized government, the public power. D symbolized those who got government handouts and subsidies of various kinds. C symbolized the great body of the nation, the men and women engaged in productive work, whose taxes supported not only the government but the vast and growing number of people, rich and poor alike, who fattened at the public trough. Sumner called C “the forgotten man” because he was the victim sacrificed whenever the public power was misused to confer private advantage. It is intriguing to note

that when the New Deal resurrected Sumner’s phrase the meaning was inverted. D, the new class with access to public funds, was now “the forgotten man.”

“The New Freedom”

The thing which Sumner saw taking root a hundred years ago has come to full flowering in the totalitarian states of this century. But the seeds of today’s Democratic Despotism were planted as far back as the 18th century when certain Continental philosophers decided that man had now come of age and could take charge of his own affairs. When you translate this idea from the French it reads: We enlightened few to whom the new truth has been revealed, will take charge of all the rest of you. The kings have been deposed and we represent The People. Combine majoritarian political processes with the powers conferred by science to control both nature and man, they said, and we will hatch a perfected humanity and manufacture a kingdom of heaven on earth. The age-old utopian dream will be a reality; it will be called “The New Freedom”!

Bring this ideology down to the middle of the 19th century and we come to the man from whom so many 20th-century problems stem—Karl Marx. The determining factor for mankind, Marx wrote, is “the mode of production in material life.” A man’s very consciousness is deter-

mined by his social existence. "Men's ideas," he added, "are the most direct emanation of their material state." The logic of this is fantastic, for according to Marx's own statement, he himself is a mere mouthpiece for the material productive forces of 1859; Marx's mouth may frame the words, but his mind does not generate the ideas. The ideas come from "the mode of production in material life."

Salvation by Politics

Marx does not stop here; he goes on to fashion an idol. Declaring himself an atheist, he excoriates those who do not "recognize as the highest divinity the human self-consciousness itself." This new mortal god has only one obligation to the world: Save it! Aristotle's god, the Prime Mover, derived esthetic enjoyment from contemplating the world He had made; and many philosophers, and ordinary folk as well, have enjoyed the starry heavens and the glories of nature. But if Marx were to have his way, these kinds of pleasures would be prohibited. "The philosophers have only *interpreted* the world in various ways," he wrote: "the point, however, is to *change* it." (1845) A contemporary of ours, the late Bertram Wolfe, writing critically of Marxism, gives us this interpretation: "History was to be given a new meaning, a new goal, and a new end in Time. . . . At last man

would become as God, master of his own destiny, maker of his own future, conscious architect of his own world." Salvation by politics!

Utopians, dreaming of an earthly paradise, have drawn up their blueprints of a heaven on earth, but in practice, every attempt to realize a perfect society has resulted in an intolerable society. Newfangled heavens on earth—as exemplified by the totalitarian nations—resemble nothing so much as visions of the old-fashioned hell. Nations began to walk the road to serfdom and the new slavery was inevitable. Meanwhile, another set of ideas was germinating.

The Rule of Law

Human beings have long aspired to be free. But it was only two centuries ago that this aspiration took concrete form in the philosophy of political liberty under the Rule of Law, with its economic corollary, the free market. America announced its ideal of political liberty to the world in The Declaration of Independence. The year was 1776. The Declaration states that men and women are given certain rights and immunities by their Creator, among them the right of every person to live his life peacefully, plus the right to freely exercise the energy that being alive confers—our rights to life and liberty. When a person is free to exercise his energies—which is to say, when he

is free to work—he produces goods and services, and these rightfully belong to him. A person's right to property follows logically from his rights to life and liberty, and private property is the cornerstone of a society of free people.

The economic complement to the political structure envisioned in the Declaration is Adam Smith's monumental work, *The Wealth of Nations*. Smith demonstrated once and for all that the business, industry and trade of a nation does not need to be planned and managed by the political authority. Jefferson paraphrased Smith's idea when he wrote: "If the government should tell us when to sow and when to reap we should all lack bread." The uniquely American political philosophy of the Declaration said, in effect, that government should not run people's lives; government's proper role is similar to that of an umpire. The umpire on a baseball diamond does not operate the game, manipulating the players as if they were pieces on a chess board. The umpire's job is to be an impartial arbiter of the rules upon which baseball functions, interpreting and enforcing them as needed.

And so it is with the government of a free society. The people manage their own affairs according to the set of rules for living together in society, and the full time job of government is to ensure that the rules are obeyed. This is called the Rule of

Law, referred to by Smith as the "liberal plan of liberty, equality, and justice." Smith showed that a society with equal justice under the law provides optimum liberty for the citizens, and that these same citizens in their capacity as consumers direct and regulate economic production by purchasing this and not purchasing that. Entrepreneurs analyze this data and produce whatever goods they think the customers will buy. This is capitalism, economic freedom in the marketplace, and it is the other side of the coin of political liberty. Neither can survive without the other.

Regulated by Consumers

Adam Smith did not advance the idea of an unregulated economy; no one believes in an unregulated economy. Capitalism is an economy regulated by the customers; it is consumer sovereignty exercised within the guidelines laid down by the moral law. A free society presupposes that each person is responsible for the way he lives his life; it presupposes that most people most of the time will not murder or assault or steal; most of the time they will tell the truth, fulfill their contracts, and treat their fellows decently. No kind of a society is possible among creatures who habitually violate these moral laws, and a free society presupposes high grade human material. If you have good people—defining "goodness" to

include a modicum of intelligence—a good society follows. If men and women pursue the excellence appropriate to our species, choosing such exemplars as Jefferson's "aristocracy of virtue and talent," they will have a good society to match.

The original proponents of political liberty and a free economy called themselves Whigs in the 18th century—men like Jefferson and Madison in this country, Edmund Burke and Adam Smith in England. Their followers began to call themselves Liberals when England's Whig Party changed its name to The Liberal Party in 1832. But the meaning of the word "liberal" began to change even before the turn of the century, and it now means centralized government and a good deal of economic planning—just the opposite of the thrust of early Whiggism and Classical Liberalism. We who believe in the free society cannot now call ourselves Liberals, although early liberalism is in our heritage, so I have taken to calling myself a Whig, after F. A. Hayek who once said, "Call me an old-fashioned Whig, with emphasis on the old-fashioned."

Freedom of the Press

Whiggery fought some important battles in its time and gained some well-earned victories for several specific freedoms we tend to take for granted. For example, it brought the press out from under the political

umbrella, freeing it from interference by a government censor empowered to tell editors and writers what to print and what to spike. There's a lot of hogwash written about "freedom of the press" these days, but that's another story!

A corollary of the free press is freedom of speech. This means that people are free to speak their minds and criticize the authorities without risking jail; free speech is an essential element of any society where people elect public officials. The departure of the kings introduced the electoral process as a means of choosing personnel for public office. And when citizens must select public officials by balloting, it is necessary that the issues be ventilated by written and oral debate—which must be free.

The third major freedom worked out by the Whigs was religious liberty. A free society has no official, established church supported out of the tax fund. Churches are supported by voluntary contributions, and there are no laws to punish heresy. The nearest thing to an established church in America is the public school system; but despite that, and despite the enormous quantities of tax money now being siphoned into colleges and universities, we still give a lot of lip service to the idea of academic freedom.

Academic freedom is a good idea, although the ways we now translate

that idea into action are open to serious question. Freedom of the press is also a good idea, even though some journalists understand it to mean unlimited license to distort reporting into conformity with their ideological biases. "Separation of church and state" has become my least favorite American shibboleth, but I am nevertheless a devout believer in religious liberty. However critical I am of much that now goes on in these sectors of our life I know that conditions are much worse when the government operates the schools, the churches and the press—which is the theory and the practice of collectivist nations.

Let People Alone

In Whig theory, government should let people alone; government should not dragoon people into carrying out some vast national purpose; it should not override their personal plans in favor of some grandiose national plan. So long as John Doe is minding his own business, pursuing whatever peaceful goals he has in mind for himself, government should let him alone. But whenever John Doe's life, liberty or property is violated by any person, government should be alert to detect the crime and punish the perpetrator. The use of lawful force against criminals to protect the peaceful and productive members of society is the earmark of good law.

"The end of government is justice," wrote Madison, "and justice is the end of civil society." Establish rules of the game designed to secure fair play for everyone, while providing maximum liberty for each man and woman to pursue personal goals. Get government out of its activist role. Limit the law to enforcing the rules against those who violate them—and the free society is the result.

Letting things alone is not the same as doing nothing; letting things alone is an acquired skill. The journal with which I am associated is called *The Freeman*. Between 1920 and 1924, the editor of *The Freeman* was a unique personality named Albert Jay Nock. Associated with Nock was a group of young writers such as Suzanne LaFollette, Van Wyck Brooks, and Lewis Mumford. Someone—reflecting on those four years—remarked to Nock, "Albert, you've done wonderful things for these young people."

"Nonsense," said Nock, "all I've done was to let them alone."

"True," replied his friend, "but it would have been different if someone else had been letting them alone."

Wise and Salutary Neglect

Rightfully letting things alone, in statecraft, is Edmund Burke's policy of "a wise and salutary neglect." But let me turn to medicine for a good analogy of the nature of government

action proper to the free society. Certain medical theorists of about a century ago—especially in Germany—examined the human organism and found it a crude contrivance of pipes, tubes, levers and dead weight. This botched mechanism could be kept going only if someone constantly patched and repaired it. Writing of this antiquated medical theory, an historian says: "This held that the body was a faulty machine and Nature a blind worker. The student made an inventory of the body's contents and found, as he expected, some out of place, some wearing out, some clumsy make-shifts . . . some mischievous survivals left over." Medical practice, based on this theory, was to interfere with the body's working by probing, operating, removing and altering. The practice sometimes proved disastrous to the patient!

Medical theory has changed. Modern theory, according to the same historian, regards the body as "a single unit, health a general condition natural to the organism . . . and the best diet and regime, to live naturally." This theory regards the body as a self-regulating, and for the most part, a self-curative organism. It need not be interfered with except to repair or remove any obstruction that prevents the free flow of the healing power of nature. This is an ancient idea, as witness the Latin phrase *vis medicatrix naturae*. Medical or sur-

gical ministrations do not create health; the body does that of itself, if let alone.

The new outlook in medicine is summed up by the title of the famous book by Harvard professor Walter B. Cannon: *The Wisdom of the Body*. I believe it was Dr. Cannon who introduced the concept of "homeostasis," the idea that the human body maintains all the balances necessary to preserve health—unless something interferes. In which case, call the doctor!

Health and Freedom

There is a striking parallel between present day theories of health and the ideal of freedom in human affairs. The believer in freedom is one who has come to realize that society is a delicately articulated thing, each part depending on every other. Hence, arbitrary interference with anyone's peaceable willed action not only diminishes the freedom of the person restrained but affects all other persons in society. The attempt to masterplan society upsets the balance which every part of society naturally has with every other part, because every unit of society is an autonomous, initiating, reasoning, responsible human being.

Nearly everyone favors freedom in the abstract. Most intellectuals champion freedom of speech, academic freedom, freedom of the press, and freedom of worship; they dis-

trust economic freedom. Those who would deny freedom in the marketplace assume that, in the absence of political controls over production, economic life would be chaotic. The assumption, in other words, is that manufacturers would not produce the goods consumers want unless government stepped in and told them what to make, and in what sizes, styles, and colors. The assumption is absurd; and so is the belief that the free economy rewards some at the expense of others. Everyone in the free economy is rewarded by his peers according to their evaluation of the worth of his goods and/or services to them.

The Problem Is Scarcity

Why is there economics? What is the problem that calls forth this discipline? The problem, in one word, is "scarcity." Virtually everything men and women want, need, or desire is in short supply. On the human side of the economic equation is a creature of insatiable needs and desires. On the other side of this equation is the world of raw materials and energy, which are scarce relative to human demands for them. Unlimited wants on one side of the equation, but only limited means for satisfying them on the other. The equation will never come out right. Human wants always outrun the means for satisfying them. Economics, in the nature of the case, is "an

anti-utopian, anti-ideological, disillusioning science," as the late Wilhelm Roepke used to point out.

For a thing to qualify as an economic good, two requirements must be met: the item must be needed or wanted, and secondly, it must be in short supply. Air, despite the fact that it is necessary to our lives, is not an economic good, for it is not in short supply; under normal conditions there is enough air for everyone with lots left over. But conditioned air is an economic good, even though it is not necessary for life but only ministers to our comfort. Conditioned air is scarce, there is not as much of it as people want, merely for the taking; so people have to give up something in exchange in order to get it. Aside from fresh air, virtually everything we want or need is an economic good; there is not enough of anything for everyone to have all he wants merely for the taking. Some frustration is therefore inevitable; frustration is built into the human situation and we have to learn to live with it. All that economics can promise is a means for making the best of an awkward situation.

Economics, then, is the discipline which deals with goods in short supply—just about everything we want—and the problem it faces is how to allocate scarce goods so as to best satisfy the most urgent human wants, in the order of their urgency.

The free market approach to this problem is to rely on the individual free choice of consumers, as manifested in their buying habits. The buying habits of people form a pattern which tells entrepreneurs what to produce, and in what quantities, sizes, and so on. This is the tactic of liberty as applied to the workaday world; this is the market economy, or the price system, and if government merely protects people in their productive activities, and in their buying and selling—protects them by curbing predation and fraud—the economic activities of man are self-starting, and self-regulating.

Market Performance

The free market is the only device available for allocating scarce resources equitably. The market's performance is so efficient and so intelligent that it has excited the admiration of those who have studied and understood its workings. Virtually every one of the charges that has ever been directed against the free economy proves, upon examination, to be aimed at a problem caused by some misguided political interference with the free economy.

No one likes the term Socialized Medicine but there are many people—including some doctors—who support things like Medicare. The professed aim of Medicare is to increase the availability of medical and surgical services by political inter-

ventions and subsidies. Now medical and surgical services are in short supply, relative to the demand for them. This is to say that medical and surgical services are economic goods, and—like all economic goods—they are scarce relative to demand. Therefore, a way must be found to ration them.

The free market is the only efficient and fair way to allocate scarce goods, and it follows that only the free market can be relied upon to furnish the greatest quantity of high grade medical and surgical services at the lowest possible price, to a citizenry which has a great variety of other needs and desires to satisfy as well. Every political alternative to the market means a wastage of economic goods and resources; it means less for all. This law applies to medical and surgical services. Socialized Medicine must inevitably lead to a misallocation of available medical resources, with fewer available benefits for those who need them.

The Better Alternative

There are no perfect solutions in human affairs; there are only better or worse alternatives. The private practice of medicine does not promise perfection, any more than the private practice of education, or the private practice of religion, or the private practice of anything you'd care to mention. But private practice surely beats the alternative,

which is to have the politicians and bureaucrats run the show. In that direction lies disaster!

Nineteenth-century collectivist theories resulted in twentieth-century totalitarian politics, with its record of slaughter, conquest, poverty, fear, terror, regimentation, and the Gulag. Ideas have consequences; the consequence of bad ideas is monstrous evil on a vast scale. But ideas are changing. Former left wing intellectuals are now neo-conservatives. Some even admit to being conservatives—a conservative being defined by Mike Novak as a liberal who has been mugged by reality! I'm not going to assert that we've turned the corner, but we have made progress and the corner is within sight.

Universal Order

This is a *universe* we live in, not a *multiverse* or a chaos. Old Mother Nature has a passion for order; she will tolerate disorder up to a point—then watch out! For thousands of years we have known what we *ought* to do in the moral and spiritual dimensions of our lives, but we find it difficult to perform as we should at this level. Man likes to think that he can “get away” with things, and so he ignores or defies that Purpose

which manifests itself in and through the universe. The universe tolerates wayward man up to a point, but if man does not learn his lessons from his own waywardness he will be taught the hard way. “Things won't be mismanaged long,” said Emerson. Nature will not allow it.

Victor Hugo in his great novel *Les Miserables* put the matter more dramatically. You recall his long description of the Battle of Waterloo and the defeat of the French. And then these words at the end of chapter 53: “Why Napoleon's Waterloo?” Hugo asks. “Was it possible that Napoleon should gain this battle? We answer No. Why? Because of Wellington? Because of Blucher? No; because of God! Bonaparte victor at Waterloo—that was no longer according to the law of the 19th century. Another series of events was preparing wherein Napoleon had no further place. . . Napoleon had been denounced in the infinite and his downfall was resolved. He bothered God. Waterloo is not a battle; it is the universe changing front.”

And so I say, Let's not try to save the world! Saving the world is God's job; our job—yours and mine—is to live in the world up to the level of our best insights. That might make the world *worth* saving! ☉

America by the Throat

IN his *America by the Throat: The Stranglehold of Federal Bureaucracy* (Devin-Adair, Publishers, 143 Sound Beach Avenue, Old Greenwich, Conn. 06870, 190 pp., \$14.95), President George Roche of Hillsdale College talks about an imaginary state of Rapinia. It is bureaucratically run, with orders going out from a Central Economic Planning Bureau. It happens to have four main frame computers, procured illegally from capitalist countries. The problem is what to feed into the computers that will enable the chief bureaucrats to decide on the disposition of available investment capital and energy.

The economy of Rapinia is out there waiting. The country needs steel I-beams, shoes, wheat, toothpaste, dental drills and hydroelectric dams. But in what order, and in what relative amounts? How shall the workers be apportioned to the various enterprises? Which factories will be entitled to what raw materials? "What," asks Roche, "are two kilos of soap powder worth relative to a hectare of barley relative to a

hydroelectric dam? How can one add up or make any calculations concerning an I-beam, wheat, and cosmetics? There is no common denominator for these things."

In a market system they could be priced in terms of the money that individual purchasers would be willing to put out for the separate items. But this presumes free will on the part of individuals, and a private base from which to trade. In assuming that Rapinia is cut off from an international market (just how did the Rapinian bureaucrats ever get hold of those computers anyway?), the problem of economic calculation must become a nightmare. Decisions will be made by sheer guesswork and enforced by a police, a KGB, who are under orders from a planning board which itself is subject to prior decisions made by a political dictator. The dictator, of course, would have to think first of all in terms of his army. So we have missiles always coming before butter!

In describing his Rapinia, with all its troubles, George Roche acknowledges his tremendous debt to Lud-

wig von Mises, who raised the point about the dependence of economic calculation on a market system some sixty years ago. But Roche's concern in depicting his imaginary Rapinia is not merely to endorse the Mises insight. The idea behind Roche's book is to show how the urge to approach Rapinia as a limit corrupts the thinking of bureaucrats in free market states, making economic calculation more difficult as the empire-building talents of canny top bureaucrats manage to siphon off more and more of the national income.

To Ludwig von Mises George Roche has added Albert Jay Nock, who made key distinctions between political power and social power. The political power is coercive, and it grows all the time. When it begins to take more than 30 per cent of the national income for itself, it has disastrous effects on the incentives of those who still possess some social power. Invention lags. People seek special tax havens and turn to a new lawyer class to find ways of outwitting the bureaucrats.

The bureaucrats that keep growing may be well-intentioned, but rigidity is imposed on them by law. The bureaucrat must go by the book. If he departs from the rule, the letter of the law, he would be subject to investigation and a possible jail sentence.

The regulations imposed by the book are essentially sterile. Busi-

nesses grow by bold innovations made by individuals who are willing to take chances. The bureaucrat can't understand the innovative mentality. If the law tells him that a toilet seat must be made a certain way, or that a mouse trap must conform to certain specifications, or that a window must be X number of inches off the floor, he will apply the rule quite arbitrarily. In so doing he may be freezing a design forever.

Examples of Waste

George Roche has a lot of good laughs at the bureaucrats' expense. By law federal bureaucrats poured 76 million barrels of oil into a cave to create a mandated Strategic Petroleum Reserve. But the law had forgotten to specify that pumps must be installed to get the "reserve" out in a time of emergency. Every year, in accordance with regulations, the Department of Defense buys 48,000 heavy duty leather holsters for .45 caliber pistols. But it hasn't gotten any new .45 pistols since 1945.

These things, culled mostly from Bill Buckley's *National Review*, are funny in detail. But they cease to be funny when their cost to the taxpayer is considered.

And it is certainly not funny when bureaucracy strikes at Dr. Roche's own college at Hillsdale in Michigan. Hillsdale has never taken a dime from the federal government in direct government support. But

some of its students have borrowed education money from government sources on their own. This is their legal right, and Hillsdale has had no power to prevent it. But the bureaucrats, sticking to the letter of the law as interpreted by themselves, decided that any college that accepts a student who has had Federal funding must itself accept Federal rulings on such things as hiring quotas. Hillsdale, according to the bureaucrats, did not employ enough women. The little fact that there are not enough women Ph.D.s to go around meant nothing to the bureaucratic mind.

The rulebook approach insures that mistakes, when made by oversolicitous governments, can in Fiorullo LaGuardia's phrase be "beauts." An environmental ruling designed to protect caribou in Alaska delayed the building of the needed trans-Alaska oil pipeline by five years at

the very time that the Arabs of OPEC were getting away with their monopolistic price-fixing. Eventually the magazine published by the Smithsonian Institute sent a reporter up to the Alaskan North Slope to check on the caribous' habits. The reporter discovered that the caribou, far from being bothered by the pipeline right-of-way, loved huddling on the new artificially raised land to get away from the mosquitoes.

The business of the bureaucrat, so Roche tells us, is to fund problems, not to solve them. The bureaucrat who wants to keep his job going would only be cutting his own throat if he were to work himself into premature retirement. So we come to Roche's two laws. The first is that the supply of human misery will rise to meet the demand. The second is that the size of the bureaucracy increases in direct proportion to the additional misery it creates. ☉

Reprints . . .

A Page on Freedom

Each of these brief messages is a handy way to share with friends, teachers, editors, clergymen and others a thought-starter on liberty. It also serves to introduce the reader to our work at FEE.

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THE ECONOMICS AND POLITICS OF RACE: AN INTERNATIONAL PERSPECTIVE

by Thomas Sowell

(William Morrow & Co., Inc., 105 Madison Avenue, New York, NY 10016), 1983

324 pages • \$15.95 cloth

Reviewed by Allan C. Brownfeld

DO CERTAIN GROUPS advance in society at varying rates because of the attitude of society toward them? Does discrimination against a given group cause it to do less well economically and educationally than those groups which do not face such external barriers?

Policy makers in the U.S. have answered these questions in the affirmative. They have decided that certain groups of Americans, in particular blacks, are poorer than average because of the prejudice they face and the discrimination with which they have been forced to contend, not only today but historically. The answer to these disparities, it is argued, is not only to eliminate such discrimination, but to make up for the past by instituting programs of "affirmative action."

But what if some have advanced less rapidly than others *not* because of the attitude of the external society, but because of the internal values and constitution of the groups themselves? If this is the case, cur-

rent politics are irrelevant at best, and possibly counterproductive as well.

In this landmark study, Dr. Thomas Sowell, a Senior Fellow at the Hoover Institution of Stanford University and well known as a leading black economist, uses an international framework to analyze group differences. Examining the experience of given groups in more than a dozen countries, he seeks to determine how much of each group's economic fate has been due to the surrounding society and how much to internal patterns that follow the same group around the world.

The Italians in Australia and Argentina, for example, show social and economic patterns similar in many respects to those of Italians in Italy or in the United States. Chinese college students in Malaysia specialize in very much the same fields that they specialize in in American colleges—a far different set of specializations from those of other groups in both countries. Germans have, similarly, concentrated in very similar industries and occupations in South America, North America, or Australia.

Analyzing the successes of each group, Sowell points to the group's culture, which rewards some behaviors over others, as the determinant of skills, orientations, and therefore economic performance. "Race may have no intrinsic significance," he

writes, "and yet be associated historically with vast cultural differences that are very consequential for economic performance."

In Southeast Asia, for example, the overseas Chinese have been subjected to widespread discrimination. Quota systems were established in government employment and in admissions to universities in Malaysia, and a "target" of 30 per cent Malaysian ownership in business and industry was established. In Indonesia, a 1959 law forbade the Chinese to engage in retailing in the villages. Chinese-owned rice mills were confiscated. In the Philippines, it was decreed that no new Chinese import business could be established, and Chinese establishments were closed by law.

Despite all of this, Dr. Sowell points out, the Chinese thrived. As of 1972, they owned between 50 and 95 per cent of the capital in Thailand's banking and finance industry, transportation, wholesale and retail trade, restaurants and the import and export business. In Malaysia, the Chinese earned double the income of Malays in 1976, despite a massive government program imposing preferential treatment of Malays in the private economy. In the U.S., as in Southeast Asia, writes Sowell, "the Chinese became hated for their virtues." Despite discrimination, the Chinese advanced rapidly in the U.S., as did the Japanese,

who met similar forms of racial bigotry, including special taxes and job restrictions.

In Europe, the author points out, precisely the same story can be told with regard to Jews. Anti-semitism was a powerful force in many countries, yet Jews continued to advance. Although Jews were only one percent of the German population, they became 10 per cent of the doctors and dentists, 17 per cent of the lawyers and won 27 per cent of the Nobel Prizes awarded Germans from 1901 to 1975. In the U.S., Sowell points out, "Although the Jewish immigrants arrived with less money than most other immigrants, their rise to prosperity was unparalleled. Working long hours at low pay, they nevertheless saved money to start their own small businesses . . . or to send a child to college. While the Jews were initially destitute in financial terms, they brought with them not only specific skills but a tradition of success and entrepreneurship which could not be confiscated or eliminated, as the Russian and Polish governments had confiscated their wealth and eliminated most of their opportunities."

In the case of blacks in the U.S., Dr. Sowell notes that West Indians have advanced much more rapidly than native born American blacks because of major cultural differences. In the West Indies, slaves had to grow the bulk of their own food—

and were able to sell what they did not need from their individual plots of land. They were given economic incentives to exercise initiative, as well as experience in buying, selling and managing their own affairs—experiences denied to slaves in the U.S.

The two black groups—native born Americans and West Indians—suffered the same racial discrimination, but advanced at dramatically different rates. By 1969, black West Indians earned 94 per cent of the average income of Americans in general, while native blacks earned only 62 per cent. Second generation West Indians in the U.S. earned 15 per cent *more* than the average American. More than half of all black owned businesses in New York State were owned by West Indians. The highest ranking blacks in the New York City Police Department in 1970 were all West Indians, as were all the black federal judges in the city.

It is a serious mistake, Sowell believes, to ignore the fact that economic performance differences between whole races and cultures are “quite real and quite large.” Attitudes of work habits, he believes, are key ingredients of success or failure. The market rewards certain kinds of behavior, and penalizes other behavior patterns—in a color-blind manner. Blaming discrimination by others for a group’s status, he states, ignores the lessons of history.

Political efforts to address the “problems” of minorities usually fail, Sowell reports, because they refuse to deal with the real causes of such difficulties: “. . . political ‘solutions’ tend to misconceive the basic issues . . . black civil rights leaders . . . often earn annual incomes running into hundreds of thousands of dollars, even if their programs and approaches prove futile for the larger purpose of lifting other blacks out of poverty.”

Crucial to a group’s ability to advance is the stability of its family life and the willingness to sacrifice: “. . . more than four-fifths of all white children live with both their parents. But among black children, less than half live with both parents . . . What is relevant is the willingness to *pay a price* to achieve goals. Large behavioral differences suggest that the trade-off of competing desires vary enormously among ethnic groups . . . The complex personal and social prerequisites for a prosperous level of output are often simply glided over, and material wealth treated as having been produced *somehow*, with the only real question being how to distribute it justly.”

If we seek to understand group differences, it is to “human capital” that we must turn our attention, Dr. Sowell declares. The crucial question is not the fairness of its distribution but, “whether society as a whole—or mankind as a whole—

gains when the output of both the fortunate and the unfortunate is discouraged by disincentives."

It is possible that many civil rights leaders, academicians and politicians have a vested interest in perpetuating the current myths about the causes of group differences, but the rest of us are under no obligation to view the world through the blinders of such special interest groups. Many are likely to oppose the conclusions of this important book. They will not, however, be able to ignore it.



**IDOLS FOR DESTRUCTION:
CHRISTIAN FAITH AND ITS
CONFRONTATION WITH
AMERICAN SOCIETY**

by Herbert Schlossberg

(Thomas Nelson Publishers, P.O. Box 141000, Nelson Place at Elm Hill Pike, Nashville, TN 37214), 1983
335 pages ■ \$14.95 cloth; \$8.95 paperback

Reviewed by Edmund A. Opitz

THE modern world, as Mr. Schlossberg perceives it, is steeped in polytheism. Strange gods comprise its pantheon, bearing odd names such as Historicism, Mammon, Humanism, Nature, Power, and Religion. A chapter is devoted to the left-liberal ideologies which constitute, or have infiltrated, these several fields, and well-known apologists advance their best arguments. But after our au-

thor has applied his critical analysis his opponents are left without a case. He is an acute critic who seems to have read everything the idol makers have written, and much else besides. With its full index, the book is an encyclopedic survey of contemporary ideologies. It is also an answer, point by point, to much entrenched error. As an iconoclast, Schlossberg is a smashing success as he coolly demolishes one idol after another.

But the net impact of the book is not negative, for the author has a positive philosophy of freedom to replace the dubious notions he criticizes. Schlossberg is equipped with a body of principles explicitly Christian, buttressed by ideas from the writings of men like Mises, Hayek and Friedman. It is my opinion that many readers of *The Freeman* will be stimulated and challenged by this work, and I urge it upon them.



DOUBLE CROSSING

by Erika Holzer

(G. P. Putnam's Sons, 200 Madison Ave., New York, NY 10016), 1983
291 pages ■ \$13.95 cloth

Reviewed by Bettina Bien Greaves

This is a novel about two brothers, Aleksei and Kiril Andreyev. Born in the Soviet Union and raised in Moscow, their lives took two very differ-

ent turns. Through flashbacks we learn that their father had been a drunkard and a member of the dreaded Soviet police. Their mother, however, had been unable to share her husband's views and, when a third son was seriously injured in infancy, had fled with him to the West in a desperate search for medical attention.

Aleksei, just under ten when his mother disappeared, had already learned that his father's name inspired fear in the hearts of listeners. He soon became a young bully and in time, following in his father's footsteps, a powerful official in the Soviet intelligence agency.

Kiril, only three when his mother left, was raised by an aunt who sympathized when he rebelled against the Communist youth organization, encouraged his natural desire for freedom and taught him how to oppose the regime in silence. Thus, Kiril quietly nursed his resentment against the Communist regime and spent every effort toward preparing himself for eventual escape from the Soviet Union. He studied languages and chose a medical career in the hope that it might some day take him abroad.

Kiril's first carefully worked out scheme to escape failed when his co-conspirator was killed in a desperate dash for freedom across the bridge between East and West Berlin. But Kiril persisted. Aleksei, suspicious

of his brother's intentions, had long been having him closely followed by secret informants.

The tale climaxes when fate finally brings Kiril, his brother Aleksei, as well as all the other major characters in the book, to a medical meeting in East Berlin. There, fortuitously, Kiril meets a famous American doctor who looks astonishingly like him. Kiril tries to persuade the doctor to let him "borrow" his U.S. passport just long enough to permit him to cross the border into West Berlin. Unfortunately, this scheme goes awry for completely unexpected reasons. Kiril then improvises on the spot—to tell how, would give the plot away. Suffice it to say that the story is exciting and the ending satisfying.

This book tells a great deal about the sad plight of persons behind the Iron Curtain who are yearning to be free. It reveals to some extent their desperation and the faint hopes to which they cling on the slight chance of someday escaping the clutches of the Communist regime.

To promote the freedom philosophy, it is important to make use of any and every medium of communication. Too few novels nowadays are sympathetic to capitalism. Thus, it is refreshing to have a well-written thriller that is frankly pro-freedom and anti-communist. Our thanks to Erika Holzer for *Double Crossing*. ©

the Freeman

VOL. 34, NO. 5 • MAY 1984

Government and Taxes— A Page on Freedom, No. 6	Lemuel R. Boulware	259
Government spends what it has taken from taxpayers.		
Who Counts? You Do!	William Noland	260
A plea for constructive individualism.		
The Market Economy and Its Life-Support System	Edmund A. Opitz	266
The containment of power allows the individual to emerge.		
The Entrepreneur— Death and Resurrection	William H. Peterson	276
The entrepreneur has come back into recognition.		
Socialists Argue About Labor Unions	Hans F. Sennholz	279
Socialists use the exploitation theory to gain union support.		
The Role of the American Political Party System	Raymond Polin	290
A helpful step on the way toward freedom.		
The Cheapest Means of Payment	Joseph Fulda	295
Why money is the best way to pay for things.		
Wealth, Socialism and the Free Market	Helga Malloy	297
Enlightened self-interest shows the better way of freedom.		
The "Unproductive Investment" Prejudice	Ernest G. Ross	304
Proponents of fiat money continue to attack gold.		
Free Enterprise—for All	Robert Bearce	308
The case for economic freedom and the measures to preserve it.		
Book Reviews:		317
"The Coercive Utopians: Social Deception by America's Power Players" by Rael Jean and Erich Isaac		
"Power and Privilege: Labor Unions in America" by Morgan Reynolds		

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Government and Taxes

Government has to tax citizens for every dollar it spends. And these taxes are extracted from the citizens in three ways. One is visible. The other two are hidden.

Visible taxes are so unpopular that the majority forces its representatives—at the peril of losing their jobs—to minimize these taxes their constituents see. Yet this same majority continues heedlessly demanding more from government than they will knowingly pay to government. The excess must be collected in unsuspected ways.

The first hidden way is through taxes outwardly levied on business but necessarily passed on in higher prices which the misled majority does not blame on government but on business. This is a regressive consumer sales tax.

The second hidden way—to make up the difference between the spending and the two above taxes—is through the government borrowing. Some of this is from private sources—resulting in reduced capital for productive uses, in higher interest rates,

and thus in slowing or preventing progress in values and jobs.

The final and major part of the \$200 billion excess spending is collected from citizens through the borrowing that is monetized. This dilutes the value of everyone's earnings, savings, pensions and welfare checks. It is the tax of inflation—the most brutal, deceitful, debilitating and regressive of all taxes. Lenin predicted we would destroy ourselves with it, and we have been trying our best to prove him right.

Thus, if the now suggested \$50 billion new tax money were all miraculously allowed by a vote-hungry Congress to pass through into a deficit reduction of like amount, the debilitating cost of government would still be exactly the same.

Only a *net* reduction in spending—and thereby in the total of the three taxes—will reduce the cost of government and its major contribution to our inflation, unemployment, high interest rates and non-competitiveness. ☉

—Lemuel R. Boulware



Who Counts? YOU DO!

HAVE you ever had a good idea but lacked the courage to suggest it? Did you ever fail to brave the weather on a cold day to go to vote because you felt that your vote wouldn't mean much? Or to write a letter to the editor of the local newspaper protesting a bad city council decision about to be made? Or dangerously exceed the speed limit on an interstate highway because your passengers were hilariously accusing you of being "chicken"? How often do you fail to be a setter of good examples where you are capable of doing so, e.g., with your children—listening, playing, encouraging? Do you always behave becomingly even with strangers you chance to meet? In short, how well are you succeeding in that central obligation to yourself to become self-actualized, that best product of human nature and envi-

ronment you are capable of becoming?

Ours is an age of going along with the crowd, of adherence to group influence, of follow the leader. The expression "individual initiative" is still in our vocabularies, but we read books about the "organization man" and that Vince Lombardi told his Green Bay Packers that "football develops initiative, so get in there and do as I have taught you." "Rugged individualism," on which many claim America was built, has fallen by the wayside—and, of course, if it is too rugged, it is just as well, for we cannot afford to return to the posse mentality of the early West. But individualism still has a place—if it is the right kind.

Fifteen years ago, when our society was in the throes of the most rapid political and social change in its history, when student rioting on college campuses was the order of the day, "doing one's thing" was the

Dr. Noland is Professor Emeritus, University of North Carolina, and remains active with his writing and industrial and educational consulting work.

ubiquitous slogan for the way to behave. It persists in some quarters of American life today, but a major resurgence of the belief in responsibility for the consequences of one's actions is taking place. Familiar now is the recognition that "doing one's thing" can be either good or bad. If it is an expression of originality or inventiveness, that promotes proper personality development and one's right to be unique, without at the same time trampling on the rights of others, it is good. If, on the other hand, it is selfish behavior, characterized by utter disregard of the rights of others, even at times to the point of inflicting harm, it is bad and has no place in a sane society. So we have a dichotomy of individualism: constructive and destructive.

No great effort is required here to differentiate between the good and the bad. Destructive individualism is a philosophy of alienation from society, the embodiment of selfishness, the doctrine of an individual's freedom from all bonds. It implies erosion or even displacement of the integrative forces that hold society together and enable it to function—family, community, church and neighborhood. Constructive individualism, by contrast, supports these coordinating units, survives alongside them, subscribes to a philosophy of effective coexistence, is a partner with the State in the common enterprise of creating a fuller

life for all mankind. Much of history is an account of the struggle for dominance between the individual and the State, but, in truth, in a society such as ours, they must live together in intimate and mutually supportive association. At the center of this relationship, of course, lies the recognition that individualism, to be constructive, requires assumption of responsibility for consequences.

Individualism Threatened

Threats to individualism are many. At this point let us ask ourselves two important questions: How can individuality be preserved and man rescued from the anonymity of the great crowd? Why and to what extent has man fallen victim to the mass?

Of course we must recognize that both the individual and the mass are quite different from what they were three hundred, or even one hundred, years ago. The typical individual of the seventeenth century in the Western World was a man of unruly temper, fierce independence, constantly at war with his neighbors, and hostile to all attempts to discipline him or limit his appetites. The mass of a century ago, or even less, consisted of bands of disadvantaged men, illiterate, hungry, bereft of the benefits of full citizenship. Today the mass includes the advantaged, comfortable, educated benefactors of our

technical gadgetry. But the struggle for individualism remains.

When we in highly urbanized societies ask ourselves why we are so uncomfortable, troubled, anxiety-ridden, we are apt to say, too many people. Our cities are crowded and our countryside is becoming so. Our journey to and from work may not be long in actual distance but in time it often borders on the intolerable. While some of us live where it is possible to organize our lives in such a way as to reduce the strain of overcrowding, we need to wonder just how long this escape will last. The chance to avoid the jostling of the crowd, to flee in pursuit of privacy, to hope for the solitude in which individuality thrives, to find quiet moments in a hurrying age, diminishes exponentially as the population grows and technology renders that population more mobile. And this brings us to the question, what is the role of technology in one's quest for individuality?

Technological Advances

Some of our modern inventions make it possible for the earth to sustain with relative ease numbers which would have been impossible in earlier times: scientific agriculture produces more food; new materials are developed as old resources are used up. The telephone, the jet airplane, and now the computer are so commonplace as to be

seen almost as given. (Losing one's pocket calculator will soon be as serious as losing one's eyeglasses.) Technology extends man's reach and makes the accomplishment of his purpose easier. Journeys can be longer, safer and expeditiously taken. All this is fine—but only to a certain point!

As man consumes more space and multiplies his impact and presence on the globe, he promotes crowding or the subjective feeling of it. Our so-called "technological imperatives" are such that the machine becomes self-perpetuating. So we may soon reach that point in time, if indeed we are not already there, when adaptation and conformity to the dictates of the machine exact from man too grim a price. What does all this do to man's search for individualism, to be alone, to feel free from too many environmental impingements? In short, what does all this do by way of denying man's basic nature? Our devotion to technology, our commitment to finding some use for everything we invent, amounts to our reversing the old adage that runs "necessity is the mother of invention" to read "invention is the mother of necessity." In short, this burgeoning of population, technology, mobility and the mass media raises serious questions concerning the chance an individual has to find a "home," where he has room to move and time to think.

Responsible Behavior

Constructive individualism implies assumption of responsibility. Responsibility is such a familiar word there seems to be little need to define or describe it. In some instances responsibility is stipulated in explicit terms: there are laws to obey, contractual agreements to pay our bills on time, covenants to be faithful to each other "in sickness and in health." In other cases, likely the majority, expectations are unwritten. They become our habits, without which society could not function or even exist. And, of course, there are many situations that lack definition of appropriate behavior, where mutually acceptable rules are absent.

When we wrestle with the meaning of responsibility we encounter many questions. But perhaps they boil down to two relatively simple ones: To whom am I responsible, and for what am I responsible? Responsibility is not a thing but a relationship. It is a relationship of three types: to others, to certain situations, to oneself. One is responsible for helping his neighbor meet his needs. If one is a religious person, he has responsibilities to his God that he must acknowledge. One is responsible to himself in a variety of ways: to understand himself, to keep himself under constant surveillance in order to ferret out his weaknesses and his strengths, to transform those

weaknesses and reinforce the strengths, to respect and revere individual worth.

Assumption of responsibility takes many forms. Sometimes we are hampered in our efforts to be responsible to others. Out of a sense of independence, pride or unreadiness, some people do not want to be helped. Sometimes our responsibility takes on the trappings of remedial or compensatory behavior: We find ourselves having to bear the cost of consequences of decisions we have made in the past, consequences that are proving to be more destructive than we had anticipated. But these two forms of assuming responsibility—helping others who do not want help, and shouldering the cost of our past actions—are only part of the picture.

Creative Action

Central to the concept of responsibility is that of response, and central to the notion of response is that of action. Robert Johann, in his brief essay on responsibility, writes: "The meaning of a man's life is the difference his presence makes in the overall process." When we activate responsibility, we exert energy, we introduce purpose, and often we take risks. Creativity frequently enters the picture. Responsibility is not always simple compliance with established rules, a mere external conformity to contracts and agreements.

In many instances one's responsibility involves his exerting effort to alter the course of events, to reform existing institutions, to explore new possibilities for human fulfillment.

This plea for individual expression and responsibility is not being made at the cost of neglecting the role environment plays in one's development. The extent to which what we are is a function of socialization is common knowledge: we learn from others what we are supposed to know and do; we behave in terms of their expectations. Rather early in life one acquires a conception of self; he becomes an object to himself. This phenomenon, from which such concepts as self-consciousness, self-assurance, self-confidence (and, unfortunately, self-indulgence, self-love and selfishness) get their meaning, marks the beginning of a person's recognition that he is real, that he is an object to others, that he counts. But this need to emphasize external social forces—the influence of others—must not fall prey to undue emphasis. Growing up is a process of relinquishing much of our dependence on others and acquiring independence—and that independence places on one the responsibility of behaving in acceptable ways, ways he has had the chance to learn. We cannot remain children; soon each of us who is normal must become ultimately responsible for almost all he does.

The relationship between individual responsibility and leadership is relatively clear. Those who can lead have an obligation to do so—but often honest and efficient leadership encounters obstacles. In many instances, one does not have to be an honest leader to gain his ends; those he leads, often as dishonest as he, do not require him to perform ethically; and, finally, leadership implies the exercise of power, and power is anathema to many people. Innumerable are the capable and honest citizens who shy away from leadership positions because they have come to believe that power always corrupts, and that personal abuse of power is inevitable. There must be a mutually supportive relationship between the leader and the led: the leader fulfills his followers' needs for goods and services, for recognition and response; the followers, in turn, provide the leader with status, commensurate prestige, and other ego satisfactions. But in the end, in legitimate causes, honesty and self-respect in the leader precede trust and respect from followers. Therefore, getting right with oneself, in leadership as elsewhere, is of the essence.

Recapitulation


Let us re-examine briefly what we have just said. A major part of what we call social adjustment is essentially an individual's relation to

himself. As Alfred Whitney Griswold has said: "There is no such thing as public morality, only a composite of private morality." In a very real sense, the quality of a society over time is the quality of the individuals composing it. We need community, but it must be community which sustains but does not suffocate the individual. However, in asserting our individuality we must be different without being contrary, without flaunting our independence.

Henry Van Dyke called individuality "the salt of common life." "You may have to live in a crowd," Van Dyke continued, "but you do not have to live like it, not subject to its food. You may have your own orchard. You may drink at a hidden spring. Be yourself if you would serve others." To this, of course, should be added the admonition that serving others is not easy, and that, for some people the advice "be yourself" is danger-

ous. But, although Van Dyke wrote these lines many years ago, they still have credence in this fast-paced age of "too many people."

Here we have joined Winston Churchill in insisting that responsibility is the price of greatness. Our privileges can be no greater than our obligations. Character is doing, without expecting publicity. Integrity is working just as hard when the boss is away. Contrary to much of the message of the media, life is not made up solely of winners and losers; there is ample reward for simply succeeding at the level of doing one's best.

Perhaps a fitting close to this plea for constructive individualism is a simple paraphrasing of the Kantian "categorical imperative": Act always in such a way that you would see your actions as deserving to become universal law. 

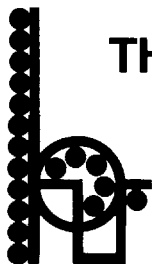
Frank Chodorov

THE only "constructive" idea that I can in all conscience advance, then, is that the individual put his trust in himself, not in power; that he seek to better his understanding and lift his values to a higher and still higher level; that he assume responsibility for his behavior and not shift his responsibility to committees, organizations and, above all, a super-personal State. Such reforms as are necessary will come of themselves when, or if, men act as intelligent and responsible human beings. There cannot be a "good" society until there are "good" men.

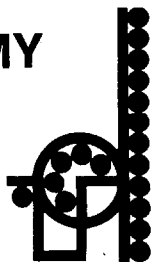
IDEAS ON



LIBERTY



THE MARKET ECONOMY AND ITS LIFE-SUPPORT SYSTEM



THE WORLD we live in is divided. The major division, the division drilled into us by journalistic usage, separates the planet into the iron curtain countries versus the free world. Soviet Russia and its satellites plus communist China and its satellites are geographically separate from the nations comprising the free world, but the differences are not merely geographical.

The iron curtain countries are fiercely devoted to an ideology which is at war with the philosophy of liberty which the free world professes, but to which the free world gives little more than lip service. Communism is a fanatical, crusading faith which activates millions behind the iron curtain; nothing of like inten-

sity inspires the citizens of the so-called free nations. I say "so-called," having in mind that Britain is socialist, France has a socialist president, and America continues welfarist despite the good intentions of Mr. Reagan and many of his henchmen.

Why does government continue to expand? Why does it cost us more with each passing year? It's no mystery; more and more people are dependent on government give-away programs which the taxpayers have to pay for. Social Security is a costly program and it's here to stay, at least for the foreseeable future; it has now become compulsory for those formerly outside its grasp—like FEE. Then there is our permanent bureaucracy, with its multiple alphabet agencies empowered to regulate virtually every facet of our lives. There are various and growing numbers of people and groups en-

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*.

compassed by the entitlement programs; many businessmen enjoy special privileges conferred by government; millions of former government employees and politicians dig deep into the tax fund for their pensions. Everyone who feeds at the political trough has a stake in bigger government and higher taxes.

Freedom at the Fringes

Freedom is marginal in modern societies; it survives on the fringes of life. We can widen the margin of freedom only insofar as we deepen our understanding of the free society and its imperatives, and then act wisely in terms of what it demands of us. Recovery of freedom will not be easy, for the people of this nation are not of one mind as to the merits of a society of free people. There are Marxists in America and they show renewed vitality. One of them, a professor at New York University, has recently (1982) written a book entitled *The Left Academy*, describing Marxist scholarship on American campuses, in the departments of economics, political science, sociology, history and psychology. He tells us that:

In political science, for example, four Marxist-inspired textbooks in American government have been published since 1970, whereas before that there were none. In the same period, Cambridge, Oxford, and Princeton University Presses, the three most prestigious university

publishers, have among them brought out over fifteen books on Marx and Marxism, almost all of them quite sympathetic. There are over 400 courses given today in Marxist philosophy, whereas hardly any were given in the 1960s.

Socialists and liberals in our nation are more numerous than Marxists: they are also more respectable. They regard themselves as intellectuals, and they write and they talk. Using the written and the spoken word from a variety of podiums and pulpits they virtually dominate the various avenues of communication—radio, television, movies, the press, schools and churches. They report the news they want us to hear and tell us how to think about it; they write most of the scripts for Broadway, radio, television and the movies; they write speeches for people in public life; they compose the songs and the slogans that stir popular emotions. They manufacture the public opinion which determines political action.

In short, millions of Americans today—for reasons of their own—do not want a market economy; they are financially dependent on an over-extended government, massive Federal spending, and high taxes.

That's the bad news. Now for the good news. The good news is that the philosophy of the market economy and the free society is in better shape than ever before. It is more intellectually rigorous, more solidly

based, spelled out more clearly than ever. And it is available in an increasing number of books, pamphlets, and periodicals. Hundreds of organizations are now hotbeds of free market activity, promoting a set of beliefs on the highest mental and moral plane, and reaching down into the deepest wellsprings of human nature—the firmly rooted aspiration of every man and woman for the elbow room necessary for them if they are to achieve their personal goals.

The Socialist System versus The Free Market Economy

Socialism or communism is easy to understand; a socialized society is one where the government owns the means of production; government operates the factories, the banks, the farms, the mines; it generates the power and controls transport and communication. In a socialist or communist system government runs the country. The system doesn't work.

The free society, by contrast, is not run by anyone. Yet, it runs more efficiently than any politically planned economy. The free society operates within certain rules which safeguard life, liberty and property; individual decisions within these rules marvelously coordinate—as if guided by Adam Smith's "invisible hand." Individual ownership is a key concept of the free society; manufacturing, business and trade operate un-

der private auspices; productive property is owned by scores of millions of individual persons. The market economy is not a "system," but it works. It is the market economy which created and continuously renews the prosperity we enjoy, and which the world envies.

Our forebears in the 18th century talked a lot about property. The political war cry of the period was "Life, Liberty, and Property," with major stress on property. There was a reason for this. These people knew that the chief distinction between a slave and a free man was the fact that the slave had no right to own things. The slave worked and he produced things, but he had no right to possess them; the product of the slave's labor belonged to his owner. On the other hand, any person with the right to own whatever he produced *was* a free man; his survival did not depend on another's whim: he was his own man. And being free, he had every incentive to become more productive, and thus more prosperous.

Personal liberty cannot exist except on a private property foundation, and that foundation is badly eroded in 1984. The fact that in our nation today the productive people of this society work approximately five months out of each year for government, before they are allowed to keep the fruits of their toil for themselves, would have seemed to our forebears a monstrous injustice. Pri-

vate property is a pillar of the free society idea, but it's a shaky pillar in today's world.

Everyone desires a place in society which gives him the widest range of opportunities over the greatest possible latitude to live the life he has chosen. Everyone knows that he must be free if he is to fully realize his personal goals. I suppose that the average citizen of Moscow or Peking has his dreams, just as we do, and presumably he does achieve some of his ambitions. But the state exercises almost complete authority over his life, determining his training, the kind of work he does, how he shall live, with whom he associates, and what he reads.

Interrelated Freedoms

Although we in this country are not as free as we say we'd like to be, the opportunities here to live a full and well-rounded life are infinitely greater than they are in collectivist nations. We are free to read what we please, to speak our minds, to attend the church and school of our choice. These intellectual and cultural freedoms of ours are directly related to the degree of freedom we enjoy in the economic sphere. Economic freedom is important in itself, because every freedom is important. But economic freedom is doubly important because the higher freedoms depend on it.

Take freedom of the press, for ex-

ample—and I use the term “the press” broadly, to include not only newspapers and periodicals, but also TV and radio. The press is the communications industry, and it is big business; it's one of our largest industries. People in the communications industry often display an inflated notion of what freedom of the press means; their understanding of responsible journalism is very vague. Those of you who read the newsletter, *Accuracy in Media*, are aware of the extent of irresponsible journalism in contemporary society. Despite which, believers in the free society uphold the doctrine of freedom of the press.

A free press is what you have when there is no government censor telling reporters what to write and editors what to print. No American publisher, to my knowledge, advocates that the Washington bureaucracy be empowered to control and operate the publishing business. But a lot of people in the newspaper trade editorialize in favor of the government regulation of business—their own excepted; and we find the same kind of advocacy journalism on radio and television. People in the press are left of center, by and large.

Suppose the country accepts the advice of these people and nationalizes coal, steel, the automobile industry, the airlines—one industry after another till all business is run by the government. Should this hap-

pen can anyone believe that a now all-powerful government will exempt the gigantic communications industry from its controls and allow the press to remain free to criticize it? Not a chance. The press too will be nationalized, becoming the government's agency of information and propaganda, specializing in Orwell's *newspeak* to program the minds of people.

Academic Freedom

An analogous situation exists with reference to academic freedom. I've never heard of a professor opposing the concept of academic freedom; he might not understand what academic freedom means, but he's all for it. Academic freedom means that a professor is allowed to teach, research and publish as he pleases without having to go to the government for permission—so long as some academic institution is willing to pay him a salary and provide him with such classroom and laboratory facilities as he needs. Academic freedom does not mean that the professor is entitled to a teaching job in an institution that doesn't want him; it means only that the government shall keep hands off the campus.

Professors, like their counterparts in the press, tend to be left of center; they believe that business and industry should be regulated by the government. Suppose their wishes come true; suppose government *does*

control the nation's business and industry. From whence will come the funds to support our colleges? From one source only: government. Government controls have dried up the private sources which once bank-rolled education, so government will have to finance the schools. Whoever pays the piper will call the tune, so when government pays the bills it will eventually dictate the curriculum. Teachers then become political flunkies and our colleges and universities become an arm of government, something like the Post Office.

The situation in the churches is similar, but somewhat more complex. I have many friends in the parish ministry, and I know them to be devout, honest, hardworking and devoted to the traditional values. There are some left-wing clergy in the parish ministry, turned in that direction by their professors in college and seminary, and by the materials foisted on them by certain departments in their respective denominations. But if you are looking for hard core left-wing churchmen go to the denominational hierarchies, to the religious press, to theological faculties, to the various local councils of churches, and especially to the National and World Councils of Churches. Collectivist churchmen have a monopoly of the positions of influence in these sectors of ecclesiastical life.

These people profess their devotion to the ideal of religious liberty; they believe in the independence of the churches from government interference; they don't want a state church—they say. But if we get what they are striving for—government control of business and industry—private funding of churches will give way to taxpayer funding. When this happens the churches will no longer be free institutions; they will become branches of the government bureaucracy.

The Most to Lose

Who has the greatest stake in the free economy? Businessmen? No. Industrialists? No. It is the scholarly class that has the greatest stake in the free society and market economy. I'm talking about teachers, preachers, researchers, writers, of independent mind and character—the genuine intellectuals. When a nation succumbs to communism or any other form of totalitarian tyranny, it is no longer business as usual, but business of some sort must continue.

Every industrialized society needs managerial and technical expertise to keep it going. Someone has to operate the factories, someone must keep the wheels of industry turning, and someone must maintain a certain level of productive efficiency. Who will do this: professors of sociology, preachers, Dan Rather, Jane

Fonda? Successful industrialists and businessmen, technicians who know how to get things produced—such people have a pretty fair chance to get good jobs after the Revolution. But what happens to independent intellectuals when the communists take over? A totalitarian society has no place for people of searching mind and high character; they vanish into the Gulag.

What a paradox; those who would have most to lose in a collectivist society are working hardest to bring it about. It's a kind of social suicide for these folk.

The market economy happens to be the most productive, most prosperous economy. But even if it were not, even if the market economy left us poor but honest, there's not a one of us here who would not choose to live under it, because only the free economy is compatible with freedom of worship, only the free economy permits a variety of independent educational systems, only the free economy allows the free mind to function in the areas of speech and publishing.

Economics is only a part of life, but it is the part which sustains and makes possible all the rest—the intellectual, the spiritual, the cultural. If we want to be free in these areas we must maintain economic freedom. John Maynard Keynes, in his backhanded fashion, lends support to this contention by declaring

that his theory of economic planning adapts nicely to a totalitarian political order. He wrote a special foreword for the 1936 German translation of his *General Theory*, and had this to say: "The theory of aggregate production, which is the point of the following book . . . can be much easier adapted to the conditions of a totalitarian state than . . . under conditions of free production and a large degree of laissez-faire." If the planned economy adapts nicely to Nazism, it is obviously incompatible with the institutions of a free society.

If you look behind the iron curtain you will see several species of communism. Russian communism has a Slavic flavor. The communism of the late Mao Tse-tung contains elements unique to the culture of China. There's a Latin beat to Castro's communism. Yugoslavian communism is, to a limited extent, in business for itself; and the same is true of the communisms of various Third World nations. Those who happen to have an interest may make comparisons between the communism of one nation and that of another.

The situation as regards the free society and market economy way of life is quite different; there's only one capitalism in history, and only one today. Japan, I regard as a branch grafted onto our stem. I yield to popular usage and for convenience use the term "capitalism" for the social order I have briefly sketched—the

free society and market economy way of life. The word "capitalism" is today a little less confusing than the word "liberalism" which was intelligible to our forebears, but which now means the opposite of what it meant in the 19th century. Capitalism became explicit about two centuries ago when the political ideas of The Declaration of Independence and The Constitution joined forces with the economic ideas expounded in *The Wealth of Nations*.

The American Idea

Capitalism is a shorthand term for the kind of society based on this combination of the market economy with a limited government of equal justice, and it appeared in just one place on the globe. It would be more accurate to say "one culture, the Anglo-American, separated by the Atlantic Ocean." The colonists thought of themselves as Englishmen until just before the Revolution. Many had come here from England; they shared their institutions and their history with England. But liberty attained a purer form here than in the mother country, for England was bogged down in the remnants of feudalism. So, let's focus on the free society as it took shape in America, and nowhere else on the planet.

The American idea of government was unique. Trace the history of political institutions as far back as you wish; every one is based on the phi-

losopher-king idea. It was Plato who pinned this label on the universally accepted belief that "cities would never have rest from their evils" until they found some man who possessed the wisdom of a philosopher and at the same time wielded absolute power. The philosopher, as Plato uses the term, might be defined as a very smart fellow who really does know what is good for us. Trouble is, we ignore the philosopher; we don't want to know what is good for us; or, if we do know we are too lazy or too wicked to live the life that is good for us. What's the answer?

Simple! Find the man who embodies the ultimate in wisdom and goodness. Then vest this man with all the power he needs to extend his benevolence, as dictated by his wisdom. He will then use his power to force us to be free; he will make us good—at which point we'll have our heaven on earth.

The people we refer to as our Founding Fathers took just the opposite tack. They threw out the philosopher-king idea, lock, stock and barrel. They rejected altogether those who advised: "Increase the powers of government in order to magnify its capacity to do good." Believing that authoritarian politics is intrinsically evil, they said: "Limit the powers of government drastically, by the rule of law, so that those who rule will have no opportunity to do evil." This was the unique political for-

mula which took root on our shores. My own thumbnail formulation of this point is: "Never advocate any more power for your best friends than you would be willing to see wielded by your worst enemies."

The Containment of Power

The critical issue here is the containment of power. Each person should be regarded as an end in himself, and in a truly free society individual autonomy is respected. But in a power situation people are reduced to a mere means to serve the ends of others. The philosopher-king idea of unlimited power to run the lives of others is based upon a profound distrust of the ability of people to run their own lives. People must be made to feel little before governments can grow big. As the power of government increases the power in the people diminishes.

Now, it may be true that a lot of people exercise but little wisdom in running their own lives, but it is a *non sequitur* to deduce from this that A's situation will be improved if B runs A's life for him against A's will! We know that this cannot work because it violates the basic law of life, a law as fundamental in human affairs as the law of gravity in Newtonian physics: *Each person is in control of his own life*, and if he doesn't take charge of himself no one can assume this responsibility for him.

The original American idea was based upon the profound conviction that people really *do* have the latent talents and abilities which, properly schooled and utilized, enable each person to take charge of his own life and accept responsibility for his actions; each person has within him the necessary ingredients for living a truly human life of growth, fulfillment and joy. The potential for life of this quality is built into human nature itself as an original endowment. What we do or fail to do with that original endowment is up to the individual man or woman, and only a free society provides the maximum opportunity for the fullest attainment of what we have it in us to become.

Before people accept a caretaker government they must be convinced that they can't take care of themselves; independence, resourcefulness, self-reliance, fortitude, endurance, hardihood, and similar personal qualities must be programmed out of them. Our 18th-century forebears possessed these and other traits of character which enabled them to stand on their own two feet; so they conceived a government that would keep the peace and otherwise let people alone to run their own affairs.

What was the source of their beliefs about themselves; where did their ideas about life come from? We know from the books they read that

the Greek literature of the classical age was familiar to them. In Latin literature and in the history of Rome they saw their own situation as in a mirror. And even those who were comparatively unlettered were steeped in the Old and New Testaments. It has often been observed that the Western intellectual and spiritual heritage is a triple cord woven of ideas and a vision of the good life derived from Athens, Rome, and The Bible.

On Becoming Human

The human nature we are born with is raw material; it's the elemental stuff each of us works with toward the achievement of adulthood and maturity. Very few people realize their potential fully, but the degree of our attainment depends on the ideas we have as to what it means to be a human being. If we believe ourselves to be helpless pawns in the grip of fate we will be less effective personalities than if we believe ourselves masters of our own destiny. If we blame childhood poverty, or parents who didn't understand us, or the wrong crowd, or an uncaring society, or our glands, or whatever, for our personal shortcomings we will never strive to convert our minuses into pluses.

No person reaches his full stature of humanity unless he maintains a lively contact with a set of ideas as to what it means to be a person, ideas


we have absorbed from our cultural heritage. And it is a fact that great numbers of people in this favored land of ours no longer believe in the ideas that made Western civilization unique. What are some of these ideas?

Our forebears learned from their educational sources that we live in a purposeful universe in which human beings are the most meaningful representation of a mighty cosmic design. They believed that we are created beings, not mere chance collocations of atoms. As embodiments of the Divine Creativity we are gifted with reason and free will. By the exercise of right reason we can think God's thoughts after Him and thus gain precious nuggets of truth. And by the exercise of free will, we can overcome environmental handicaps and become responsible beings. They believed that it is within the power of every person to fashion his own character, and that he has a moral obligation to do just that.

Our forebears believed in the moral law. They knew that the very existence of a free society presupposes that most people most of the time will not murder or assault or steal; they will keep their word, fulfill their contracts, tell the truth, lend a hand to a neighbor. These moral impera-

tives were believed to be expressions of the will of God.

Every human being has a unique role to play in the Divine Plan, and because of this, each private life is lived within a sacred precinct. Acknowledging the inviolability of this personal domain, the Declaration speaks of rights endowed by The Creator which governments are morally bound to respect. Given the premise of individual rights it follows that the primary responsibility of the law is to secure the rights of every man, woman and child.

It was upon a foundation of these basic ideas about the unique sacredness of human life, the efficacy of reason, the reality of free will, the moral law, and the inviolable rights of persons that the solid citizenry of the 18th century structured the free society—with the free market as its economic corollary. We have carelessly allowed this precious heritage to dribble away, but the hunger for freedom has not been lost; it will *never* be lost, for it is born anew with every child who comes into the world. The recovery of our heritage of liberty may exact a cost in blood, sweat and tears; but of one thing I am certain—when we want freedom desperately enough, nothing will stop us from getting it. 

* * *

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The Entrepreneur — Death and Resurrection

GUESS who's making a comeback in college classrooms on economics.

The entrepreneur.

Traditionally economists identified four factors of production: land, labor, capital and—thanks largely to Jean-Baptiste Say, an early 19th-century disciple of Adam Smith—the entrepreneur. Then, along about the late 1950s, entrepreneurless “resource allocation” or three-factor production became more and more the vogue—land, labor and capital. And even, here and there, two-factor production—labor and capital.

So a lot of college students have been given a presentation of *Hamlet* without the Prince of Denmark—pretty much left in the dark as to just how firms come into and stay in being. Or how firms die. They just do, maybe by osmosis, maybe by legerdemain, but, whatever, that is that. Paul Samuelson, for example, follows the three-factor pattern in his widely used text, *Economics* (though in his 10th edition he at least rec-

ognized that entrepreneurs could be “innovators” and that they could perform a limited function in developing countries).

But here of late quite a few textbooks—*Economics: Private and Public Choice* by James Gwartney and Richard Stroup, for instance—are putting the entrepreneur firmly back into the production picture. Moreover, some 150 of our 1,200 business schools now provide courses or research facilities on entrepreneurship. Baylor University, for example, has set up a Center for Private Enterprise and Entrepreneurship which has already produced an encyclopedia on entrepreneurship. Babson College in Wellesley, Massachusetts has established an Academy of Distinguished Entrepreneurs which has brought to its lecture platform such hands-on entrepreneurs as Ray Kroc, chairman of McDonald's until his death last January; Soichiro Honda, founder of Honda Motor; and Royal Little, former chairman of Textron.

In 1981–82 the late Jules Backman, a New York University research economist who applauded this

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rebirth of the entrepreneur, organized a conference to reaffirm the critical role of entrepreneurship in a free society.¹ Dr. Backman set the tone by defining the entrepreneur as the indispensable enterpriser, initiator, risk-taker, strategist, coordinator, innovator and decision-making leader of a business, the fellow who decides what to produce and how to produce it, who is ultimately responsible for the success or failure of the firm. Though, Dr. Backman conceded, it is sometimes difficult to identify this or that individual as the entrepreneur in a large firm, "the function, nevertheless, is an essential element in the production process."

Dr. Backman blamed the two-decade demise of the entrepreneur on the dubious perceptions that large corporations are autonomous and perpetual, and that the separation of corporate ownership and management somehow negates the role of entrepreneurship. Too, he held Keynesian economics dwells on demand management, a distinctly macro concept, and thereby submerges the individualistic supply or entrepreneurial side of the economy.

Still, as noted, in recent years the pendulum is swinging back toward

recognition of the entrepreneur. Why? I speculate that lagging productivity and economic growth in the 1970s called for new answers—or, in a sense, old answers. Moreover, even during the Carter administration Congress belatedly, if anything but completely, reached the conclusion that overregulation of industry and high marginal capital gains and income tax rates were entrepreneurial drags on undertaking new projects. And along came supply-side economics, with George Gilder, among others, hailing the "heroic creativity of entrepreneurs."

Economist William Baumol, a participant in the Backman conference and a former president of the American Economic Association, sees entrepreneurs as necessary but not always as heroic or creative. Sometimes they are rather two-faced free enterprisers, especially when they launch a private antitrust suit against another firm as a means of evading painful competition, or when they inveigle the government into protectionist measures. When, for example, the ICC undertook to deregulate trucking, the howls of pain by the Teamsters Union were matched by those of the owners of the regulated trucking companies. So, too, did the "entrepreneurial" efforts of sagging Lockheed and Chrysler lead to bail-outs by Uncle Sam.

Accordingly Dr. Baumol censures

¹Conference proceedings are available in *Entrepreneurship and the Outlook for America* edited by Jules Backman (New York: Free Press-Macmillan, 192 pages, \$12.95, 1983).

doublespeak in entrepreneurs and businessmen who sing paeans of praise to competition but then condemn particular competitive practices as "cream-skimming," "predatory pricing," "dumping" or "unfair competition."

Conference participant Moses Shapiro, executive committee chairman and former C.E.O. and self-described "practicing entrepreneur" of General Instrument Corporation, makes the point that the existence of the modern firm and consensual management in no way obviates the crucial need for the entrepreneur (who is frequently manifested in the corporation's C.E.O.). He maintains that without ongoing and effective entrepreneurship a corporation suffers hardening of the arteries and loss of vision as well as loss of market. Change—frequently dramatic and sweeping change—is the order of the day, says Shapiro, and the future of a business lies in its entrepreneurial ability to capitalize on dynamism and manage change, to adapt and innovate successfully.

Economist Israel Kirzner, another participant in the Backman conference and a student of Ludwig von Mises, likes the stress on dynamism and innovation but argues entrepreneurship is more than that. He says it is an entrepreneurially directed information system seeking profit opportunities and ever tending to work on behalf of the consumer. He

argues that at any given time market responses are likely to be less than fully coordinated (in economic jargon, in a state of relative disequilibrium). What the entrepreneur has to see, and see correctly and most skillfully, is information on faulty or incomplete market responses, on gaps somewhere along the line in the current and most variegated networks of technology, production, finance or marketing, industry by industry, location by location. Then, with no little risk, he has to discover or "create" entirely new information on just how to fill those gaps—or, more likely, gap—and thereby better satisfy consumer choices.

The stress on the consumer is vital to understanding entrepreneurship. Entrepreneurship is a market response—a response to the consumer. Israel Kirzner, in contrast to John Kenneth Galbraith and Ralph Nader, reminds us that the market system is a loss as well as a profit system, that the consumer is sovereign, wielding the all-powerful power of the purse, and thereby making the entrepreneur his agent and underling. If the entrepreneur acting on information is right, the consumer rewards him with profits. If he is wrong, the consumer punishes him with losses. And if he is repeatedly wrong, King Consumer applies the coup de grâce—relegates the entrepreneur to a business mortality statistic. Long live the King. ☉



Socialists Argue About Labor Unions

THERE is a vast literature on the labor movement. Classical writers in the tradition of Adam Smith, first made an issue of "labor's disadvantage"; the socialists developed their "exploitation theories." In substance both doctrines are closely related although they may differ in form and appearance. The classical economists put it much more kindly when they spoke of "labor's disadvantage"; the socialists bluntly called it "exploitation." The classical doctrine undoubtedly gave life to the socialist theory; but later in the century the latter gave comfort and support to the former. Many writers

who for various reasons hesitated to proclaim the exploitation theory, felt encouraged to espouse the milder theory of employers' advantage and labor's disadvantage.

The exploitation theory is one of the most portentous economic theories ever devised. It gave birth to modern socialism and stood at the cradle of many trade unions. Above all, it constitutes the focal point of the fateful issue on how human society shall be organized. It affirms that all economic goods are the product of human labor. But the workers do not receive the entire product of their efforts; a part goes to lenders and capitalists and yet another may go to entrepreneurs. As employers, they use the institution of private property and the contract

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system to seize a share that is produced by the workers. Employers exploit the situation that forces the workers by want and hunger to submit to exploitation. As a conscious and integrated doctrine this explanation was the logical sequel of the labor theory of value according to which labor is the origin and the source of the value of goods. In particular, Adam Smith's and especially David Ricardo's theories of value furnished the theoretical foundation on which the socialists could erect their exploitation doctrines.¹

At first glance labor unions may appear to be the most obvious institution to offer instant relief from exploitation and labor's disadvantage. They may engage in collective bargaining, call strikes, and use other force in order to alleviate or even prevent the exploitation. Or, at least, they may voice loud protests against injustice throughout the whole field of labor relations.

While the champions of unionism readily draw such conclusions, many socialists press for different solutions. They usually demand a radical restructuring of the system of economic and social organization along socialistic lines. Some appeal to government for legislation and regulation that would reform the system or replace it with a particular brand of command order. Others would want to reform man through

education and information so that he may aspire to a "higher order" of socialism and communism. Karl Marx and his followers were convinced that the private property system in time would give way to a socialistic order. They all disapproved of workmen's combinations for being ineffective or even harmful to working people. In their view, the interests of unionists are basically antagonistic to those of the laboring classes.

The Socialist View of Unions as Opposed to Other Workers

The founder of all modern schools and branches of socialism, William Thompson (1775-1833), was an ardent critic of unionism. Other socialists, Saint-Simon, Proudhon, Rodbertus and Marx, borrowed heavily from this Irish writer. Robert Owen, the British industrialist and reformer, admired and befriended him. Thompson postulated that labor produces all value in exchange, and that all the product of labor should belong to laborers. But they merely get a bare subsistence remuneration, the balance of the product going to land and capital. And yet, he opposed labor unions which to him were "aristocracies of industry."

Unionism, according to this early champion of socialism, "depends on mere force and would not allow other workers to come into the market at any price." "It matters not, whether

that force . . . be the gift of law or whether it be assumed by the tradesmen in spite of the law; it is equally mere force." Union force together with government regulation manage "to keep up the remuneration of the few within the circle of the combination." Their gains are always "at the expense of the equal right of the industrious to acquire skill and to exchange their labour where and how they may."²

Whatever Thompson's view of economic life may have been, it did not dull his understanding of the coercive nature of unionism. During the 1820s, when he wrote those lines, governments were still guided by the idea that they should protect employers and their property against the onslaught of strikers. They still were doing their duty in protecting life and property. Since then governments in nonsocialistic countries gradually conceded to unions the right to resort to brute force. Under the influence of changing public opinion they permitted labor unions to prevent anybody from defying union orders concerning wage rates and other working conditions.

Unionists are practically free now to inflict bodily harm on strikebreakers and businessmen who employ strikebreakers. They are free to destroy their property and even harm customers who patronize those businesses. The police will not arrest the offenders, the state attorneys will not

prosecute, and the courts will not pass judgment on such union actions. While the lawlessness in labor relations may inflict serious losses on employers, it primarily hurts the interests of fellow workers and the public consisting mainly of workers. As in the times of William Thompson, union gains are still "at the expense of the equal right of the industrious."³

Unions Obstruct the Forces of History

Of all the socialistic leaders of the 19th century no one was more influential than Karl Marx (1818–1883). His chief work *Das Kapital* (1867) continues to be the classic of socialistic thought and the leading source from which the socialists of the world draw their knowledge. He created a militant, destructionist body of doctrine that meant to pull down or destroy the private property order.

To trade unions, Marx assigned the foremost task of leading the fight against capitalism. But he insisted that unions alone offer no hope whatever for improving labor conditions and raising wage rates. In Marx' own words: "In place of the conservative motto: 'A just day's wage for a just day's work' they ought to print on their banners, 'Abolition of the wage system.' They generally miss their aim because they limit themselves to carrying on a guerilla war against the consequences of the

present system, instead of working at the same time for the transformation and employing their organized power as a lever for the final emancipation of the working classes; that is, for the final abolition of the wage system."⁴

Karl Marx was no stranger to the fact that trade unions usually benefit some workers at the expense of others. Strikes, violence and sabotage cannot improve the economic conditions of all, but are capable of causing havoc in economic production and inflicting serious losses not only on employers but also on other workers. Wherever unions succeed in raising labor costs through higher wages, costly benefits, or hampering work rules, they cause total output to decline or, at least, remain smaller than it otherwise would have been. To Karl Marx such effects merely delay the coming of socialism, which springs from the exploitation of labor. Unions must not resist the forces of history that demand that the masses of people will be employed and exploited by a small number of capitalists. These cannot consume the surplus production, but are led to reinvest their gains in facilities of production, thus further increasing output. The laboring class is weighed down further by an "industrial reserve army" of unemployed who provide poor markets because of lack of purchasing power. When the business crises become increasingly se-

vere, the labor class will rise, cast off their chains, and seize control of the state—the exploited will expropriate their expropriators.⁵

Consider the Facts

The emptiness and spuriousness of these doctrines are visible to everyone not blinded by Marxian sophistry. The essential point made by Marx and all other socialists is the exploitation and impoverishment of the working people in capitalistic countries. But it is an indisputable fact that the workers' levels of living are highest by far in countries with private property in the means of production, and most wretched where the system has never been tried.

In a world ranking of workers' income, there probably is a directly proportional relationship between income and the application of capitalism. The U.S. has the longest tradition of adherence to the private property order; its working people are enjoying the highest standards of living. The backward countries of Africa and Asia have remained unaffected by the spirit and the ways of capitalism; their masses linger in poverty and despair. Neither labor unions nor labor laws can alter this basic relationship.

Wherever the disciples of Marx come to power they immediately abolish labor unions in their traditional form. In the Soviet Union, which is the ready model of all

Marxian systems, unions are just another "driving belt" that makes the workers meet their production quotas. They do not represent the interests of working people, but are obedient instruments in the hand of party and state. There is no room for independent unions in the Marxian command system. Wherever they should rear their heads, imitating the labor organizations of capitalistic countries, they are crushed without delay. The Solidarity movement of Poland is a recent example.⁶ But this Marxian principle and public policy does not prevent the leaders of the system from encouraging, promoting and supporting the most destructive labor unions in the West. After all, Karl Marx assigned the task of leading the fight against the private property order, against capitalism, to the unions.

The Base of a New Order

The exploitation theory, which gave birth to modern socialism, may also be interpreted as a mandate to unionism. If labor is actually exploited, labor organizations may offer relief from exploitation through collective bargaining and other devices. This is why so many ardent socialists always have been the faithful friends of unions, and most unionists the eager disciples of socialism.

In England and France some elements of socialism friendly to union-

ism were discernible throughout the 19th century. One of the early socialists, Robert Owen (1771-1858), began to influence social thought as owner and manager of the cotton mills of New Lanark, Scotland. His mills became a showplace of enlightened management and philanthropy, which aimed at introducing "new principles in the conduct of the people." Owen rejected the competitive private property order in which "one man's gain" is "another man's loss," and urged the introduction of a cooperative order with a healthy and happy environment. He favored "villages of co-operation" where production would proceed without the profit motive. The villages were to be both a necessary remedy for unemployment and a contribution to "social regeneration."

When Owen failed to convince the British public of the wisdom and practicability of his plans he left Britain for the United States in 1824. At New Harmony, Indiana, he established a system of communal living in order to realize "the new moral world." When the venture failed, swallowing up most of his fortune, he returned to Britain, developed a secular religion, and, in 1839, constructed a new community at Harmony Hall, in Hampshire, England.⁷

Owen's greatest dream was a "Grand National Moral Union of the Productive Classes," which was a

pyramid of producers' cooperatives with trade unions at the base.⁸ He probably reached the high point in popularity when, in 1833, the Grand National Consolidated Trades Union was formed. It soon had over half a million members.

Robert Owen, like so many other socialists before and after him, fell prey to the inveterate fallacy that things and services exchanged should be of equal value. The error blocked and misled economic analysis for more than 2000 years since Aristotle first uttered it. If it were true, "one man's gain" would indeed be "one man's loss." But in reality only disparities in the value attached to economic goods lead to exchange. Things and services are traded because people attach a greater value to the goods they receive than to those they give in exchange. Both parties profit from a voluntary exchange; "one man's gain" is also "another man's gain."

Owen's life-long ambition to create workers' cooperatives probably sprang from his incapacity to understand the nature of trade and commerce. It led him to a predilection for a return to simpler modes of production, in a self-sufficient community. His *New Harmony* in Indiana was just the first installment toward his Utopia. It fared ill from the beginning because it misread human action and sought to return to the economic ways of primitive times.

The Chartist movement, which was most active between 1838 and 1850, depended much on Owenite ideals. It asked only for political changes. But many supporters expected these to be the keys to economic and social changes. Political representation of the poor, especially industrial laborers, was expected to lead to government measures and policies favoring these groups. The movement depended for encouragement and support on trade unions, which in turn savored the loud acclaim by the Chartists.⁹

The Intellectuals' Liaison with Labor

The Fabian Society, founded in 1884 and active ever since, is desirous of a similar relationship with labor. It attracts the intelligentsia of the labor movement, and provides it with opportunities for expression and discussion. In time, its membership exceeded 5,000, some of whom are the political and social leaders of Britain. The principal activity of the society is the promotion of socialism by means of meetings, conferences, seminars, summer schools, by conducting research and publishing books, pamphlets and periodicals.

But it is rather awkward for this tiny class of British intellectuals to wax eloquently on the needs of the working class and speak convincingly on its deliverance from capitalism if few, if any, members are or

ever have been members of the working class. How convincing are Fabian asseverations and protestations coming from the mouths of intellectuals who know of working people only through their servants? To bridge the credibility gap, Fabians need to associate with the agents and spokesmen of labor and invite a few to join their elitist society. Supportive of trade unions and affiliated with the Labour Party, they may wax about the needed "reconstruction of society in accordance with the highest moral possibilities."¹⁰

Fabians promote a gradual introduction of socialism, rejecting the revolutionary, political action approach to proletarian power as advocated by Karl Marx. They prefer John Stuart Mill and Stanley Jevons to Karl Marx, and regard the state as a political machine to be captured and used for the promotion of social equality and economic transfer.

Fabians generally lack the Marxian commitment to ruthless implementation of a socialist command order. And yet, wherever they come to power they are tempted to curtail the destructive powers of labor unions. But they must be ever mindful of the fact that the votes of organized labor constitute the socialistic political power base. To question this base and oppose its leaders, or impugn the legal privileges and immunities of unions, is to invite

political disaster to socialistic administrations. Therefore, they seem to have no choice but to cater to union leaders and accede to their demands.

To appease them and secure the peaceful cooperation of the unions, Fabian administrations may offer labor leaders important positions in government. Union officials may staff the department of labor, the labor relations boards, and other offices important to unions. Fabian governments may offer more permanent privileges in exchange for temporary union restraint and cooperation. Senior union officials approaching retirement age may count on appointments to ambassadorships in important foreign countries, or be granted prizes and titles that confer personal honor and prestige. In short, Fabian administrations seek to befriend union leaders rather than confront them. They proceed with socialistic prudence, which is conformity to the rules of unionism.

Ramparts Against Competition

Over the years the Society included such well-known persons as Beatrice and Sidney Webb, Graham Wallas, Ramsay MacDonald, George Bernard Shaw, and many others. It is difficult to appraise their positions on trade unions, which may rest on different doctrines and theories. But it is most appropriate to cite

Sidney and Beatrice Webb who cemented the Society-union relationship with their voluminous writings on the history of trade unions. They devoted six years' investigation to the task of giving a scientific analysis to trade unions in Britain. In the *History of Trade Unionism*, published in 1894, they traced the origin and growth of the union movement. Three years later they added *Industrial Democracy*, which deals with the structure and functions of trade unions. Both volumes reveal the spirit and method of "Historical Economics" that painstakingly presents voluminous data on places, people and events, but carefully avoids causal explanations. The authors venture into the domain of explanation, which they call "economic generalization and abstract theory" only in the last part of *Industrial Democracy*.¹¹

Both volumes build on a particular version of the exploitation theory and arrive at a powerful advocacy of unionism. They do not charge the impairment of competition for "the tendency of wages to fall to a minimum," as some eminent economists had done, nor do they, in a Malthusian fashion, lay the blame on the reproductive powers of man. They blame competition itself for a presumed tendency for wage rates to fall to exploitation levels.

The isolated workman, unprotected by anything like a trade union,

always gets the worst of the bargain. He is too poor to wait, too ignorant about market conditions to bargain intelligently. "The capitalist employer will take full advantage of his strategic strength, and beat each class of wage-earners down to the lowest possible terms." Even an intelligent, far-sighted, and public-spirited employer is not master of the situation; "he is constantly finding himself as powerless as the workman to withstand the pressure of competitive industry . . . This competitive pressure pushes him in sheer self-defense, to take as much advantage of his work-people as the most grasping and short-sighted of his rivals."¹² The manufacturer is "squeezed" by the wholesaler who is "squeezed" by the shopkeeper who is pressured by the consumer who applies a "persistent pressure on sellers, which, transmitted through the long chain of bargainings, finally crushes the isolated workman at the base of the pyramid."¹³

The Role of Competition

The Webbs unfortunately never grasped the meaning and functions of competition in the market order. Where they saw antagonism about incompatible interests, there actually is a drive for excellence and pre-eminence in cooperation and want satisfaction. Competition assigns to every member of society that position in which he can best serve

all other members. It selects the most able man who is willing to perform a given task. Competition is no fight that creates victors and vanquished. It forces sellers to outdo one another by offering better and cheaper goods and services, and forces buyers to outdo one another by offering higher prices.

If the Webbs had analyzed both sides of the exchange, they might have arrived at quite different conclusions. They looked at the one-sided competition of the sellers of labor outdoing each other by offering their labor at lower and lower prices, until they are "crushed at the base of the pyramid." They completely ignored the competition by the buyers of labor to outdo one another by offering ever higher wages. If they had looked at the buyers only, they would have foreseen a crushing of isolated employers "at the base of the pyramid." Perhaps they would have seen an urgent need for "employers' organizations and associations" to avert the disaster.

Both Sides Benefit

In reality, competition is both-sided, assigning to every worker an income that reflects his contribution to the production process. If, for any reason, an employer should offer more than a laborer should contribute, he would suffer losses. If he should offer less, leaving a profit margin from the employment of par-

ticular labor, he himself and other competing employers would want to employ additional labor, which would raise wage rates again to the very margin of productivity. In short, in the competitive market order every worker tends to earn a wage that corresponds to the value of his contribution to the production process.

The crude exploitation doctrine resting on a misinterpretation of competition led Sidney and Beatrice Webb to hail trade unions and labor legislation enforcing a "common rule" of wage rates and working conditions and preventing "industrial parasitism," as the guardians of decency and prosperity. Nevertheless, they revealed a remarkable understanding of the potential dangers of trade unions in the form of mass unemployment. They recommended a rule for union conduct that would, if it were ever observed, alleviate most of the known union evils.

The Webbs were careful not to place the blame for stagnation and unemployment on trade unions. But they did not hesitate to warn against excessive rises in labor costs. "It will not pay them," they cautioned, "to obtain a rise of wages, a shortening of hours, or improved conditions of sanitation or safety at the cost of diminishing their own continuity of employment. To put it concretely, whenever the percentage of the unemployed in a particular industry begins to rise from the 3 or 5 per

cent characteristic of 'good trade,' to the 10, 15, or even 25 per cent experienced in 'bad trade,' there must be a pause in the operatives' advance movement." Only if there are no restrictions on the number of workers entering the occupation, and all union members are fully employed, should there be any further advance in wage rates and other labor costs.¹⁴

This is cogent economic reasoning. But trade unions throughout the nonsocialistic world steadfastly ignore it. They make their demands for "more" and "more" although half their members may be on the unemployment roll. This percentage would be larger yet if all willing workers held at bay by union rules and picket violence would be added to the jobless rate.

A Source For Social Justice

Many practical reforms can be traced to the work of Fabians; but the Webb warnings about unionism remained rather unheeded, especially in Britain. Much of the impact of Fabianism has been through the dissemination of Fabian ideas among teachers, civil servants, politicians, and trade union officials. In the United States the work of the Society is felt in colleges and universities where it has touched two generations of educated Americans. In American politics the socialists would not be tutored or guided by the Fabian intelligentsia.

For several decades Norman M. Thomas (1884–1968) was the undisputed political leader of American socialism. He was a candidate for governor of New York once, ran twice for mayor of New York City, and ran for president of the United States in every election from 1928 to 1948. He lauded "the labor movement as the single potential source for social justice in American society," offering "important immediate amelioration" to the problems of automation and unemployment.¹⁵ To Fabian socialists, trade unions are a potential cause for stagnation and unemployment; to Norman Thomas and his followers unions promise hope and relief from unemployment. To Thomas automation was the root of all evil; unfortunately he did not explain why the problems of automation are felt most painfully in unionized industries.

Norman Thomas was a political socialist searching for political solutions. He called upon unionists to join him in the political battle, forsaking all efforts at labor-management cooperation. "The problems faced by the unions are national in scope and require democratic social planning if they are to be solved."¹⁶ All roads to social justice in socialism lead to Washington.

It is disheartening that after more than two hundred years of economic thought and teaching, some people continue to view "automation" as the

root of all evil. They steadfastly refuse to see that "automation" merely is another label for production with better equipment. It makes human labor more productive, raises wage rates, and affords more comfort and leisure. As it raises labor productivity it actually increases the demand for labor and creates more employment. Efficient tools and equipment are common blessings to Americans; they are so common indeed that men forget to appreciate them and pay their praises. ⊕

—FOOTNOTES—

¹Adam Smith, *The Wealth of Nations*, 1776 (New York: The Modern Library, 1937), Book I, Chapter V, p. 30 *et seq.*; David Ricardo, *The Principles of Political Economy and Taxation*, 1820 (New York: Dutton, Everyman's Library, 1973), Chapter I.

²*Labour Rewarded: The Claims of Labour and Capital Conciliated; Or, How to Secure to Labour the Whole Products of its Exertions* (London: Hunt-Clarke, 1827), p. 75.

³*Ibid.*, pp. 76–77.

⁴*Value, Price and Profit*, ed. Eleanor Marx Aveling (Chicago: Charles H. Kerr & Co., 1910), pp. 126–128.

⁵Cf. also *Capital*, 1867 (London: Lawrence and Wishart Ltd., 1959), Vol. I, Part VII, Chapter XXV.

⁶Cf. Hans F. Sennholz, "Tensions in Poland," *The Freeman*, May 1981, pp. 259–271.

⁷Lloyd Jones, *The Life, Times, and Labours of Robert Owen*, 1890, (New York: Charles Scribner's Sons, 1919); Frank Podmore, *Robert*

Owen (New York: D. Appleton & Co., 1924); William Lucas Sargant, *Robert Owen and His Social Philosophy* (London: Smith, Elder & Co. 1860); J. F. C. Harrison, *Quest for the New Moral World* (New York: Charles Scribner's Sons, 1969).

⁸*Lectures on an Entire New State of Society* (London: Strange, 1830); Cf. also *A New View of Society, and Other Writings*, 1813–1821 (New York: Dutton, 1927). Cf. William Lucas Sargant, *ibid.*, pp. 325, 326.

⁹Ernest Charles Jones, *Selections From the Writings and Speeches of Ernest Jones*, ed. by John Saville (London: Lawrence & Wishart, 1952); Thomas Carlyle, *Chartism* (London: J. Fraser, 1840); Julius West, *A History of the Chartist Movement* (London: Constable & Co., 1920).

¹⁰*Fabian Tracts*, Nos. 1 to 133, London: The Fabian Society, 1907; M. Margaret P. McCarran, *Fabianism in the Political Life of Britain, 1919–1931* (Chicago: The Heritage Foundation, Inc., 1954); A. M. McBriar, *Fabian Socialism and English Politics, 1884–1918* (Cambridge: University Press, 1962); Anne Fremantle, *This Little Band of Prophets* (New York: The Macmillan Co., 1960); G. D. H. Cole, *Fabian Socialism* (London: George Allen & Unwin, 1943); Margaret Cole, *Beatrice Webb* (New York: Harcourt, Brace & Co., 1946), also *The Story of Fabian Socialism* (Stanford: Stanford University Press), 1961.

¹¹*The History of Trade Unionism*, 1894 (London: Chiswick Press, 1911); *Industrial Democracy* (1897), printed by the Authors For the Trade Unionists of the United Kingdom, 1913.

¹²*Industrial Democracy*, *ibid.*, p. 662.

¹³*Ibid.*, p. 671.

¹⁴*Ibid.*, p. 739.

¹⁵*Socialism Re-examined* (New York: W. W. Norton & Co., 1963), p. 248; also *The Choice Before Us* (New York: Macmillan, 1934).

¹⁶*Socialism Re-examined*, p. 247.



THE ROLE OF THE AMERICAN POLITICAL PARTY SYSTEM

THE Constitution of the United States of America nowhere mentions political parties or otherwise indicates their utilization in the American system of government.

But political parties are instrumental in moving that governmental system, which derives nationally from the emergence of the Federalist and Anti-Federalist parties, respectively in support of and against ratification of the Constitution. And that governmental system could not operate according to its past and present character without political parties. For that governmental system is one that political scientists term *party government*.

The matter becomes more comprehensible when we distinguish

between the *form* and the *character* of the American system of government. The *written Constitution* provides that, "The United States shall guarantee to every state in this Union a *republican form of government*" (Article IV, Section 4, emphasis added). But the *unwritten constitution* that supplements our written Constitution provides a *democratic character* to the American system of government, and it does so by the manner in which American political parties operate and the functions they perform.

Democracy and Republic Explained

We may note at this point, therefore, that American constitutionalism consists in faithful adherence to both our written Constitution and to a traditional set of principles and practices, some of which were already in place and some of which de-

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veloped after ratification to implement the Constitution. We may note here, also, that this American system of constitutional government has evolved as a *democratic republic*, and that most Americans do not understand precisely the meaning of these two terms and how they may be found either in combination or one without the other.

The meaning of democracy is better understood by Americans, thanks in good part to Abraham Lincoln's popularization of the phrase "government of the people, by the people and for the people" and Thomas Jefferson's dictum that "governments are instituted among men, deriving their just powers from the consent of the governed." Their dictionaries tell them, clearly and correctly, that democracy is "government by the people," and they are generally aware that this requires both majority (or plurality) rule and its limitation by minority and individual rights.

Unfortunately, there is not sufficient comprehension among Americans of the meaning of a republic, and so we sometimes hear the erroneous pronouncement that "we are a republic and not a democracy." The truth is that we are both a republic and a democracy.

But what is a republic? Very simply, a republic is a form of government not headed by a king and where a public office cannot be inherited or owned. Under a *res publica* (a thing

of the people), the government, its land, and its property belong to the people; whereas under ancient forms of absolute despotism, the people, the government, and the nation's territory and property all belonged to the ruler.

In the eighteenth century, a republic was usually thought of as a representative form of government with a legislature elected by qualified male citizens. In the twentieth century, a republic is sometimes *democratic* (as in the United States of America, France, Ireland, Israel, and Italy); sometimes *communist* (as in the Union of Soviet Socialist Republics, People's Socialist Republic of Albania, People's Republic of China, Socialist Republic of Vietnam, and Socialist Federal Republic of Yugoslavia); and sometimes *fascist* (as in the Third Reich of Nazi Germany under Adolf Hitler, the Fascist Republic of Italy proclaimed by Benito Mussolini in 1943, the falangist State of Spain under Generalissimo Francisco Franco, and many of the dictatorships of Latin America). Thus, a republican form of government neither precludes nor entails democracy.

Limited, Constitutional Government

Under a governmental system that is characterized by constitutionalism and democracy—be it a republic such as the United States of Amer-

ica or even a monarchy such as the United Kingdom, Denmark, the Netherlands, Norway, or Sweden—an essential feature is that the authority and processes of government are limited by constitutional provisions, tradition, institutional practices, and various groups.

Among these counteracting groups are such different organized and unorganized types as are brought to mind when we mention the media, political parties, civic-action associations, labor, industry, agriculture, religion, education, and the scientific community. Where permitted to operate, they all serve as counterweights that limit government by tending to restrain it from acting harmfully to them and to constrain it to act beneficially to them.

Free media are leading performers of such a dual negative-watchdog and positive-creative role in an open society. Free political parties are quite similar to free media in that both are initiators and communicators of proposals: they make proposals and recommendations or accept them to broadcast to the public and call to the attention of government. As is also the case with our free enterprise economy, they are free because they are not, in general, operated by government or unduly subject to its control.

Political parties play an additional role in maintaining democratic, constitutional government,

however, in that they are involved in effective action as well as discussion: they are at "the cutting edge" of enactment into law and execution of policy. Thus, under a genuine democracy—which must be differentiated from many a so-called "people's democracy"—political parties are indispensable to its functioning and the preservation of its nature.

Observe the use of the plural here—political parties—for where only one political party is permitted, there is neither constitutionalism nor democracy. There may be a republic, but it will certainly be a case of authoritarian pseudo-constitutionalism and pseudo-democracy if it be a one-party system of government. Authentic constitutionalism and authentic democracy require that there be an adversary system of political parties that operate freely in the interest of the public, their members, and their clients, but not a party that is a controlled instrument of the government.

Fewer Party Jobs and Favors

In the past, American political parties were customarily looked to for jobs and favors by the party faithful and contributors. Because of the development of a merit system for the civil service that is based largely on competitive examination and the dispensation of welfare and unemployment benefits by government agencies instead of by party

bosses, many who formerly clung to the party and tried to keep in its good graces now look directly to government for such help and ignore party channels. As a result, party control over its adherents has greatly lessened, and its influence in neighborhoods has also gone down as community-action and civic-improvement groups have stepped up their activities. In addition, party discipline over legislative members has obviously decreased: today's legislative party leaders often cannot "whip into line" the increasingly independent-minded representatives of the people who may be enrolled in the same party. But those seeking to advance their interests still make substantial contributions to political candidates, parties, and action committees, especially in this time of super-expensive television campaigns.

Nonetheless, the system of party government prevails and flourishes in America: one party is usually in control of government at the Federal, state, or local level and often of both its executive and legislative branches. In modern national states where limited, constitutional government is practiced, there is either similar control by one party or control by a coalition of parties, which is simply an alternative model of party government. In both cases the central idea of party government is represented: control and direction of

the government through the agency of political parties.

Two-Party System Workability

Although complaints are heard that the American two-party system is too narrow in its representation of the electorate, a number of important points in its favor may be listed. It is less confusing to the voter. It makes it easier to arrive at a legislative working majority and decisions instead of having intra-house stalemate. The two major parties make overlapping appeals to the same middle-of-the-road largest section of the electorate; therefore the two-party system neither leads to polarization and eventual head-on conflict of political segments nor to disturbing, extreme alteration of governmental policies and behavior when the opposition is voted in. The average citizen usually finds himself in agreement on enough items with either victor and not sufficiently threatened to become subversive or violent. Also, he knows the time of the next election that will give him an opportunity to vote for a change of results.

The two-party system in America therefore undeniably produces desiderata of the highest order: a unifying consensus, a working majority that is able to effect decisions, and a continuity of successful action that may be called dynamic equilibrium. Dynamic equilibrium may be de-

scribed in this sense as keeping government in pace with new conditions by bringing about rational adjustment or change in its policies and activities.

Free Parties for Free Government

The political establishment in America and elsewhere has been under constant attack by disaffected elements who are impatient with imperfections and delays and who therefore denounce our political parties as "system-maintenance instruments." And almost everyone expresses some dissatisfaction with the excessive costs and wearisome duration of campaigns and with the constantly broken promises of those who are elected. Perhaps this criticism may bring about some improvements in the way we elect our public officeholders. Nonetheless, abandonment of the present system of elections and party government is not favored by more than a very few.

The preponderant view of the American public about the role our political parties play continues to be what Calvin Coolidge voiced for them in a quieter time when he wrote (*New York Herald Tribune*, 30 December 1930):

We cannot weaken or destroy political parties in the United States without weakening or destroying the rule of the people. The party system has been adopted because of necessity. It has been the most efficient instrument of main-

taining free popular government. No other method is effective in putting into operation the theory of representation. . . . Those who support party organization and submit to party discipline are supporting the only course yet discovered for orderly government by the people.

Partisan Elections Promote Freedom

No one-party political system, however, can provide such free government by the people; and it may be doubted that a multi-party system has the potential to do so in America. But the two-party system has a demonstrated record of success in America that deserves proper appreciation, especially for its role in promoting political education and freedom. The continuing debate that goes on between our two major parties and their affiliated politicians accomplishes the function of educating the citizenry on public matters and issues more fully, accurately, and convincingly than does a governmental ministry of information or propaganda in a non-democratic society.

Our free media, of course, deserve to share major credit with our free political parties for this achievement, but our principal concern here is with recognizing the contribution of our political party system to our way of life. Accordingly, we should be aware that our adversarial political parties and their elected

officials and candidates carry on educative, apportioning, and countervailing functions that are essential to the nature and operation of our democratic republic.

Two-Party System Promotes Unity

It is America's good fortune that our Democratic and Republican parties, instead of polarizing the public, help to unite us nationally by largely duplicating each other and bringing together a broad section of the political spectrum, including also their more liberal and more conservative wings and personages.

The Democratic and Republican parties also serve to integrate and coordinate the attitudes, policies, and activities of government in America. Thus, they serve to unite our

various governments and move them in the same general direction instead of at cross-purposes. It is no accident or mere coincidence that the national, state, county, and local committees of both parties mirror each other and are patterned on our governmental levels and units.

The role of our political parties, then, is to help our team of governments pull together in a dynamic equilibrium by giving them common purposes and shared programs in the public interest. The American political parties help link our governments with each other and with the people in a constantly interactive system of democratic-republican constitutionalism that preserves our basic freedoms and promotes our moral and material progress. ●

Joseph Fulda

The Cheapest Means of Payment

WE were sitting in my mentor's study discussing the vagaries of the teaching profession when he remarked: "You know, Joseph, we must pay for everything in life, and generally the

cheapest way is with money." I chuckled, but was struck with the insight. And on the way home later, I found myself asking "Why?"

In this short piece I would answer that question. Free market economists define money not as that which is "legal tender, for all debts public

and private"—i.e., what *government* accepts or *obliges* others to accept as payment—but rather as the most marketable commodity—i.e., what *people* most *willingly* accept as payment. It is true, to be sure, that our money—unbacked legal tender as it is—is also most marketable; we make the distinction, however, because the answer to our question depends on the defining quality of money, not on any incidental attributes.

Money is so marketable in part because it *has been* so marketable and the recipient is thus assured that he will be able to use it as a means of exchange for goods and services of direct use. (This is a reason why once-backed money can so long survive by government fiat.) What is really desired, of course, are goods and services of direct use. In a specialized economy such as ours—or any modern economy—the chances are quite small that one person's surplus goods or services will be precisely those needed by his trading partner. To pay his partner in exchange with these, then, would necessitate his giving more. For what he offers is neither of direct use nor easily marketable (or as easily marketable as money) in exchange for items of direct use. The matter is made even worse when

the payment will be with such intangibles as favors or other private services for which there is almost no general market; for knowing that situation the trading partner is likely to ask for far more than he otherwise would. He will ask, as is customary, for whatever the market will bear. And the market will bear much when the supply is almost unlimited and the demand almost nil.

Economic analysis reveals that payment in kind will have two components: (1) the market worth of whatever is received in exchange, and (2) the market cost of transferring the items received into items of direct use or, alternatively, the price the recipient is able to charge for receiving something of lesser utility in exchange for something of greater utility. This second component merely confirms that before an exchange both parties must believe that they will be better off. This does not mean, however, that whoever offered payment in kind—perhaps in intangibles—is actually better off later, nor does it mean that he would not have been still better off had he offered a commodity which is more marketable—money. Money, after all, is the cheapest means of payment.



Wealth, Socialism and the Free Market

WHY do some people ardently believe in socialism and others as passionately oppose it? The question had puzzled me for years until the answer came unexpectedly from a Toronto disk jockey whose favorite theme between songs used to be the coming socialist millennium which he, like many others at the time, regarded as inevitable.

"Although my views haven't changed," he was saying not long ago, "I don't talk or argue about politics any more. I now realize that no matter what people say they believe, there is always an underlying reason. That reason is self-interest."

How remarkable, I thought, that he today and Adam Smith over two centuries ago should have reached the same conclusion. Yet they interpret their self-interest quite differently, the disk jockey favoring a regulated society in which to live, Adam Smith an open one. Why?

Mrs. Malloy of Toronto is a free-lance writer specializing in science.

This must be, I think, because they picture the economy as a whole quite differently. Such a visualization is of course such an impossible task that probably most people don't bother to try, the exceptions being socialists and believers in the free economy. But their mental pictures of it, I conclude, must be as different as a single Golden Apple is from an apple tree that produces them in countless numbers.

The Golden Apple Theory of the Economy

Socialists, or Golden Apple theorists, to give them a name less emotionally toned for many people, seeing the economy as a unit, naturally look for one numerical figure to express it. Presto, one appears. It is the gross national product, or GNP for short. Now it is obvious that if I get more of it than you do, you will get less. And vice versa. There is no escape from this conclusion. Therefore, it follows that this is a compet-

itive world, a dog-eat-dog existence in fact, where the powerless poor get poorer and the powerful rich get richer, unless they are forcibly restrained. This gives Government an essential *moral* mandate to be the restrainer and gives true believers in Golden Apple theory the driving motivation to work tirelessly toward making it a political reality, convinced that their motives are of the highest.

The theory began modestly enough in the minds of a few intellectuals. But not surprisingly, once it took political root, it eventually became irresistible to every government in the world. There can not be a person living today who is not profoundly affected by it, one way or another. Assists were undoubtedly provided by the two major World Wars which provided the necessity for the warring governments to seize control of all economic activities in their respective countries. And once this pattern had become established, sheer momentum helped to carry it along at war's end. This would no doubt have slackened over time however, had it not been for the tireless efforts of dedicated Golden Apple theorists.

Through the years they have naturally sought positions in which they could have the greatest influence. The most direct route is of course politics, in both elected and permanent positions. Union leadership runs

a close second. The media, which provide a very wide choice of possible careers, also exert strong appeal. So does social work, in teaching or in hands-on experience in implementing Golden Apple theory. Then there is the broad field of education, from the primary grades to university, providing the opportunity to persuade future as well as present generations. Curriculum development, policy making and teacher training are obvious choices. In the university, the social sciences offer the most direct means of promoting Golden Apple theory among impressionable and idealistic youth.

Rewards for Success

The payoffs for success in these occupations have been power, prestige and for some, a first hand in the till. But these are easily self-justified as deserved rewards for thinking that one thinks more about the welfare of others than of one's own.

That the Golden Apple theorists have been successful there is no doubt. It is now politically entrenched that Government has a moral mandate to take charge of the GNP for the purpose of dividing it equitably among the populace as a whole. It is also taken for granted that Government is responsible for its care, nurture and growth. This task is theoretically made easier by nationalization of the means of production. But eventually, after some

trial runs here and there, the people in the West have generally settled for what they believe to be a middle of the road "mixed economy," which however leaves Government's main mandate essentially undisturbed, no matter which political party happens to be in power.

Thus these governments have willingly assumed the task of patting their Golden Apple into shape, filling in its cavities with handouts and subsidies, flattening its "excess profits" bumps with extra taxation, stimulating its growth with tax cuts here and subsidies there—and when this fails, as it does, inflating it to create at least the illusion of growth. "Fine-tuning the economy" was the term used to describe all these activities until the difference between the intention and the results became too embarrassing. This had no effect on the activities themselves, however, which have a momentum of their own even when efforts are made to make them stop, as in the United States and Great Britain. In fact they continue to grow everywhere in such number and complexity that there is less and less of the Golden Apple to be divided among the populace because Government itself eats up more and more of it.

The Free Market in Contrast

In contrast, those who believe in a free market economy see the unitary figure of the GNP or Golden

Apple as meaningless, mainly because it includes not only a country's wealth but the cost of dividing it up as well. They see the whole economy instead run by free and responsible individuals voluntarily exchanging goods and services to mutual advantage (otherwise no voluntary exchange would be taking place). They see Government's role as the important and necessary referee, ready to blow the whistle when an exchange is identified as *not* voluntary but forced.

Because everyone in the entire population is a customer, needing to be supplied with goods and services, those who believe in the free market see it as basically and willingly *collaborative*, not competitive in its essence as is the case with Golden Apple theory. The only competition that exists in a free market is between suppliers vying with each other for the customer's favor, that is for the benefit of you and me. Overall this sends prices down and quality up and keeps everyone on his toes.

"Robber Barons"

"But what about the poor, the downtrodden, the disadvantaged, those unable to be responsible or to look out for themselves?" That is the question always raised by Golden Apple theorists who see society as composed of powerful manipulators and the powerless manipulated. They answer it by pointing out that Gov-

ernment *must* assume responsibility for everybody in order to be fair and protective of everyone's rights.

But is this pessimistic view of human nature true? In a genuine free market, its freedom protected by government, how does human nature behave? Is an optimistic view possible from the existing facts?

Not many genuinely free markets have existed in the course of history. However the 19th century does provide an exception, imperfect though it was. It was then that our great charitable institutions, both local and international, were voluntarily founded. Also founded were schools, hospitals, research foundations, libraries, museums, and art galleries.

Why did the founders of these great institutions do what they did? Golden Apple theory has it that they were in fact "Robber Barons" who obtained their riches by ruthless competition, theft or exploitation of the powerless. Then in later years they either tried to whitewash their record by donations, or, to give them the benefit of the doubt, felt guilty enough to try to expiate their sins by contrite giving.

But is this a true picture? Is it not a distorted one, seen through the lens of Golden Apple theory? Much has been made of the faults of the 19th century—its slavery and child labor (both corrected during it), the colonialism of "the White Man's Burden," woman's role as subservient

helpmate, confined to children, church and kitchen, for example.

Nevertheless, compared to our anxiety-ridden, prone-to-violence 20th century, the 19th was more quality-conscious, civilized and peaceful; not only were great institutions founded but the sick were looked after and the starving fed. The fact that personal freedom and responsibility (which go together like the two sides of a coin) were taken for granted went far toward encouraging people's creative responses to life's challenges, personal feelings of optimism, gratitude for fortune's favors and personal commitment toward helping the less fortunate.

The founder whose life-story I know best, Andrew Carnegie, typified this spirit. He is said to have regarded the wealth he earned by a combination of energetic work and good fortune to be a "sacred trust" to be given away as wisely as his life experience had made him capable. He wanted young people to have a more advantageous start than he had, so he provided scholarships. He wanted to provide life-long learning opportunities for all, so he founded libraries. He wanted to ensure the well-being of teachers after retirement, so he provided pensions. The seeds he sowed have borne fruit generation after generation, both in the United Kingdom where he was born, and in North America where he made his fortune.

His actions exemplified the spirit of the times in which he lived. It is unlikely, I believe, that any of the 19th-century people so motivated could have foreseen a forced stop to their benevolent activities, or that the wealthiest among them would ever be called "Robber Barons." Somehow the 20th century seems the more impoverished in comparison, mainly perhaps because under the spell of Golden Apple theory we seem to have collectively forgotten how wealth is *created*.

The Sources of Wealth

Dictionaries define wealth as abundance, well-being, prosperity, felicity, happiness and independence as well as its moneyed meanings of riches, opulence and affluence. Wealth then is not merely money, that convenient means of exchanging goods and services among people. When the exchange is willingly mutual, both participants in the transaction are enriched in every sense of the word. When the exchange is forced, the money extracted becomes "the root of all evil," dividing rather than uniting people, spreading woe instead of weal.

Weal, heal, health and wealth are all related Old English words. One can enjoy a wealth of many things besides money, a wealth of love for instance. Traditionally, wealth was seen as one of the rewards for right

living, as in the old couplet: "Early to bed and early to rise, Makes a man healthy, wealthy and wise."

But what is wealth's *source*? Where does it come from? How is it *created*?

It is not created in the 20th-century mode by taking money from some people to give to others; or by gambling, which is the same thing; or by lobbying Government to give more or take less; or by finding or plugging loopholes in Government's distributive regulations; or by listening to those who decry the "work ethic."

The source of wealth is clearly Nature herself, in all her myriad forms. But it takes work and the sharing of the proceeds with others in mutual exchange to increase Nature's wealth creatively. Even in the most primitive societies of today the hunters and the gatherers of fruits, nuts and berries are both enriched through sharing the results of their work.

But not all of Nature's gifts are so obvious. Most are hidden, discoverable only by science—that art of asking questions of her in answerable form. The Industrial Revolution of the 19th century, which brought about the greatest acceleration of wealth in the hands of more people than had ever occurred before, was due to the scientific discoveries of the previous two centuries, linked to large-scale technology, that fruit of man's inventive mind.

Adam Smith, writing at the dawn of it, could see that its potential wealth would spread throughout society, which would become enriched with each exchange, but only if the mutual exchanges were free and unimpeded. He was right. The standard of living rose dramatically throughout the century. The arts and humanities flourished equally with progress in science and technology. But this only happened because the political restrictions to the spread of wealth which had existed when he wrote *The Wealth of Nations* were eventually removed, largely thanks to the stimulus of his insights upon those who set about to repeal the restrictive laws.

It is a provision of Nature that each person is unique in talents, abilities and interests. The apparent purpose of this uniqueness is to serve our societal interdependence. "No man is an island," as John Donne wrote over three centuries ago. The more we develop our own natural gifts to relate to others in mutual exchange, the greater they grow. This serves not only our own self-interest but that of others as well. The greater the number and variety of such exchanges, the greater the challenge, enrichment and inspiration of the individuals who make up society as a whole.

But this is not happening today nearly to the extent that it could. Again, as in Adam Smith's day, the

main impediment is the maze of political restrictions and guidelines which interfere with wealth's creation and natural flow. The tragedy is for those people who are thus prevented from realizing what life could have meant for them. Among them are the unemployed as well as those who, full-time or part-time, devise, implement, impose, avoid or find or plug loopholes in the restrictions and guidelines. These people, and their name is legion, are thus impeded from finding their true calling and from creating new wealth, both spiritually and materially. Society as a whole is thereby greatly impoverished from what might have been.

Eleventh-Hour Rescue

But miraculously, an eleventh-hour rescue is again on the horizon, just as it was at the time of Adam Smith. Again the reason is that scientists have been quietly collaborating with the inventors of technology in exploring more of Nature's secrets. The result has been a multifaceted scientific and technological breakthrough in putting the new discoveries about the structure and behavior of atoms and molecules to use—representing an economy of scale never before seen. The accelerating growth of the highly visible field of microprocessors is being followed closely by lasers, photoelectric cells, crop improvement through genetic control, new light on disease


control and the domestication of bacteria for manufacturing purposes, to name but a few examples from the many.

The future for the creation and spread of wealth from this new field of microtechnology looks almost unimaginatively great, with one important proviso. That is, if the lessons of history are taken to heart and the new wealth so created is permitted to flow freely throughout society without impediment. This would have the additional beneficial result of freeing Government to concentrate upon protecting the populace as a whole from all exchanges which are *not* voluntary and mutual, but forced, both within and outside national borders.

The problem is that this can only happen when Golden Apple theory

with its corollary of Government responsibility for all of society's well-being loses its hold upon both the populace and upon Government.

Happily the *original* purpose of Golden Apple theory, still believed in by its proponents, was to equalize the opportunity for all to maximize their potential. This goal is shared by those who believe that the *means* to it is the free market of voluntary mutual exchange.

When Golden Apple theorists and believers in the free market agree to work together toward their shared goal, capitalizing on the lessons of the past, both good and bad, predictably wealth in its widest meaning will flow throughout society, challenging motivating and inspiring as it flows. 

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The "Unproductive Investment" Prejudice

WHEN gold ownership was finally again legalized in America last decade, many of us free market analysts thought investment in the metal—and in other "hard" assets—had finally gained respect both from other mainstream investors and from investment regulators. How wrong we were. At least, we were not right for long; gold investors are once again being demoted to second-class citizenship.

The renewed bigotry against gold investors is exemplified by the label, "unproductive." As economist Joe Cobb pointed out in a *Reason* magazine article last year, that disparaging label has split the investment community—with hard assets investors legally forced to sit in the

back of the investment bus. Prohibitions against investing directly in hard assets for IRA and Keogh accounts and forced reporting of gold and silver purchasers to the IRS—restrictions backed both by government officials and by many conventional stock and bond dealers—make the new investment prejudice amply clear. (And according to Representative Ron Paul of Texas, a host of new restrictions are contemplated.)

While the mood of hostility ought to be enough to make goldbugs march in the streets to protest, the issue goes far beyond any specific actions against hard assets. A more fundamental issue, which is getting little press, is whether the power to decide which investments are productive or unproductive should be the province of individuals or of government; the precedent inherent in the official bias

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against gold implies that it is government's province at the moment.

It should not be so, and only one school of economics—an insufficiently heeded school—has satisfactorily explained why.

Economic Calculation and The Subjective Theory of Value

The Austrian economists, as they were called—most notably Carl Menger (1840–1921) and Ludwig von Mises (1881–1973)—were the first to observe that economic values are necessarily determined solely by individuals. Their values are based on their own specific living requirements and needs—which only they have the knowledge, opportunity, and insight to accurately determine. Menger called this viewpoint the subjective theory of value.

It was a theory with which Mises agreed, but to which he added an important insight. His insight was the application of Menger's theory to the field of political governance of an economy. Mises was first to demonstrate that government—because it has no *method* of accurately making the millions of daily value judgments for individuals—is consequently incapable of rationally substituting its judgment for theirs.

A simple way of stating this—and one which conveys the terribly serious consequences—it that the market is too complex for government to run, and therefore the *attempt* to do

so ultimately requires the government to become the market—i.e., to take it over.

This is the danger of policies and proposals which classify the hard assets investment market as "unproductive."

Such government policies require that it do the following:

- (1) Delegate to itself the final "right" to determine market values;
- (2) interfere in the natural division of labor of the investment market (by suppressing a segment of the market);
- (3) by proposed harsher tax laws and existing restrictions on gold, violate the property rights of investors and holders of gold (or at best, discriminate unfairly against those rights);
- (4) undertake the impossible task of deciding for investors which investments are better or worse for countless individuals' unique living requirements.

If this folly sounds familiar, it should. In principle, it is startlingly similar to the government's attempt until recently to decide which national airlines were most "valuable" or "most productive."

In fact, if not in precise words, under heavy airline regulation, we had a policy which mandated that only certain national carriers should be regarded as productive—while all "unproductive" ones (read: would-be competitors) were made to suffer the ultimate penalty of being locked out of the national routes; they were not

just forced to the back of the bus—they weren't even allowed to board it!

By forcing airline investors to put their money into only government-approved air carriers, federal bureaucrats and politicians, as well as the protected airlines themselves, encouraged economic malaise in that industry: inefficiency; artificially high wages; high consumer costs; malinvestment (from which some of the airlines have still not recovered); snail-slow innovation; and, obviously, no serious competition.

Is this what we want in the investment field? Do we really wish to invite government to assume the power to make *basic* decisions about productiveness—when government's attempts to do so in other segments of the economy, such as in the case of the national airlines, has worked out so poorly? Surely not.

For as matters really stand, government overlordship of market value, of what is or is not a productive investment value, ends up in practice as nothing more than investment protectionism—which, in turn, is nothing more than political favoritism backed by the coercive hand of the state. The “productive” become the protected and the “unproductive” become the attacked—as gold investors are today. That may be a scenario which would fit snugly into the glove of a so-called national industrial policy, but it is not one

which serves a free market in investments.

A Safety Valve

Still, the more pragmatic observer may ask, “Is this really a serious danger? After all, Americans can freely invest in most gold stocks (depending on state laws). They can even buy puts and calls in the metals markets. So what if they can't freely invest in hard assets *directly* for their IRA or Keogh accounts? My goodness, if we allow that, the next thing you know, people will want to own bushels of wheat, barrels of oil, and who knows what other kinds of tangible assets for such accounts!”

The proper first response to that sort of attitude should be: Well, whose investment is it, anyway? If a man wants to keep Tahitian sea shells in his account, what business is it of the government to forbid it? Maybe he's an astute investor who knows something about the sea shell market that the government doesn't.

But beyond the moral issue of free choice, there is the historically undeniable fact that *gold is, and for millennia has been, considered a metal of investment*. This derives primarily from gold's store-of-value characteristic in the market—but also from the metal's other qualities: divisibility, transportability, durability, and nearly universal acceptability around the world.

Unfortunately, it is precisely gold's

continued and growing popularity as an investment asset which has led to renewed restrictions against it. No one should be terribly surprised. This has *always* been the case in economies dominated by fiat systems. Fiat systems' purveyors (and many beneficiaries, such as some stockbrokers who believe high volumes of fiat dollars will encourage high volume trading, thus giving the brokers more commissions) have found that gold investments have an embarrassing side-effect: they "show up" the intentions of fiat policymakers.

For instance, during a fiat boom, gold—when people are free to own it—can easily rise in value faster than the market in general. This tends to expose the worth of the boom by showing that it's largely "paper"—that is, the boom is more one of appearance than of fact. Hence, fiat policymakers would prefer—in any way they can get away with it, such as with current IRA and Keogh investment prohibitions—to inhibit gold's ability to expose the fiat fraud. Fiat governments wish to dampen the message of truth which gold investments send out for anyone to read—including those who might otherwise find the fiat policies unsuspicious and quite acceptable.

To answer the question of whether present prohibitions against gold investments are "really a serious danger," we must conclude: Yes, they are—both morally and economi-

cally—because they represent an attempt to at least partially erase, to obscure, the information which gold investments might convey about fiat money policies. This is information to which the public has a right if it is to be free to fully protect itself from the inevitable consequences of market distortions, earning power debasement, and the whole long list of economic degenerations to which fiat systems lead.

No Small Matter

The new attack on gold investments may superficially seem like a small matter. But it is another chapter in the old story of the war between government management and individual management of an economy, between coerced choices of investment values and free choices. If we wish to assure that the government does not become bolder and widen its attacks on gold—perhaps again leading to the infamous barring of private ownership of gold—then those Americans who favor liberty of investment must speak out now, while their voices are strong enough to stop and reverse the attacks. Let us never forget that most wars start with small events, which if not countered encourage escalation. Let us not let the "small" events of "unproductive" gold investment restrictions go uncountered, lest our government again begin a full scale war on gold. ☸



Free Enterprise— for All

Agriculture, manufacture, commerce, and navigation—the four pillars of our prosperity—are the most thriving when left most free to individual enterprise.

—Thomas Jefferson

“Capitalism stinks!”

That is the conclusion reached not long ago by the authors of a textbook on economics. The book further stated that our social problems can be solved only when American capitalism is destroyed.

Hostility toward free enterprise (capitalism) has not decreased over the years. There are many “public opinion molders” today who believe free enterprise has failed. They say inflation is caused by greedy businessmen and industrialists. Corporations are making “excessive” prof-

its. Free enterprise and our economic system are ignoring the elderly, minorities, the handicapped, and poor.

These charges are false, but some people continue editorializing, preaching, ranting, railing, and voting against capitalism. They attack free enterprise as it relates to profits, competition, “Big Business,” and corporations. Somehow, these aspects of capitalism are evil—“a threat to the consumer.”

That open hostility aside, most Americans feel that free enterprise is good, not bad. Most of us understand that our economic way of life has given America prosperity and freedom unparalleled in the world. Capitalism has provided the greatest good to the greatest number of people. For over two hundred years, free enterprise has proven that it is the most efficient and effective way of ensuring progress, material well-being, and personal freedom.

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Unfortunately, we give lip service and a mental OK to free enterprise, but we do not really understand what it is all about. This sad fact is easily seen in the way most Americans react to the topic of "economics." A majority of us seem either confused or downright bored by "economic" matters and problems with our nation's economy.

On the other hand, most of us are critically aware of making a living—working at our jobs, getting our pay checks, paying bills, saving money, writing out checks, and paying taxes. We know from daily experience that these matters affect us and everyone around us. Yet, the subject of "economics" still seems to be something else—something far away, difficult to understand, unrelated to the daily affairs of life.

Making a Living

The truth is that making a living is not any more commonplace or everyday than economics itself. Economics and problems of our nation's economy are matters in which we are directly involved each day, regardless of the fact that many Americans think economics is something separated from paying taxes, purchasing a new automobile, or paying higher prices for groceries.

Unless we progress further than just saying that we believe in free enterprise, we are in trouble—deep trouble.

We need to take a thorough look at the free enterprise system and gain a better appreciation for it. We must understand the interesting hows and whys it works so well for us. If we continue shrugging at any mention of "economics," we will commit economic suicide. Freedom and human dignity will be destroyed. We'll pay higher taxes and higher prices for food, clothing, and housing. We won't be able to afford new automobiles, repairs on our homes, and medical care. A lot of us will be out of work.

Let's face the facts. First, what we know as capitalism, the free choice economy, free enterprise, private enterprise, or the free market really isn't a system at all. No economist or savvy politician invented it. Free enterprise is not a humanly devised plan for economic activity. Instead, it is the natural, *voluntary* collaboration of millions of individuals sharing their respective abilities, wisdom, aspirations, energy, skills, and creativity for personal good and the general welfare of everyone.

Free enterprise is industry, agriculture, finance, and commerce. Most important, it involves all of us—teachers, mechanics, nurses, clerks, students, corporation presidents, housewives, and store managers. Capitalism is millions of individuals cooperating freely to provide products and services for one another. We buy, sell, work, and produce, and thus

manage our own economic lives as we choose.

Basically, there are three main principles to free enterprise: (1) We are free to think, choose, and act as we best see fit, not harming others in doing so; (2) We are rewarded for our labors in proportion to our individual abilities and to how much effort we are willing to put forth; (3) We have a right to private ownership of property.

Private property is essential to the success of free enterprise. Thomas Jefferson wrote: "The true foundation of republican government is the equal right of every citizen, in his person and property, and in their management." Unless we have full control of our labor, possessions, and income, we cannot truly say we live in freedom. Our right to private property enables us to use it and our energies for constructive, creative work. We strive, succeed, fail, produce, invent, save, invest, spend, and work to make a better life for ourselves and others. This is economic freedom. This is individual freedom.

Alexander Hamilton advised that "the only freedom worth achieving is a freedom which puts each of us at something he can do and sets before him as a personal and individual responsibility the management of his activity, relations, and possession so that in the end 'he owes not any man.'" That is the essence of

free enterprise—*individual* freedom and *personal* responsibility. We have the right to make economic choices, and we accept the consequences of our decisions.

Free enterprise recognizes that individuals are capable of providing for themselves. Individuals—not the federal government—are responsible for arranging their own economic activities. We can, should, and will overcome difficulties in life when we are self-responsible. This is the real meaning of independence. We cannot be fully independent if we are not held responsible for managing our personal lives. In turn, we cannot be held responsible for our activities if government makes our economic decisions for us.

When free enterprise is allowed to work at its maximum, we achieve a justified sense of worth and dignity. We reap what we sow. Hard work, individual initiative, and personal responsibility are rewarded—not just from the standpoint of material prosperity but also from the standpoint of self-respect and personal fulfillment in life.

What more can we ask? The capitalistic free-enterprise system gives us the opportunity to realize a true sense of self-worth. Working freely in a free society, we also have shown that capitalism and the free market are the best way for producing and distributing wealth—wealth that has provided our high standard of living

and the means to fight poverty, disease, illiteracy, and the like.

Important Economic Questions

Those individuals who foolishly think that “capitalism stinks” refuse to accept the truth about free enterprise. No other economic system—socialism, fascism, communism, or the welfare state—can ensure individual freedom and promote the general material welfare as capitalism has done. Free enterprise has succeeded because we have intelligently answered four important economic questions having to do with our daily lives:

(1) What goods should be produced? In what quantities?

(2) What services will be rendered to the public, when, and where?

(3) Who will produce the goods and perform the services?

(4) How will the goods and services be distributed? In other words, who gets what?

Free enterprise says that *free individuals*—not government agencies, boards, commissions, and so on—should answer the four questions. *We* decide who will produce and what will be produced. *We* make our own economic choices—deciding to work at the jobs we want, choosing to buy a stereo instead of a TV, or selecting one physician over another.

All of us are consumers, and free enterprise permits a sensitive mar-

ket—a free market—to respond to our needs and wants. The “free market” is an accurate description of capitalism. Services and goods are produced freely in response to popular demand. Production and services are determined by what people want and how much they are willing to pay for what they want. This is cooperation and voluntary exchange in the free market. It is true economic freedom. It is individual freedom . . . and good “economics.”

The success of the free market depends upon ethical, energetic competition. Competition opens the way for new ideas and superior productivity. Companies work hard to please the consumer who is always looking for better, less expensive products. If a business wants to succeed, it endeavors to build up a reputation for prompt, friendly, effective service to please the consumer and customer. Competition is generated by millions of consumers who have economic freedom to express their likes and their dislikes.

Competition is not a brutal conflict between companies. It is not economic warfare between corporations who are out to make millions at the expense of the average consumer. Rather, competition is a vigorous, moral expression of freedom. We are free only when we can cooperate voluntarily with other people and when we are permitted to make individual choices. Competition al-

lows us to make those personal decisions and to act upon them. Business, agriculture, commerce, and industry attempt to fill our needs by striving to put out improved products and services. This is healthy, free competition.

Fruits of Competition

Free market competition leads to new products, better products, superior services, increased production, more jobs, higher wages, and ultimately a higher standard of living for everyone. When competition is based upon fair play in the free market, it brings out the best in business as well as in individuals. Working alone or laboring collectively as employees and management in an industry, we strive to advance ourselves by giving full expression to our abilities and energies. This beneficial spirit of competition can exist, though, only when we are permitted to keep the fruits of our labor—the “fruits” being personal income or profits.

“Profits” is another term which causes some people to frown. Like competition, profits are looked upon as being a bit immoral. This mistaken view of profits is growing, even among persons who otherwise say they support free enterprise. We should ask ourselves just what is wrong with competition and profits when neither involves the use of coercion or force.

Is it immoral for an individual to use his abilities and energies in constructive work as long as he does not infringe upon the freedom of other individuals to do the same? Is it wrong for one business to compete with a rival company in an attempt to provide an improved service or better product?

Certainly not, and both the wage-earner and wage-payer deserve paycheck and *profit*, respectively. When the energetic, reliable company makes a profit, it does so without the use of force. Customers willingly choose the firm’s product over the same item offered by other companies. Just as the free market rewards the employee with a paycheck in return for hard work and personal effort, so free enterprise gives a just return to the hard-working company. The company’s profit is proof that it has met its responsibility or goal of fulfilling the needs of individuals.

But don’t some big businesses and corporations make excessive profits? No, even though their earnings might amount to billions, these industries do not reap “excessive” or “obscene” profits. A corporation’s high profits can be misleading. Many people believe that profits go into the pockets of rich corporate executives who spend their time touring Europe or enjoying sun and sand in Jamaica.

Such a picture is false. Profits are

the key to prosperity, and we should be thankful they reach into billions of dollars. Yet, the amount of profit from each sales dollar is much lower than what most consumers think it is. Actually, profits for the average manufacturer account for less than 5¢ out of each sales dollar earned by the industry. The remainder of the sales dollar (95¢) goes for taxes, operating expenses, depreciation, supplies, and wages for employees.

How Profits Are Used

Just what happens to a company's total profits of 5¢ out of every sales dollar? Are they squandered by corporate bosses? No, that 5¢ is divided between funds for reinvestment and funds to pay shareholders who have stock in the company. These shareholders are just ordinary, average people from all walks of life—professors, farmers, small businessmen, factory workers, and retired people. They have labored over the years, saved their money, and freely invested in the work of the corporation.

Besides paying dividends to shareholders, profits are used to improve and expand production. Profits are reinvested, providing business with needed capital. Capital—amounting to billions under capitalism—is put to work replacing worn-out equipment, constructing new plants, and otherwise building up a more efficient, productive enter-

prise. This capital reinvestment creates more jobs, higher wages, better working conditions, and more prosperity—prosperity that benefits all of us.

Where have some people obtained the senseless, absurd notion that profits can be too high—that there should be a limit to reaping the *just* rewards of hard work and service to others? How can profits be too high when they were made by free people *freely* making choices and *freely* paying for a product or service?

Profit-making should be encouraged, not scorned. Profits provide the fuel that keeps our economy going and growing. They are both the means and motivation for material progress. Profits stimulate the release of *human* energy—an energy more vital to free enterprise than petroleum, natural gas, or nuclear energy.

Creative *human* energy is unleashed when individuals are allowed to work voluntarily in the free market. We must be free to profit and to order our lives as we please without arbitrary government intervention. The role of government should be that of a referee or policeman. Its duty is to protect economic freedom, enabling individuals and businesses to work freely. Free enterprise operates smoothly when government authority is limited to defending individual freedom, protecting private property, and pre-

venting fraud, violence, force, and theft.

"Every man," wrote Thomas Jefferson, "wishes to pursue his occupation and to enjoy the fruits of his labors and the produce of his property in peace and safety, and with the least possible expense. When these things are accomplished, all the objects for which government ought to be established are answered."

Many government officials today are ignoring Jefferson's insight into the purpose of government. Along with some educational leaders, journalists, and labor leaders, they claim that government should play an ever growing role in the economy. They believe that government is in the best position to plan future industrial, financial, and commercial activity. Supposedly, the business of government is business. They feel that the free economy has failed to meet the needs of the consumer. Thus, government should (1) crack down on business, and (2) help us manage our economic affairs.

Misconceptions

This critical view of business activity and individual responsibility is based upon many falsehoods and misconceptions. It takes the view that "If it is good for business, it is bad for the consumer." It suggests that workers and consumers should distrust the business community and trust government instead. Presum-

ably, life is a battleground between helpless consumers and ruthless corporations, with government bureaucrats coming to the rescue of the helpless citizenry.

We ought to reject these misconceptions. Businessmen and consumers are tied together in joint economic activity that should work harmoniously, accepting responsibility and accountability for what we do. Businesses are a justified, necessary response to meet human needs.

Homes need to be built . . . we require dental care . . . automobiles must have gasoline. All of these needs can be fulfilled competently by different trades, professions, businesses, and industries. However, their ability to serve the consumer depends upon the *free* collaboration of five factors: natural resources, the labor force, management, capital (machinery, facilities, and equipment), and free choice for the consumer. Whenever government intrudes into one of these areas, economic trouble lies ahead. The Dallas plumber and the Baltimore physician suffer. All of us suffer. Factory workers . . . musicians . . . bricklayers . . . telephone operators . . . taxi drivers . . .

Those who want more governmental control of the economy believe that Americans will be ill-clothed, underfed, and badly housed if the federal government does not

assume the role of being our economic boss. What these people are saying is that Americans cannot or will not provide for themselves in a free society. Nor will we voluntarily help those who suffer. Our fellow citizens will go hungry and will be deprived of medical care.

Therefore, we are told that economic stability can be achieved only through the combined force of government laws, social/economic programs, and Federal expenditures. The result is that business enterprise and individual endeavor are being increasingly controlled, inspected, regulated, coerced, and bridled. Instead of allowing individuals to make their own economic decisions in conjunction with business, the government has forced its way into the free market. Political activity has taken the place of free market economics as the way of deciding who gets what.

Through excessive taxation and regulation, government is destroying economic freedom. This economic strangulation endangers all of our freedoms. Alexander Hamilton advised that "power over a man's subsistence amounts to a power over his will." Government regulation of our economic activities will lead to total control of our lives, just as it creates inflation, causes unemployment, and otherwise undermines our material well-being.

The federal government's inter-

vention into the free market has been so gradual that it is often difficult to see just how rapidly we are losing our economic and personal freedom. Actually, we no longer enjoy a *free* enterprise system. Through redistribution of wealth and through a multitude of laws and restrictions, we are becoming a welfare state—a sickly combination of diminishing capitalism and growing socialism.

The Tyranny of Socialism

Under the "planned economy" of socialism, the government owns and/or controls the *means* of production. All areas of the economy are in the hands of the government—commerce, agriculture, industry, health care, housing, and others. Under the welfare state, the government owns and/or controls the *results* of production. Money is taken from the producers in society and given to the non- or low-producers. So far, we have not suffered the consequences of pursuing a completely socialistic economy. Our continued path into the welfare state, though, is taking us closer to the tyranny of socialism.

As the government adopts more and more welfare-state programs, the incentive to work is dampened. This applies to both the wage earners and non-producers in the citizenry. Businessmen and hard-working taxpayers ask themselves why they should continue exerting themselves when the government will tax

away their income for the benefit of others. Industrious individuals see little reason to work hard, save, invest, and expand economic activity.

On the other hand, the welfare state also destroys the incentive of the low-producer to strive harder. A business that is failing because it cannot or will not meet consumer demand simply calls upon the government to subsidize its losses. Instead of exercising more energy, ingenuity, hard work, and responsibility to achieve success, the business relies upon the federal government for help. Likewise, individuals will reject responsibility for their own lives when the government is ready to give them food, housing, and medical care.

This destructive influence of welfare-state economics leads to a sick attitude of "Let the federal government do it." When we begin thinking this way, freedom is in bad shape. Socialism and tyranny are just down the road. "No," some people might argue, "Americans will never accept socialism. We still have free enterprise, and we will keep it."

In response to such assurance, we ought to consider an ageless truth that says a person should not be held responsible for what takes place when his eyes are closed. He should, however, be held accountable for not opening his eyes in the first place.

Anyone who wants to do so can understand how and why free enter-

prise is being destroyed. Although some people honestly doubt that America is embracing socialism, current events clearly show that we have been heading toward a totally planned economy, this despite the efforts of some people in government to reject such attacks on freedom.

Through free market economics, we have enjoyed the good life of freedom and material well-being. This high standard of living, though, survives only as a result of *past* productivity. It is time we recognize that we are no longer living and working within a truly free free-enterprise atmosphere.

For too long, Americans have been *uninformed* and *misinformed* about free market economics and the nature of government power. We have been led to believe that business has caused our economic troubles and that action by the federal government is the solution. These mistaken beliefs must be corrected. Government is the problem, not the solution.

As soon as we overcome our confusion about basic economics, we will be prepared to fight for free enterprise. We will be able to defend what freedom we have left and restore all that we have lost at the hands of government intervention into our lives. Once again the true blessings of human dignity and individual freedom will be ours to enjoy day by day.

The Coercive Utopians

THE COMMUNIST PARTY in America no longer amounts to anything, and the Socialist Party's hopes for making a splash in presidential years have not survived the death of Norman Thomas. Nevertheless, socialism marches on in a thousand different guises, requiring a whole new science of semantics to understand what goes on behind the acronyms and the alphabet soup profusion of organizations that Rael Jean Isaac and Professor Erich Isaac have investigated in their magnificently courageous book, *The Coercive Utopians: Social Deception by America's Power Players* (Chicago: Regnery-Gateway, 325 pp., \$18.95).

The coercive Utopians are all those people who want to compel every last individualist in the country to renounce pluralism in favor of conforming to what Rousseau called the General Will. Unable to herd independent souls into parties that make honest displays of collectivist labels, the Utopians make effective use of

euphemisms such as "economic democracy" and "national planning." The Isaacs quote a particular coercive Utopian, Derek Shearer, who told a conference organized by Ralph Nader that, where the "S" word, socialism, could not be marketed, "the word 'economic democracy' sells." It could be taken "door to door like Fuller brushes, and the doors will not be slammed in your face. So I commend it to you, for those who are willing to compromise on the use of the 'S' word."

The truly big weapon of the coercive Utopians is their ability to throw up a whole network of "spin-offs" from a few fundamental organizations such as the Institute for Policy Studies or the World Peace Council. Using a bewildering display of innocent-sounding names, the coercive Utopians have dominated the peace movement, manipulated the various causes of the Environmentalists, sent "Nader's raiders" hither and yon to define the "public inter-

est" in an anti-business way, and penetrated the consumer movement to mark it for their very own. There is no "conspiracy" about this—it has happened as a natural "Left" adaptation of the science of "social engineering," a science that has had a respectable lineage going back to the early days of Public Relations as practiced by Edward Bernays and Ivy Lee.

Misdirected Missions

Many of the coercive Utopians mean well, but they don't know how to control the occasional conniving zealot who is willing to work full time in forwarding the "revolution." The Isaacs begin by telling the full story of how the Methodist Church was led to fund radical groups in South America and Africa. A young man, David Jessup, who had worked for the Peace Corps in Peru and was "scarcely a conservative," was asked to make a study of where the Methodist money went. Thinking to work for refugee aid within the church, Jessup became aware that something was amiss when, in 1977, his children came home from Sunday School with "rice bags" to be filled with money to be used for buying wheat for "Vietnam."

Tracing the movement of \$442,000 in direct grants, Jessup discovered that much of the money was going to terrorist and totalitarian groups. The Methodist Board of Global Min-

istries tried to impugn Jessup's report as "right wing extremism." But Jessup stuck to his guns. Money had gone to five organizations that produced pro-Cuban propaganda. Other money had gone to the Indochina Resource Center that was distinguished by its defense of the murderous Pol Pot regime. Terrorists in southern Africa had received Methodist money, and the Palestine Liberation Organization had benefited by the church funding of support groups in the United States.

Jessup's criticism led to some changes—the General Conference of the church agreed to require all boards and agencies of the church to make a full disclosure of all cash and in-kind contributions to outside organizations. But Methodist money still went to the National Council of Churches, which the Isaacs describe as being "even more detached than the Methodist bureaucracy from the views of lay church members." The NCC in the Isaacs' estimation "looks upon the United States as an oppressor, both at home and abroad." It has urged the United States to recognize the PLO, and it has sent messages of greeting to victorious Marxist groups in southern Africa.

Collectivist Fronts

The Isaacs respect true pacifism, but they find most "peace" organizations to be equivocal on the subject. The symbol at the top of U.S.

Peace Council literature "is a dove shaped into a clenched fist." The "Mobilization for Survival . . . intertwines Communist and peace organizations in its membership." Gil Green, a member of the Communist Party's central committee, served for a time as head of the Mobilization for Survival's labor task force. The peace groups, so the Isaacs tell us, "are concerned almost exclusively with U.S. disarmament." The Women's International League for Peace and Freedom's international president excused the Soviet invasion of Afghanistan by finding it "understandable" that the Russians had an "interest in having close relations with a neighboring country with which it shares a 2,000 mile border."

The Isaacs' story of the Leftist penetration and manipulation of the environmentalist movement is a classic reminder that the best can be the worst enemy of the good. There are thresholds of tolerance that shouldn't be crossed, but a 100 per cent clean environment is impossible in a world in which nature itself does a fair amount of polluting. There are ironies everywhere in the perfectionist's quest for absolutely clean air. Congress established auto emissions devices at great cost only to discover that the catalytic converter "may in fact be a major contributor to the growing problem of 'acid rain.'" Home buyers have been forced

to pay through the nose for lumber simply because the wilderness buffs prevent the harvesting of timber that is about to decay. The delay in the Alaska pipeline hurt our foreign policy response to the OPEC oil price monopoly. And the current slowdown in granting offshore oil leases may be the harbinger of more troubles with the Arabs in the Nineteen Nineties.

The Isaacs observe that the media now serves as a shield of the Utopians. Well, reporters are recruited from Irving Kristol's "new class," and objectivity is notoriously something that does not go with the anti-capitalist mentality. To understand the intellectuals' undermining of capitalism the Isaacs invoke Joseph Schumpeter as a "better prophet than Marx." To Schumpeter's mind, the freedom to criticize that came with the development of the printing press "first served the capitalist order well because the intellectual attacked the remnants of the feudal order." But eventually the "new class" of intellectual "turned his criticism upon capitalism itself."

Marxism, said Schumpeter, wove together "those extrarational cravings which receding religion has left running about like masterless dogs," and the intellectuals bereft of a transcendent heaven, felt compelled to find Utopia on this earth. But Utopia without transcendence is an illusion. ☉

POWER AND PRIVILEGE: LABOR UNIONS IN AMERICA

by Morgan O. Reynolds
(Universe Books, 381 Park Avenue South,
New York, NY 10016), 1984
309 pages ■ \$14.95 cloth

Reviewed by Brian Summers

MORGAN REYNOLDS does an admirable job in analyzing labor unions, their legal privileges, and their economic consequences. His carefully reasoned arguments are easy to follow and are buttressed with many telling examples. The reader needs to bring nothing more than an open mind.

Professor Reynolds begins where most labor economists fear to tread: the nature of unionism. Labor unions, he shows, are legal monopolies. Through various Acts of Congress, National Labor Relations Board rulings, and Supreme Court decisions, unions have obtained monopoly power over the labor supply in key industries.

According to popular opinion, this monopoly power is needed to counterbalance the power of employers. But most observers fail to see the obvious: When unions strike, employers are not on the receiving end of union threats and violence. The object of the strikers' wrath is anyone who wishes to work. A strike isn't an expression of worker solidarity;

it is an act of civil war between those who want to work and those who resort to violence to prevent others from working.

Such monopoly power has grave economic consequences. When unions force wage rates above market-clearing levels, a labor surplus is created, and thousands of workers lose their jobs. Some of these workers have to seek employment in the nonunion sector, where increased competition among workers drives wage rates lower.

How should unions be dealt with? Many concerned people believe that union force should be met with government counterforce. But countering violence with more violence doesn't get to the heart of the problem. Professor Reynolds offers a more basic solution:

"It is fruitless and naive to blame unions for their use of force to pursue monopoly gains or urge them to reform themselves. They are responding to incentives that allow them basically to operate outside of the rule of law, despite the huge and expanding web of labor rules and regulations. The long-run answer to the power of unions is to eliminate their special legislation, their legal immunities, and their special governmental agencies and to treat unionists in a manner consistent with everyone else under contract and tort law."

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• JUNE 1984

Private Ownership— A Page on Freedom, No. 7	Robert G. Anderson	323
Ownership relates to self-control and freedom.		
Capitalism versus Comte	Ernest G. Ross	324
Different ways of viewing "altruism" and "sacrifice" and the market.		
Freedom and Democracy	John Hospers	331
A philosophical study of the uses and abuses of democracy.		
The Davis-Bacon Act	Hans F. Sennholz	345
Tracing the beginning of minimum wages in 1931 in the construction industry.		
George Wythe of Williamsburg	Robert A. Peterson	352
"Teacher of Liberty" and "The Father of American Jurisprudence."		
The Increasing Abundance of Resources	David Osterfeld	360
A more hopeful view of the prospects for plentiful resources in a market economy.		
Book Reviews:		378
"Behind Enemy Lines" by Mickey Edwards		
"From Bretton Woods to World Inflation: A Study of Causes and Consequences" by Henry Hazlitt		

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Private Ownership

THE attributes of individual responsibility, initiative and respect for others are not basic conditions of our nature but, instead, are characteristics which will evolve wherever private property concepts have been established.

When a legal system is structured to safeguard the private ownership of property and there prevails a set of values based on the sovereign rights of individuals, a market economy inevitably results.

This market process reflects both voluntarism and social cooperation in human affairs. It is the course of conduct followed by individuals with a right to possess property and the confidence that their transactions will be respected.

Choice in the use of one's labor and the products of such labor is not an end in itself. Nor is such freedom of choice an ideological issue to be ac-

cepted or rejected by mere whim or fancy. Private property rights are a fundamental and necessary condition if people are to be prosperous and free.

Private ownership induces an attitude of stewardship. Responsibility for self, as well as respect for property, caring for property, and the further creation of property, are all vital aspects of private ownership.

Most important of all, however, is the proprietary characteristic which follows from control over property. For without private ownership of property, individual freedom of choice can have no meaning. Ownership establishes control, and it is from the power of such self-control that comes the sovereignty and dignity of the individual.

Without private ownership, freedom is hollow and meaningless. ®

—Robert G. Anderson

CAPITALISM versus COMTE

If you ask the man in the street what "altruism" means, he's likely to tell you that it's the same thing as good will. Altruism, in the American vernacular, is taken as a virtue—as a charitable worldview toward one's fellow men, as a generalized inner "standing order" to treat other people with respect and consideration.

As most citizens of most cultures do, Americans "absorb" their worldview from those around them—their parents, their teachers, their friends, their business acquaintances, and even from the media and politicians (although these latter two groups tend to fare badly in public opinion polls). Americans doubtless acquire their view of al-

truism in the same way. After all, the U.S. cultural melting pot is a benevolent one; it does not produce much hostility between citizens. We grow up in this nation willing to give the other fellow the benefit of the doubt that he is decent and deserving of good will—unless he proves himself otherwise by violating our rights through coercion or deception.

Given these conditions, given the wonderfully generous outlook with which he matures, it would probably surprise our average citizen to find that there is another meaning to the word altruism—a meaning which conflicts with his vernacular understanding and undercuts the essentials of capitalism which bring him so much joy, opportunity, and prosperity. He would be shocked to find that for many of our intellectual

Mr. Ross is an Oregon commentator and writer especially concerned with new developments in human freedom.

"leaders," altruism represents a concept used for attacking and destroying the essentials of a free society, including its economics.

How would we explain this situation to the layman? Given its sweeping scope, it would be best to start with a little historical background.

The Secular Outlook of the Followers of Immanuel Kant

Few today realize that altruism—as a philosophical principle—was an offshoot of the followers of the German thinker, Immanuel Kant, as they attempted to build an entirely secular outlook on the world. As Leonard Peikoff reports: "The result was a new moral creed, which swept the romanticist circles of Europe from the time of the first post-Kantians, and which continues to rule Western intellectuals to the present day. The man who named the creed is the philosopher Auguste Comte. The name he coined is *altruism*."¹

Comte was not only un-American by citizenship, he was un-American by outlook—that is, his philosophy of altruism opposed at root all of the basic values which Americans share and which helped create this nation and its wonderfully productive economy.

According to Comte, "The medieval adoration of God . . . must now be transmuted into the adoration of a new divinity, the 'goddess' Hu-

manity. Sacrifice for the sake of the Lord is outdated; it must give way fully to sacrifice for the sake of others. And this time, Comte says, man must really be selfless; he must renounce not only the element of egoism approved by the Enlightenment, but also the 'exorbitant selfishness' that characterized the medieval pursuit of salvation."²

It is important to note here that just as most Americans think of altruism differently than did Comte, so do we regard the word "sacrifice" differently. Sacrifice in the American worldview is used almost synonymously with the word "investment." This is implicit in such everyday phrases as, "Is the sacrifice *worth* it?" For instance, the other day on television I heard a man interviewed ask whether the over 200 lives lost (to the Beirut bombing of American Marines) was "worth the goal" of helping the Lebanese establish a strong government.

In economics, we often hear such statements as, "Americans will sacrifice certain luxuries" until their business or job situations improve. Even in our "national pastime" of baseball we have a well-known phenomenon called a "sacrifice hit."

Look at what each of these typical uses of the word "sacrifice" does *not* say: It does not say that Americans endorse or enjoy sacrifice for its own sake—as Comte (and Kant with his

virtue-for-its-own-sake philosophy) would have us do.

As further illustration, note that even in charitable contributions, most Americans are "sacrificing" because of a value they see in the contributions they make; the contributions are investments in helping their fellow man (whom they value for reasons other than the mere fact that he is a member of Comte's "goddess Humanity")—whether by improving his health (by giving to heart funds, cancer research, muscular dystrophy associations, kidney foundations, and so forth), his well-being (by giving to food-distribution agencies, agricultural education groups, the Salvation Army, Goodwill, and the like), or even his education (by scholarship donations, grants, low-interest student loans, and so on). This American brand of charity "sacrifice" would have utterly dismayed Comte—because the sacrifice would not have been for the pure sake of it.

As Comte saw it, the true altruist "must place others above self as the fundamental rule of life, and that his greatest virtue is self-sacrifice [i.e., *total* sacrifice, with *no* expectation of returned value] in their behalf."³

Given that Comte's view of altruism and self-sacrifice are in direct conflict with what most Americans mean by those terms, how would Comte's views, were they to some-

day dominate American life, affect the field of economics?

At the Root of Capitalism, The Pursuit of Self-Interest

The most obvious effect would be at the root of capitalism itself. Capitalism—as Adam Smith pointed out 200 years ago in *The Wealth of Nations*—depends on each man pursuing his own self-interest. In actual practice, Smith saw this highly egoistic pursuit not as an evil, but as a fundamental economic good: "One of the capitalistic market system's enduring strengths is precisely its reliance on the profit motive which, like it or not, is a powerful drive. To many idealists the primacy of the profit motive has long seemed to be a sanctification of selfishness. . . . But capitalism has the overwhelmingly powerful defense of simple realism. There is just enough [self-interest] in most people to make them work harder for their own advancement than for the good of their fellows—a fact that regularly embarrasses socialist regimes."⁴

In short, self-interest is Smith's "invisible hand"—the motive which led men to dream, to work, to build in a free society; and to fulfill their dreams, to do their work, to build their businesses (or their "dream homes"), they had to invest *capital*; and in order to acquire that capital (if they didn't inherit it), they had to

"sacrifice"—to put off making purchases in order to save. The American builder—whether worker or businessman—was not in Comte's mold of the selfless man. Quite the contrary, the American capitalist was of necessity supremely concerned with his own economic interests (which, some critics often forget, almost always *included* the interests of those he valued, especially his family, friends, and business partners or workers). If he wasn't so concerned, the market's verdict was harsh: he failed and sank into poverty.

Now let's see what would happen if our society were to exchange the American vernacular meaning of altruism for Comte's version; let's go from the general to the concrete. Three examples will suffice:

1. The homebuilder would have to build homes—but expect no profit; he would have to give away—free—any home he constructed. If he did not, Comte would say, he would be acting selfishly. Any hint of *return* for his homes, any expectation that others should compensate him by *buying* the homes from him would taint the homebuilder's virtue.

Of course, no homebuilder would stay in business for long by following Comte's advice. The homebuilder would quickly find all of his materials and money depleted and he would have to find some other line of work—in which, naturally,

he'd be expected to make the same kinds of total sacrifices.

2. The farmer would not be able to sell anything he grew. Rather, Comte would say, he should freely distribute his peas and potatoes, his wheat and rice, his berries and asparagus, to any and all people who needed or wanted the food. If the farmer thought this was a sacrifice that wasn't "worth it," Comte would tell him, "Well, you're absolutely right; that's what makes it virtuous!" Clearly, our farmer would not last long in the economy, either. Farms—as any other business—require money, equipment, and labor in order to operate, none of which the farmer could afford if he could not make a profit from the sale of his crops.

3. Even the average worker—from the coal mines to the offices of Manhattan—would find Comte's version of altruism economically impossible. For under Comte's creed, the worker could not, *should* not, expect wages or benefits of any kind. Again, such expectations would not be *really* unselfish—and to be altruistic in Comte's world of ethics, you must give up *all* pursuit of self-interest. Thus, the worker would rapidly discover that he possessed no means whatsoever with which to buy even the minimal essentials, such as shelter and food.

Ah! But at this point our modern Comtean intellectual heirs step in

with their own economic "answer." Socialism. Why? Well, they say, under socialism everyone would provide for everyone else—and consequently no one would go wanting. How so? Simple: The homebuilder would give the farmer and the workers shelter; the farmer would give the homebuilder and the workers food; the workers would provide the labor needed to cultivate the fields and build the homes. Presto! Utopian economic altruism—à la Comte. With this utopia, the Comteans of today would contend, we have ended selfish, evil capitalism and its "exploitation of man by man, the profit motive and the rule of money supreme, with an inevitable cruel injustice everywhere manifested."⁵

Of course, many of Comte's heirs are doubtless sublimely unaware their views of altruism—and rages against the egoism of profit—can be traced to this influential man. But that is not what would make Comte frown at their utopian vision. What would disappoint Comte would be this: Even in this anti-capitalist vision, the parties would not be acting *truly* selfless: The homebuilder would come to *expect* compensation in the way of food and labor; the farmer would come to expect compensation in the form of shelter and labor; the workers would come to expect compensation with shelter and food. Obviously, their altruism

would be perverted; their sacrifices would anticipate payment. Such an economic system, Comte would be compelled to contend, would merely be capitalism reduced to the barter scale; it would be capitalism in sheep's clothing—and therefore not good enough.

The Alternative is Coercion

Stepping aside from our hypothetical homebuilder, farmer, and worker, what happens in the real world when those unwitting admirers of Comte's altruism, those haters of "selfish" capitalism (who, as Charles Dykes pointed out, cross the broad spectrum of modern intellectuals, including "politicians, journalists, university professors, and theologians"⁶) are determined to put their altruism into practice? What happens when they just "know" this creed is right—and everyone *should* sacrifice without expectation of reward? What happens is the use of force.

According to Bill Anderson, "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."⁷

For when the Comtean altruists find that Americans *will not* sacrifice their values for the pure "virtue" of it—when Americans keep

demanding an answer to the question, "What for?"—then the Comteans decide they must take matters into their own hands; they must find a way to sidestep the average American's demand for a return on his investment—and the only way to do that is with force.

This is why the mere appeals to sacrifice for "the common good" or "the public interest" have never been enough in America. Translated, those appeals are a re-writing of Comte: sacrifice for the sake of others—totally. Americans *do* believe in such "common good" or "public interest" values as a common defense for the public interest—but translated, that means: for the good, for the interest in common of all those individuals who make up the public and wish to see their values protected. Again, the American view is that a sacrifice must be *for* something, to attain or retain some value, a *trade*, not effort or energy thrown down some bottomless drain of ethics merely because they are told the throwing is in itself the essence of virtue.

The heirs of Comte—one might call them "old world" altruists—are aware of what they are up against in the American personality. If they were not, why would they constantly have to resort to force? For if Americans were indeed amenable to Comte's altruism, there would be *no* need to force anyone; they would do

it of their own will. When what men will *not* do of their own volition is nevertheless imposed on them, the result is not utopia, but—through economic information-restriction—economic decay. Or, as Ludwig von Mises so lucidly stated, "Socialism is unrealizable as an economic system because a socialist society would not have any possibility of resorting to economic calculation. This is why it cannot be considered a system of society's economic organization. It is a means to disintegrate social cooperation and to bring about poverty and chaos."⁸

A Self-Contradictory Theory

It is likely that Comte himself did not fully understand that his creed of altruism is self-contradictory—for if men are to sacrifice only for the "goddess" Humanity, the question can be raised: Is not such sacrifice *for* humanity an implicit acknowledgment of an expected value-return? In other words, doesn't even Comte's altruism in some sense smuggle in the concept that a sacrifice serves the preservation of something—and doesn't that sacrifice therefore become a form of investment to the individual who makes it?


I'll leave the final analysis of what *would* be good enough to qualify as a proper economic system under Comte's ethics up to the reader's own imagination. Whatever eco-

conomic universe Comte envisioned (if any) as perfectly attuned to his creed, to the expunging of the ego, it would clearly not be *this* world, not the world of American capitalism.

The economic lesson to be learned from Comte's altruism is a profound one: The attempt to put his creed into action leads to the destruction of the free market. So, the next time you hear a fashionable modern intellectual raving about altruism and sacrifice—make sure you know whether he's referring to Comte's worldview, or that of most Americans. The difference holds the future of capitalism in its grasp.

Mises once discussed the differences between the outlooks of citizens of authoritarian regimes (the kind to which Comte's altruism leads) on the one hand—and on the other hand, citizens of the liberty-oriented lands of the West (of which America is the best example). Of the authoritarians, Mises said, "all roads toward personal distinction were closed but one . . . They could try to make their way in serving [their rulers]." In contrast, he wrote, "The alert youth of the West looks

upon the world as a field of action in which he can win fame, eminence, honors, and wealth; nothing appears too difficult for his ambition."⁹

And that, in *actual practice*, is the precise difference between Comte's altruism—which depends on force for its implementation, and the common American view of altruism—which depends on freedom—and leads to capitalism. 

—FOOTNOTES—

¹Leonard Peikoff, *The Ominous Parallels* (Stein and Day, 1982), p. 83. (This book, reviewed in *The Freeman*, December 1982, contains valuable—and thoroughly documented—historical notes on the development of altruism and ideas which led to it.)

²*Ibid.*

³*Ibid.*

⁴"Can Capitalism Survive?" *Time*, July 14, 1975, p. 68.

⁵Charles Dykes, "Is There a Moral Basis for Capitalism?" *The Freeman*, August 1983, p. 474.

⁶*Ibid.*

⁷Bill Anderson, "Why Socialism Fails—Why Markets Survive," *The Freeman*, December 1983, p. 727.

⁸Ludwig von Mises, *The Anti-Capitalistic Mentality* (D. Van Nostrand Company, Inc., 1956), p. 102.

⁹*Ibid.*, 104.

How State Help Destroys Self-Help

IDEAS ON

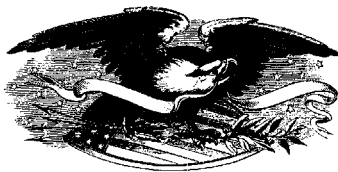


LIBERTY

It is one of the best established laws of history that, as government activity expands, individual activity and enterprise contract, until what was once a vigorous, self-reliant society becomes a hollow, bureaucratized shell, easily cracked by external attack or internal decay.

WILLIAM HENRY CHAMBERLIN

Freedom and Democracy



THE very word “democracy” in our time has become a term of commendation. Every system of government wants to call itself a democracy, even if it is actually a dictatorship. “Democracy” has become such a term of approval that to call something democracy is implicitly to commend it. Even communist nations whose governments are tyrannical to the core pride themselves on being “people’s democracies.” In non-communist nations such as the United States this tendency is equally evident: we hear of wars to defend democracy, and the

need to “preserve the tradition of liberal democracy.”

Whether one is talking about the right to vote or the “need to share our resources,” people will use the word “democracy” to praise whatever political system or ideal they favor. The harshest criticism of any procedure is that it is “anti-democratic.” And yet it was not always so: even a hundred years ago in this country, to call a nation a democracy could be construed simply as a description, not an evaluation—sometimes even as a criticism. Almost nowhere is this any longer true.

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Majority Rule

Democracy is rule by the majority. In a direct democracy, such as that of ancient Athens, or like the New England town meetings, every

citizen can vote on every measure. In an indirect, or representative, democracy, each citizen can vote to elect representatives (Congress, Parliament) who then do the voting, and it is the majority of the representatives rather than the majority of the citizens themselves who determine the outcome.

Let us consider representative democracy, the only kind that is feasible in large nations. Several conditions have first to be spelled out before our description is complete.

First, in a democracy there are elections. But how often? Suppose there were an election only once in a hundred years. In such a "democracy" voters could not vote to change governments more than once in a lifetime. Clearly, elections must be fairly frequent, enough to give voters a chance to vote for new candidates.

Second, the vote must be rather widely distributed. If only one per cent of the population could vote, or only persons whose initials were R.Z., no election would represent the will of the majority of the people, no matter how often they were held. There are almost always certain restrictions on voting—e.g., minors cannot vote, convicted felons cannot vote while in prison, persons in mental institutions cannot vote and non-citizens cannot vote—but in the twentieth century at least there are

many times more residents who can vote than cannot. Only after World War I could women vote in the United States, and for many decades no blacks could vote, as they still cannot in South Africa.

Third, even if everyone could vote, and at frequent intervals, it would be to no purpose if there were no diversity of positions available to vote for (or against). In the Soviet Union people can vote, at least for some offices, but only for one communist candidate or another—non-communists are not permitted to be on the ballot. In other Eastern bloc nations, numerous political parties are permitted, but no one is permitted to be a candidate who is not officially approved by the government in power. Such a restriction on candidacy can have the same effect as permitting only communists to be candidates. In both cases, a wide diversity of preferences is ignored. If a democracy is to function at all, it must be possible for persons of whatever opinion to sponsor candidates for office and there must be means for getting them on the ballot.

Nor is even this sufficient. No choice by voters is meaningful unless that choice has at least the opportunity to be an informed choice; and this is not possible if all the channels of *publicity* are reserved for the officially sponsored parties. Electors must be able to find out all

they need to know about the alternative candidates. If the government owns all the television and radio stations, and owns or controls the content of newspapers and magazines, the voter will not be able to receive an accurate impression of the choices available.

Even if the press is not owned by the government, if newspapers are censored or prohibited from expressing opinions contrary to those of the party in power, voting citizens will not be able to make choices on the basis of reliable information. If newspapers and the media are monopolized by one group or party, it is not possible for the groups which are denied access to the media to receive a fair hearing. And thus a controlled press is incompatible with democracy, and a free press essential to it.

There may well be other conditions, but these at least are indispensable if any system of government is to be called a functioning democracy.¹

Self-Government

Democracy is often spoken of as "self-government." But if we treat this term with any care at all, it is clear that democracy is no such thing. I can govern myself, determine to a large extent the course of my life, curb my desire for immediate satisfactions in order to achieve long-range goals, and so on. And you can do the same with yourself. If ten

people do this, each is governing himself or herself. But when people speak of democracy as self-government, they are not speaking about each person governing himself; they are speaking of a process in which a majority of voters, or a majority of members of a legislature, make decisions which have the force of law for everyone, including those who are opposed to what is enacted. It is true that each adult individual in a democracy can *participate* in determining who shall sit in the seats of political power—but only in a very small way, seldom enough to change the outcome of an election.

In any case, self-government means governing oneself; it is a mistake to extend this from an individual to a collection of individuals and say that via democracy the collection is "governing itself." Democracy is simply government by the majority of a collective (or the majority of the representatives the voters have voted for). Their decisions may not accord with the needs or wishes of you as an individual at all. To the extent that they exert coercive power over your life, you are being governed *by others*.

An individual, of course, may govern himself badly: he may make constant mistakes, may ruin his own life, may waste his years on useless projects or alcohol; but at least he is doing it to himself. A democratic government may also

govern others badly. When inhabitants of a nation freed from colonial rule say, "At least we're governing ourselves," what they are saying is that instead of people from outside the nation ruling them, there are now people from inside the nation ruling them—and sometimes doing so far worse than their colonial masters did.

Objections to Democracy

The most usual, and most easily understood, objection to democracy as a form of government is that it enables the majority to ride roughshod over the rights of a minority—to persecute them, to censor their activities, even to kill them. A majority might vote to kill certain minority racial elements, or to make life difficult for them in many ways. If feelings run high and a majority knows it can get by with it, there is every temptation to vote into law whatever prejudices a majority may have. Is it inconceivable that a majority of Germans, had they voted on it, would have voted to do something (not necessarily death) to Jews? Certainly a majority of Americans for generations used the political means to keep blacks "in their place." When there is no criterion but majority rule, anything can become law, depending on what the whims of the majority are; it is like a ship without a rudder.

But a second, and even more tell-

ing, criticism of democracy is that the majority of voters will often vote for policies which turn out to be ruinous to *themselves*, though they do not see this at the time. Legislatures, responding to the voters who elected them, may vote billions of dollars for various schemes of welfare. Even though only a small part of the money ultimately reaches the poor for whom it was intended, the legislators continue to vote for more of these measures. If they don't, they are branded as "cold" and "unhumanitarian" (as if it were somehow humanitarian for A to take B's money and give it to C) and they won't get re-elected. But the voters rebel at the resulting high taxes, so the government resorts to increasing quantities of printing-press money, and the result of course is inflation. The consumer's dollars will no longer buy what they did before, and almost everyone is worse off than before. But they didn't see the causal connection between the measures they voted for and their resultant poverty. They didn't realize that if 40 per cent of their income went to finance the government, that was 40 per cent they couldn't use themselves, and yet that 40 per cent wasn't enough to finance the government projects which they themselves favored.

When they said "It's government money," they didn't realize that it was *their* money that was being

taken from them to finance the projects they wanted. They didn't realize that money isn't like manna from heaven—that the government has no way of financing anything except by taking it from the people themselves. They didn't see that for every person who gets something for nothing there must be at least one other person who gets nothing for something. Even a superficial knowledge of elementary economics should have told them this much; but they didn't have even that elementary knowledge, so they voted themselves into disaster. Thus, beginning in relative independence of government, they voted themselves into utter dependence on government, a result they had completely failed to foresee.

One may say, "Well, then they deserve it. They brought it on themselves." Perhaps so—but who is the "they"? The "they" is the majority. The minority, who warned against these consequences, and were only ridiculed for their efforts, certainly did not deserve such a fate; they knew well enough what would happen. But in a democracy they must suffer consequences along with the ignorant majority that favored the disastrous policies.

When Benito Juarez, the first president of Mexico, said, "Since people do not vote themselves into slavery, freedom flows from democracy as water flows from the hills,"

his words were doubtless eloquent and inspiring. But unfortunately they were not true; people *do* vote themselves into slavery.

Plato on Democracy

What, after all, is so great about a majority view? Does a majority's taste in art determine which art is best? Does a majority vote on Newton vs. Einstein determine which of their theories was right? Are the masses of mankind so imbued with political wisdom that the majority can always be trusted to make the right choices? On the contrary: the majority of people appear to be influenced more by a candidate's images than by his argument, and to become bored and uncomprehending when even moderately difficult points are discussed (such as the need for capital investment to bring about prosperity). Ignorance and confusion multiplied 100 million times are still ignorance and confusion. That is why Louis Napoleon characterized democracy cynically as "government of the cattle, for the cattle, by the cattle." And that is why Plato more than two thousand years ago spoke of democracy in the following manner:

Imagine this state of affairs on board a ship or a number of ships. The master is bigger and burlier than any of the crew, but a little deaf and short-sighted and no less deficient in seamanship. The sailors are quarrelling over the control of the

helm; each thinks he ought to be steering the vessel, though he has never learnt navigation and cannot point to any teacher under whom he has served his apprenticeship; what is more, they assert that navigation is a thing that cannot be taught at all, and are ready to tear in pieces anyone who says it can.

Meanwhile they besiege the master himself, begging him urgently to trust them with the helm; and sometimes, when others have been more successful in gaining his ear, they kill them or throw them overboard, and, after somehow stupefying the worthy master with strong drink or an opiate, take control of the ship, make free with its stores, and turn the voyage, as might be expected of such a crew, into a drunken carousal.

Besides all this, they cry up as a skilled navigator and master of seamanship anyone clever enough to lend a hand in persuading or forcing the master to set them in command. Every other kind of man they condemn as useless. They do not understand that the genuine navigator can only make himself fit to command a ship by studying the seasons of the year, sky, stars, and winds, and all that belongs to his craft; and they have no idea that along with the science of navigation, it is possible for them to gain, by instruction or practice, the skill to keep control of the helm whether some of them like it or not.

If a ship were managed in that way, would not those on board be likely to call the expert in navigation a mere stargazer, who spent his time in idle talk and was useless to them? . . . But our present rulers may fairly be compared to the sailors in our parable, and the useless visionaries, as the politicians call them,

to the real masters of navigation. . . . Democracy will promote to honor anyone who merely calls himself the people's friend.²

A Republic

The government of the United States is not a democracy, and the Founding Fathers never thought of it as such. It is, rather, a *republic*.

A republic may be democratic in many of its procedures, but there are certain things it cannot do. In the constitution of a republic are contained certain *limitations* on what the majority may do. Thus, the First Amendment declares that Congress shall pass no law abridging freedom of speech or of the press. Even if a law banning freedom of speech were passed by Congress, it would be unconstitutional and presumably would be struck down by the courts.

In the same way, the Constitution provides for "due process of law," protects citizens against search and seizure of property, entitles them to protect themselves against aggressors, and so on—and having these protections embedded in the Constitution gives all of us protection against measures that an ignorant or whimsical majority might enact. In short, the Constitution recognizes and protects *individual rights*—against their violation by other individuals, and by the government itself—whereas unlimited democracy

may flout them with abandon, and with nothing between them and us to protect us against the ever-changing whims of the majority.

As James Madison wrote in *The Federalist Papers*, "A pure democracy can admit no cure for the mischiefs of faction. A common passion or interest will be felt by a majority, and there is nothing to check the inducements to sacrifice the weaker party. Hence it is, that democracies have ever been found incompatible with personal security or the rights of property; and have, in general, been as short in their lives as they have been violent in their deaths."

What Kind of Republic?

What whims we are protected against depends, of course, on what kind of republic it is. It depends on what kinds of protection are written into the constitution; it also depends on whether the constitution is actually followed in practice or is simply there for self-advertisement or window-dressing, like the constitution of the Soviet Union.

The best constitution is one which provides maximum freedom under a rule of law. Maximum freedom means freedom to live by one's own choices and not to live by the choices forced on one by others. But some choices that people make interfere with the freedom of others; some people choose to murder, to plunder, to steal the fruits of others' labor.

Such errant behavior is the reason why law is required. The first maxim of the law is: *Do not harm others*—whether those inflicting the harm are other individuals or the government itself. Law is required so that people may live in freedom, not having that freedom forcibly interfered with by the choices of others.

All this was certainly the intent of the Founding Fathers of the American republic. Such freedoms include, certainly, the *political* freedoms, such as the freedom of speech and press, freedom of peaceable assembly, and freedom from harm to one's person or property; they also include *economic* freedom, such as the freedom to start a new enterprise, freedom to sustain it by one's efforts (not to have it confiscated), and freedom to employ others or be employed by others on terms voluntarily agreed to by both; in short, the freedom of the market.

The Founding Fathers saw no reason to assume that a majority of citizens should have the final and deciding word on what bills should be enacted into law; decisions of such depth and complexity could not be left to the ever-changing whims of a majority. "No one imagines that a majority of passengers should control a plane. No one assumes that, by majority vote, the patients, nurses, elevator boys and cooks and ambulance drivers and internes and

telephone operators and students and scrubwomen in a hospital should control the hospital. Would you ever ride on a train if all the passengers stepped into booths and elected the train crews by majority vote, as intelligently as you elect the men whose names appear in lists before you in a voting booth? Then why is it taken for granted that every person is endowed on his 21st birthday with a God-given right and ability to elect the men who decide questions of political philosophy and international diplomacy?

"This fantastic belief is no part of the American Revolution. Thomas Paine, Madison, Monroe, Jefferson, Washington, Franklin, did not entertain it for a moment. When this belief first affected American government, it broke John Quincy Adams' heart; to him it meant the end of freedom on earth."³

And yet, things haven't quite turned out that way. As one observes the United States today, it often seems as if very little of the original republic remains, and that it has been gradually, sometimes imperceptibly, but nevertheless surely been transformed into the democracy that the Founding Fathers feared. How has this happened?

Election to Federal Offices

One important straw in the wind is the gradual transformation of the manner in which individuals are

elected or appointed to high office in the federal government. Most people seem to assume that congressmen and presidents always came into office as the result of democratic elections. But the founders of our republic carefully framed it otherwise. Consider how it was when the republic was founded, and for many years thereafter, based on the original (unamended) Constitution:

1. The only exercise of majority rule in the federal government was the House of Representatives. The majority of voters were empowered to elect—and to recall in two years—the members of the House, the only body having the authority to spend the money collected from the people in taxes. (Voting was also much more restricted during those years.)

2. The Senate was not elected by the citizens. Its members—two from each state—were appointed by the legislatures of their respective states, according to rules determined by the states and not the federal government. The popular election of senators did not come about until the 17th Amendment, in 1913.

3. The president was not elected by popular vote at all. Article 2 of the Constitution reads, in part: "Each state shall appoint, in such manner as the legislature thereof may direct, a number of electors, equal to the whole number of sena-

tors and representatives to which the state may be entitled in the Congress . . . The electors shall meet in their respective states, and vote by ballot for two persons . . . They shall make a list of all the persons voted for, and of the number of votes for each, which list they shall sign and certify, and transmit sealed to the seat of the government of the United States, directed to the president of the Senate. The president of the Senate shall, in the presence of the Senate and House of Representatives, open all the certificates, and the votes shall then be counted. The person having the greatest number of votes shall be the president, if such number be a majority of the whole number of electors appointed . . ." It was done this way so that the president would not be subject to the whims of any section of the nation, but would represent the entire republic.

Today, of course, the president is elected by popular vote, and the Electoral College is an empty charade. This is yet another step toward emasculating the republic and instituting democracy. "And many a president in a time of crisis, since that right [freedom from popular election, hence from special interest groups] was taken away from his high office, must have silently cursed the amendment that plunges him to the neck in a mob of short-sighted, local-minded, clamoring

men, clutching and pulling at him with a thousand hands. Today that Amendment does not let the captain of this ship of State make one clear decision unhampered by the ignorance and prejudices and fears of all the passengers on all the decks and all the men playing poker in the ship's bar. An ocean liner could not be navigated for a day under such conditions."⁴

The Courts and the Republic

But that is only the tip of the iceberg. What has occurred in this nation, and only partly because of changes in the method of electing presidents and Congressmen, is an enormous *expansion of governmental powers*. When this republic was founded, the main purpose of the federal government was defense against aggression: police to defend citizens against internal aggression, and armed forces to defend them against external aggression. But since government, to discharge these functions, requires a monopoly on the use of physical force—or at least a monopoly on the power to say who will be entitled to wield that force—it is tempting for a government, once installed, to use that coercive force in ways that were no part of the original plan. "Give them an inch and they'll take a mile" was never more applicable than to the powers usurped by governments: power to regulate industry and ag-

riculture, power to control and inflate the currency, power to seize the earnings of those who work and give them to those who do not—and so on endlessly.

“But the United States is a republic; and the republic’s powers are limited by its constitution. The Constitution does not mention any of these powers as being among those delegated to the federal government. The federal government is not constitutionally empowered to do any of these things.”

This is quite true. But the Constitution is interpreted by the courts, and the courts—particularly during and since Roosevelt’s “New Deal”—have conspicuously failed to prevent the expansion of Federal powers. The result has been to sanction Federal interference in virtually every branch of economic activity, in which, as a republic, it has no place.

Interstate Commerce

For example, the Constitution empowers the federal government to handle “interstate commerce.” But the interstate commerce clause has been construed by the courts so as to permit all manner of activities never envisaged by the framers of the Constitution, such as “taxing North Dakota farmers to build flood control dams on a dry creek rising in the mountains of Los Angeles County, flowing through Los Angeles County, and discharging into

the Pacific Ocean in Los Angeles County.”⁵ Interstate commerce has been construed to include the wages of men who wash the windows of buildings in which interstate trade is conducted. It has been construed to permit all manner of regulation of agriculture, such as regulating the kind and amounts of crops a farmer may grow. (The federal government has the authority to regulate that which it subsidizes, said the Court; but what gave it the authority to subsidize in the first place?) It has been construed so as to permit the government to set the price of natural gas at the well-head (the Phillips Petroleum Case of 1954), thus discouraging the search for new sources of natural gas and meanwhile encouraging consumers to be wasteful of gas because of the government-set low price. Indeed, it has enabled the government to create an energy shortage where in nature no energy shortage exists.⁶ These and thousands of other intrusions into the free market have been brought about by these court decisions, giving to the federal government tremendous regulatory powers never granted in the Constitution of this republic.⁷

And yet, in numerous polls throughout the last decade, a majority of Americans appear to believe that what is needed are *more* controls, not fewer. The majority have no idea of the cost of these controls:

the tremendously expensive and wasteful regulatory apparatus, the ball and chain it places on production, the countless men and women who *would* have helped to create a prosperous economy, who would (for example) have found natural gas and sold it at market price (and with greater abundance, the price would have come down). The majority see only that "we think the price is too high," and vote to control the producers. And thus they kill the goose that lays the golden egg. The minority who see clearly enough what is happening are outvoted at the polls. Such is the course of democracy.

The General Welfare

The federal government has also assumed enormous powers through a distortion of the phrase "the general welfare." In the first Congress, in 1789, a bill was introduced to pay a bounty to fishermen at Cape Cod, as well as a subsidy to certain farmers. James Madison said: "If Congress can employ money indefinitely to the general welfare, they may take the care of religion into their own hands; they may appoint teachers in every state, county, and parish, and pay them out of the public treasury: they may take into their own hands the education of children, establishing in like manner schools throughout the Union: they may seek the provision of the poor ... [all of which] would subvert the

very foundations, and transmute the very nature of the limited government established by the people of America."

And so Congress rejected the bill, and Thomas Jefferson said with relief, "This will settle forever the meaning of the phrase 'general welfare,' which, by a mere grammatical quibble, has countenanced the general government in a claim of universal power." It is an irony of history that the Hydra that Jefferson thought he had laid to rest has within our own century grown a hundred new heads, each of them aimed at our liberty.

The Constitution read: "Congress shall have the power to lay and collect taxes, duties, imports and excises, to pay the debts and provide for the defense and general welfare of the United States." This meant that the national government could raise money *only* and spend money *only* to carry out its enumerated powers. They thought it ridiculous to construe two words "general welfare" as if they superseded the detailed enumeration of specific powers, rather than as merely summarizing them. The two words were always interpreted in the latter way by the Supreme Court during the first century and a half of American history. Their meaning, they held, could be changed only by amendment to the Constitution.

Yet today the amount of transfer

payments—to promote “the general welfare”—takes up almost half the budget; more than that, if one includes all the entitlement programs. Moreover, the majority of Americans apparently consider all these things as their *right*. Those receiving money from the federal government now outnumber those who labor to sustain it. The resulting level of taxation, as well as national indebtedness, is causing the republic to hemorrhage to death in the name of the democracy.

Market Alternatives

Without the vast bureaucracy created through the regulatory agencies, free-market alternatives could be devised. For example, “Building codes and fire codes could presumably be replaced quite easily by privately enforced codes drafted by insurance companies. Few developers would construct hazardous fire-traps if they knew beforehand that they could not acquire insurance for their buildings. And as Bernard Siegan brilliantly demonstrated in his ‘Non-zoning in Houston,’⁸ egregious, incompatible property uses will not often cohabit if land use regulations were summarily abolished. Restrictive covenants that run with the land, renewable at intervals of several decades, could very expeditiously insure that a slaughterhouse will not locate in the middle of Shaker Heights, Beverly Hills, or

Boca Raton. If one were so unfortunate as to find one’s house suddenly within proximity of a noisome chemical plant a remedy would lie in nuisance law, for no one has a right to use his property in such a way as to adversely affect another’s enjoyment of his property.”⁹

Democracy vs. the Market

The only thing that can increase a nation’s standard of living is greater *production*. And anything that inhibits that production makes the nation poorer. If a farmer or manufacturer has part of his output taken away from him for distribution to others, he will be less motivated to produce in the future. If he is regulated by men from the Department of Agriculture who trample over his fields to determine how much corn he has planted, if the factory owner is regularly fined for trivial offenses that shouldn’t be offenses at all (but are only contrary to rules set up by the government regulatory agency), he will sooner or later be forced into bankruptcy or to continue production under great difficulties (and higher prices). And if the government pays the farmer money to grow or not to grow crops, this increases the burden of every taxpayer in the land without any increase of production.

In a democracy, all such processes are easily sanctioned by popular outcries: “He’s a profiteer—take it

Perpetual Childhood

ABOVE this race of men stands an immense and tutelary power, which takes upon itself alone to secure their gratifications, and to watch over their fate. That power is absolute, minute, regular, provident, and mild. It would be like the authority of a parent, if, like that authority, its object was to prepare men for manhood; but it seeks on the contrary to keep them in perpetual childhood: it is well content that the people should rejoice, provided they think of nothing but rejoicing. For their happiness such a government willingly labours, but it chooses to be the sole agent and the only arbiter of that happiness: it provides for their security, foresees and supplies their necessities, facilitates their pleasures, manages their principal concerns, directs their industry, regulates the descent of property, and subdivides their inheritances—what remains, but to spare them all the care of thinking and all the trouble of living?

Thus it every day renders the exercise of the free agency of man less useful and less frequent; it circumscribes the will within a narrower range, and gradually robs a man of all the uses of himself.

ALEXIS DE TOCQUEVILLE, *Democracy in America*

away from him." "He's getting too much—give it to us." People who haven't succeeded, or weren't willing to make the sacrifices he made, will do all they can to take it away from him after he has succeeded. A democracy easily becomes dominated by the morality of *envy*. A fickle mob, unaware of the facts of basic economics, but easily swayed by demagogues demanding as their right the fruits of the labor of others, can easily bring about the passage of laws which will inhibit production, destroy the free market, and in the end lead to such shortages and bottlenecks in production that they result, just as Plato said, in riots,

calls for "law and order," and dictatorship.

Only a republic, in which the powers of the government are constitutionally limited, can avoid this fate. That is why the Founding Fathers were careful to create this nation as a republic, so that each person could determine his own destiny and not have it determined by others, whether by the tyranny of one (dictatorship) or of a few (oligarchy), or of many (democracy). "It is the blessing of a free people, not that they live under democratic government, but that they do not."¹⁰

If the return to a republic is not achieved, Alexis de Tocqueville's

prediction of a century and a half ago may yet come true: that the American government will become for its citizens "an immense and tutelary power, which takes upon itself alone to secure their gratifications, and to watch over their fate. . . . For their happiness such a government willingly labors, but it chooses to be the sole agent and the only arbiter of that happiness: it provides for their security, foresees and supplies their necessities, facilitates their pleasures, manages their principal concerns, directs their industry, regulates the descent of property, and subdivides their inheritances—what remains, but to spare them all the care of thinking and all the trouble of living? . . . The will of man is not shattered, but softened, bent, and guided; men are seldom forced by it to act, but they are constantly restrained from acting; such a power does not destroy, but it prevents existence; it does not tyrannize, but it compresses, enervates, extinguishes, and stupefies a people, till each nation is reduced to nothing better than a flock of timid and industrious animals, of which the government is the shepherd."¹¹

Indeed, it is not difficult to make a case for the view that what Tocqueville predicted has already come to pass.

—FOOTNOTES—

¹See S. I. Benn and Richard Peters, *Social Principles and the Democratic State* (London: Allen & Unwin, 1959), Chapter 15. Also published as a Collier-Macmillan paperback entitled *Principles of Political Thought*.

²Plato, *The Republic*, translation by Francis M. Cornford (London: Oxford University Press, 1941), pp. 195–6.

³Rose Wilder Lane, *The Discovery of Freedom* (New York: Arno Press, 1943), pp. 207–8.

⁴Rose Wilder Lane, *op. cit.*, p. 203.

⁵Newton Garber, *Of Men and Not of Law* (Greenwich, Conn.: Devin-Adair, 1962), pp. 13 ff. See also Philip Kurland, ed., *The Supreme Court and the Constitution* (University of Chicago Press, 1960), and the recent book by Henry M. Holzer, *Sweet Land of Liberty?* (Costa Mesa, Calif.: Common Sense Press, 1983), for many other examples.

⁶On the so-called energy crisis, see for example C. V. Myers, *Money and Energy* (Darien, Conn.: Soundview Books, 1980), and Lindsey Williams, *The Energy Non-Crisis* (Wheatridge, Colo.: Worth Publishing Co., 1980).

⁷Dan Smoot, *The Business End of Government* (Belmont, Mass.: Western Islands, 1973), p. 83. See also Alan Stang, *The Oshacrats* (from the same publisher).

⁸Bernard Siegan, "Non-Zoning in Houston," *Journal of Law and Economics*, Vol. 13 (1970); and *Land Use without Zoning* (Lexington Books, 1972, Chapter 2).

⁹Ellen Frankel Paul, "On Three Inherent Powers of Government," *The Monist*, Vol. 66 No. 4 (Oct. 1983), pp. 539–40.

¹⁰Richard Taylor, "The Basis of Political Authority," *the Monist*, Vol. 66 No. 4 (Oct. 1983), p. 471. See also Richard Taylor, *Freedom, Anarchy, and the Law* (Prentice-Hall, 1973).

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The Davis-Bacon Act

To determine the nature and measure of guilt, criminal law searches for man's plans and intentions. It makes important distinctions between criminal action that is premeditated, and action without intent but with malice and in the heat of passion—between voluntary action that means to do some harm, and unintentional or negligent behavior that is violating the law. Punishment is meted out according to the judge's or jury's perception of guilt.

In economics, no such distinctions are made. An economist merely inquires into the means to be applied for the attainment of chosen ends. He does not dwell on the choosing of ends. He does not inquire into the

intent of a legislator who casts his vote for a certain bill and endorses certain policies. An economist does not search for criminal intent to inflict harm on certain people, but he does ascertain the harm that is inflicted on them. He does not unmask the racist motives of legislators casting their votes for certain policies; but he may conclude that the votes cast may have consequences that are detrimental to certain groups and races.

The Davis-Bacon Act of 1931 provided ample food for thought for both the criminal psychiatrist and theoretical economist. It ordered contractors performing construction work for the federal government to pay their workers "prevailing" wage rates. Later amendments to the Act added "prevailing" fringe benefits and other costs for federally assisted projects as well.

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The legislation was the first to establish minimum wages in the construction industry, benefiting white organized labor at the expense of many other workers and the American public. The Act established a new pattern of discrimination against racial minorities and drew an ugly line against young people, the poor and the handicapped. Subsequent to the federal law, most states enacted their "prevailing wage" acts covering state construction expenditures.¹ Moreover, the Davis-Bacon concept of government wage determination spilled over to numerous other federal and state acts. Today, at least 75 federal acts contain Davis-Bacon clauses.²

Working Evil on Minorities

One of the bill's sponsors, Congressman Miles Clayton Allgood of Alabama, spoke freely of his racist motive: "Reference has been made to a contractor from Alabama who went to New York with bootleg labor. That is a fact. That contractor has cheap colored labor that he transports, and he puts them in cabins, and it is labor of that sort that is in competition with white labor throughout the country."³ Some legislators presented the bill as a revival and full-employment measure; others simply viewed it as an opportunity for benefiting construction workers or for pleasing labor leaders.

According to George Mason University professor, Walter Williams, the original supporters of the Act knew very well that the law would reduce opportunities for blacks. In recent testimony before the Senate Subcommittee on Labor he likened the Act to similar restrictions imposed by the government of South Africa: "White racist unions there support laws like the Davis-Bacon Act for the expressed purpose of protecting white labor from low wage black competition. Over there they call these laws 'standard rate.' Their stated intent is one thing; yours is another. The effect is roughly the same in both places."⁴ But no matter what the motives may have been, the Act inflicted mass unemployment on black workers and continues to weigh heavily on them until this very day.

In unhampered markets wage rates reflect labor productivity, which is the value of the productive contributions made by a worker. If government and labor unions forcibly raise wage rates above the market rates, some workers are likely to be "disemployed." They become "submarginal" in productivity as their costs are made to exceed their productivity. Unless they are discharged immediately they consume income and capital of their employers, and, in time, eat away the very business that employs them. By calling for "prevailing" wage rates

the Act openly discriminates against all workers earning less than the "prevailing" rates and bars them from Davis-Bacon employment.

Minority Workers Are the Primary Victims

The primary victims of such legislative tactics are minority workers. Their labor productivity may be lower than the "prevailing" rates because of lower levels of training and experience. They may live in rural communities far removed from product markets, or they may reside in places with less capital investment per head of population. In most cases they are the primary victims even where there is no discriminatory intent. But the Act actually breeds discrimination as it creates a surplus of job seekers. Without Davis-Bacon, minority workers could offer their services at market rates that are lower than the Davis-Bacon rates. A non-discriminating employer could buy their services at a lower price; a discriminating employer would have to pay higher prices for white labor, which amounts to a penalty for discrimination. The Davis-Bacon Act eliminates this market penalty.⁵

The Act eliminates opportunities for low-skilled minority workers because it restricts the employment of trainees and helpers. The Department of Labor does not recognize

semiskilled or helper categories in its wage determination. A Davis-Bacon worker must be paid the full rate for a job classification, regardless of his skill level. A plumber's helper who fetches the pipes must be paid a skilled plumber's wage, which generates instant discrimination against helpers, trainees, and laborers. As many minority workers are helpers, trainees, and laborers, they may suffer the Davis-Bacon discrimination, which they are likely to interpret as white racism.

After more than 50 years of Davis-Bacon legislation the Department of Labor has not been able to fix rates satisfactorily. A single construction job may require anywhere from 10 to 300 job classifications. The Branch of Wage Determination must make tens of thousands of determinations every year. As can be expected, it is quick to impose the rates determined by readily available collective bargaining agreements. An overwhelming number of determinations, therefore, carry union wage rates that usually are far above the market rates. This explains why the strongholds of unionism always are the centers of unemployment. Minority workers in such centers are prone to linger in chronic unemployment and deep despair.

High compliance costs discourage many small contractors from bid-

ding on Davis-Bacon projects. Under the Act contractors must submit weekly payroll information, such as hours worked and wages paid, for every employee on a government-sponsored project. While large contractors may be able to handle the reporting requirements and bear the expenses, small contractors may chafe under such loads, which may discourage them from competing with the larger companies. The compliance regulations favor large unionized companies, and work evil on smaller firms that are likely to employ minority workers.

In many communities local contractors employing local labor may not choose to bid on Davis-Bacon projects, which makes room for construction firms that specialize in Davis-Bacon work. Before 1931, contractors with cut-rate "bootleg colored labor" were damned for traveling about the country and competing with white labor. Today, contractors with bootleg white labor working at union rates are moving about without much competition, which permits them to raise their rates with impunity.

It is not uncommon for out-of-town union contractors to obtain government-sponsored construction contracts in nonunion communities. In fact, it is not uncommon for union shops with preponderantly white labor to obtain Davis-Bacon contracts in black neighborhoods. They pro-

vide public facilities and build subsidized housing for the poor and underprivileged, many of whom are made and kept poor by the Davis-Bacon Act. If it were not for the intervention of "affirmative-action" judges, most urban-renewal projects for the benefit of racial minorities, costing tens of billions of dollars, would be undertaken by white unionized labor while minority craftsmen would be forced to watch in idleness and despair.

In the strange world of power and politics, one agency of government inflicts an evil, another seeks to alleviate it. One law raises the costs of housing construction, another seeks to offset the raises through construction grants, low-interest loans, and subsidized rents. One regulation erects offensive barriers for minorities, another seeks to give assistance for overcoming those barriers. Void of freedom, confusion is reigning supreme.

Depressing the Depression

Many sponsors of the Davis-Bacon Act speak of jobs and full employment. They deny any discriminatory intent, but point all the more resolutely at the number of jobs the Act is supposed to have created for "non-bootleg" labor. But this claim is as unconvincing as the other. The Act was a dismal failure as an economic revival and full-employment measure. Soon after its passage, on

March 3, 1931, construction activity contracted in all industries. The period from the summer of 1931 to midsummer 1932 was one of deep gloom and despair. The prices of all securities tumbled, stock and bond markets moved down drastically. The Federal Reserve Index for industrial production dropped sharply from 80 in the late summer of 1931 to below 60 in the summer of 1932. And average unemployment in 1931 soared from 16.3 percent to 24.9 percent in 1932.⁶

Surely, no one would care to contend that the Davis-Bacon Act contributed to economic revival and prosperity. But it can be concluded, without much contradiction, that the Act contributed to the economic collapse that was getting under way. Worst of all, it revealed the growing popularity of radical government intervention that soon would not be content with fixing construction wages, but would reach out to countless other endeavors.

The Davis-Bacon Act directly contributed to the economic disintegration by obstructing the necessary readjustment. When economic activity was slackening and unemployment soaring, when goods prices were tumbling and employers were suffering staggering losses, the cost of labor needed to be reduced. In the face of the greatest economic debacle ever, there was no greater need than to raise labor productivity

and lower its cost. But the Davis-Bacon legislators chose the very opposite: they raised construction costs, which greatly aggravated the situation.

A few months later, in March, 1932, the same Congress passed the Norris-LaGuardia Act, which imposed strict limitations on the power of federal courts to issue injunctions for the protection of private property against labor union aggression. It limited government protection to cases where "substantial and irreparable injury to complainant's property will follow . . .," which obviously left unions free to inflict "insubstantial" and "reparable" injury to the property of employers. The Act outlawed employment contracts that commit an employee not to join a labor union, but expressly sanctioned labor's use of strikes, picket lines, and secondary boycotts.⁷ In short, it conferred legal immunities and privileges on unions and greatly strengthened their power to raise production costs and aggravate the depression.

Tariffs and Taxes

It would be misleading to attribute the Great Depression to the Davis-Bacon Act and the Norris-LaGuardia Act alone. There were other acts that were equally harmful to the smooth operation of the market order. In June, 1930, federal legislators in Congress assembled

had passed the Hawley-Smoot Tariff Act, which raised American tariffs to unprecedented levels. It practically closed U.S. borders to foreign goods and cut off international markets.

The same politicians who prescribed the Davis-Bacon Act and the Norris-LaGuardia Act also imposed the sharpest increase in federal tax burden in American history. While economic conditions went from bad to worse and unemployment rose to 12.4 million, they passed the Revenue Act of 1932, which doubled the income tax, boosted corporation tax rates, raised estate and gift taxes, and imposed a host of indirect taxes. When state and local governments faced shrinking tax collections they, too, joined the federal government in imposing new levies. All along, President Hoover was lecturing the nation's industrial leaders on the benefits of corporate spending. In the face of declining sales and rising losses he pledged them not to reduce wages and prices, but to expand production. His administration set the tone by embarking upon massive public works programs, and urging state governments to follow suit.

It is futile to estimate the economic harm inflicted by the Davis-Bacon Act since its passage in 1931. The number of buildings not built, the jobs not created, is hidden in the haze of the past. But it should always be remembered that the Act

pointed the way toward the most significant economic and political changes to come. It made government the regulator of wages and income, thereby aggravating and prolonging the depression, which in turn gave rise to ever more government tasks and functions. It led to the Full Employment Act of 1946 and countless other government programs for economic stimulation and full employment.

Moreover, the flagrantly anti-Negro tenor of the Act planted the seed for the "civil-rights revolution" during the tumultuous 1960s, which ranged from violence in the streets to militant federal and state legislation. It bore its most bitter fruit in the rioting in a Negro district of Los Angeles that took 34 lives and caused \$48 million in property damage.

And finally, the Act contributed its share to the age of inflation, which is marked by government spending and deficit financing on behalf and for the benefit of the poor and underprivileged. Surely, a small share of the trillion and a half dollar debt incurred from 1931 to the present must be attributed to the great desire to alleviate the suffering of unemployed minorities and compensate them for the injuries inflicted by other policies.

Despite its numerous undesirable economic and social consequences the Act has survived more than half

a century and may live on indefinitely. It generated controversy from its beginning, and yet, it persists unchanged and unaffected. It is costing taxpayers more than \$1 billion annually, boosting the cost of federal construction projects, and yet, it persists unscathed under Democratic as well as Republican administrations. Nearly every study concludes that the Act's primary effect is the serious harm inflicted on nonunion and minority workers, and yet, its victims continue to be victimized year after year.

Why Does Davis-Bacon Persist?

The harmful effects of the Davis-Bacon Act do not seem to impair its popularity. They are interpreted away and placed on the doorsteps of capitalism. The American public does not suspect the Davis-Bacon Act, the Norris-LaGuardia Act, or the Hawley-Smoot Tariff Act of having played an ominous role in the Great Depression. It lays the blame instead on mysterious failings of the private-property order and the profit motive. It does not suspect labor legislation of causing unemployment, especially among minorities. Instead, the public is persuaded that white middle-class racism, especially among employers, is responsible for the unemployment plight.

To raise the income of labor by legislative fiat or union coercion is the very essence of interventionism.

In the eyes of the American public, to raise wages is virtue, to take from employers is morality. In the world of reality, however, inexorable economic principles contradict such notions and point up the inevitable consequences of policies based on these notions. In economic life, principle must prevail in the end. In the halls of politics, consensus and popularity may sway over truth. Error has a great deal of political clout. ☉

—FOOTNOTES—

¹John P. Gould, *Davis-Bacon Act* (Washington: American Enterprise Institute, 1971), p. 5.

²*Ibid.*, pp. 7, 8; also John P. Gould and George Cittingmayer, *The Economics of the Davis-Bacon Act* (Washington: American Enterprise Institute, 1980), p. 84 *et seq.*

³*Congressional Record*, House, vol. 74, p. 6513.

⁴*Hearings before the Subcommittee on Labor and Human Resources, U.S. Senate*, April 29, 1980, p. 244.

⁵The Department of Labor estimated the Davis-Bacon costs in 1982 to exceed \$1 billion: inflated wage costs \$570 million, compliance costs \$100 million, restrictive practices costs \$480 million. Congressional Budget Office, *Modifying the Davis-Bacon Act: Implications for the Labor Market and the Federal Budget*, July 1983, p. 29.

⁶National Industrial Conference Board, *Conference Board Economic Record*, March 20, 1940.

⁷Roscoe Pound, *Legal Immunities of Labor Unions* (Washington: American Enterprise Association, Inc., 1957), p. 21 *et seq.*; also Sylvester Petro, *The Labor Policy of The Free Society* (New York: The Ronald Press Co., 1957), p. 125 *et seq.*, and *Power Unlimited* (New York: The Ronald Press Co., 1959).

George Wythe of Williamsburg

"Nothing would advance me faster in the world," wrote a young law student, "than the reputation of having been educated by Mr. Wythe, for such a man as he casts a light upon all around him."¹ So wrote William Munford as he summed up the attitude of the more ambitious youths of revolutionary Virginia. To be taught by George Wythe—as were Henry Clay, Thomas Jefferson, John Marshall and "enough other founding fathers to populate a small standing army"²—was the first step on the road to success.

Born in 1726, George Wythe was to become a member of the House of Burgesses, a signer of the Declaration of Independence, and the first

man to hold a chair of law in an American college. Often working quietly behind the scenes in the classroom or in his chambers, Wythe helped to lay the foundation for the limited, Constitutional government that brought forth America's free enterprise system. In Wythe's life the principles of voluntarism, self-improvement, and liberty found their perfect expression. Teaching both by example and precept, Wythe might well be called America's "Teacher of Liberty." At the same time, his contribution to the legal profession as America's first professor of law earns for him the title of "The Father of American Jurisprudence."

Like fellow Virginian George Washington, Wythe lost his father early in life. Fortunately, his grandfather had given his mother an excellent classical education. Accord-

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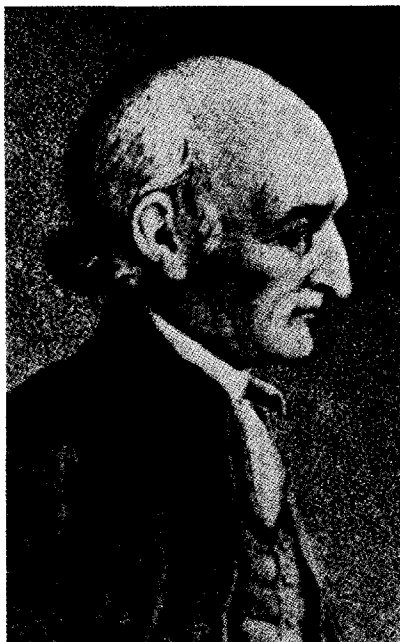
ing to the Reverend Andrew Burnaby, one of Wythe's earliest biographers, Wythe had "a perfect knowledge of the Greek language . . . taught to him by his mother in the back woods."³

An unlikely combination—the Greek classics and the rugged forests of North America—yet this was Wythe's nursery of liberty.

In his teens, Wythe entered the College of William and Mary in Williamsburg. He was poor, however, and his stay was necessarily brief. A family connection opened the door for him to study in the law office of Thomas Dewey, and at age twenty he was admitted to the bar. Like most of the Founding Fathers, Wythe was truly the product of an educational free market, for hardly a penny of public funds had been spent on his training.

At the age of twenty-nine, Wythe inherited the large family plantation, but continued to live at Williamsburg where he had been elected to represent the town in the House of Burgesses.

Wythe's young life was marred by a tragedy, the death of his wife Ann within a year of their marriage. About seven years later, Wythe took another bride, Elizabeth Taliaferro (pronounced Tolliver), the daughter of the respected Colonel Richard Taliaferro. Historians believe that Colonel Taliaferro designed the Wythe House for his daughter and



GEORGE WYTHE
(1726–1806)

Jurist, lawyer, educator; signer of Declaration of Independence

Engraving by James B. Longacre

son-in-law, which has since been restored by the Colonial Williamsburg Foundation.⁴ Wythe's only child died in infancy. Later, many of Wythe's students would be as the sons he never had.

Amassing a small fortune through a successful law practice and his marriage into one of Williamsburg's leading families, Wythe began to exhibit the spirit of voluntarism that

is both a prerequisite and a result of the free economy. Wythe became a supporter of the College of William and Mary, a member of the vestry of Bruton Parish Church, a trustee of an asylum for the insane, and a founder of a society for the encouragement of scientific and technical progress. On one occasion, he offered to serve as a Burgess without pay.⁵

In the midst of his busy schedule—he was a lawyer, a planter, a teacher, a philanthropist, and a statesman—Wythe found time for self-improvement. He studied early English literature and laws, as well as the Greek and Roman classics to which he had first been introduced as a child. The Virginia Historical Society has one of his notebooks, a study in which Greek words from the *Iliad* are compared to their Latin equivalents.⁶

Before Wythe joined the faculty of William and Mary, he tutored young law students in his house on the Palace Green. In 1772–73, he took James Madison into his home, cousin of the Father of the Constitution.⁷ Madison later became the President of William and Mary, and in 1790 the first Bishop of the Protestant Episcopal Church in Virginia.

Another student was Bermuda-born St. George Tucker, who boarded at the Wythe home and later became United States judge for the District of Virginia.⁸ But his greatest pupil was Thomas Jefferson, who

throughout his long life “never ceased to learn from his old teacher.”⁹ Jefferson believed that Wythe’s legal instruction was superior even to that offered in Europe, and that a young student could nowhere “apply so advantageously as to Mr. Wythe.”¹⁰

Wythe and Jefferson

The disciple is not above his master, and students forever bear the imprint of their teachers. In Jefferson’s case, Wythe’s emphasis on the importance of liberty under the law helped to check Jefferson’s fiery spirit and help him understand the difference between liberty and license. Wythe also instilled in Jefferson a love for books. An avid collector of books, Wythe accumulated such an excellent library that even George Mason made use of the collection. In later years, a friendly rivalry developed between Wythe and Jefferson, as each sought to develop the best private library in Virginia. Wythe eventually bequeathed his superb library to Jefferson,¹¹ a token of his life-long affection for the man who believed that “the best governed are the least governed.”

As the War for Independence drew near, the controversies with Great Britain helped to crystallize Wythe’s thoughts on liberty. Wythe argued that due to the slowness of communications with England, the American legislatures should be allowed to make laws to meet local needs.

The growth in power of the colonial assemblies was part of the whole process of the mid-1700s, which saw the lower houses grow in power, confidence, and ability to govern.¹²

Wythe's mature political philosophy was similar to that of Adams and Madison. Like Adams and Madison, Wythe believed in the necessity of a "mixed government" in which several "factions" checked each other's power and influence. Ultimately, this concept found its practical expression in the three branches of government and in the federal relationship between the states and the national government. In 1776, at Wythe's prompting, John Adams wrote his *Thoughts on Government*, in which he put forth the concept of separation of powers.¹³

When Jefferson published his *A Summary View of the Rights of British America*, Wythe supported his former student. According to Jefferson, Wythe refused to stop with "halfway principles as others who failed to follow their reason."¹⁴

Wartime Service

When the war began, Wythe volunteered to serve in Virginia's army, but was instead called to serve in the Continental Congress. In Philadelphia, Wythe emphasized that "we must declare ourselves a free people."¹⁵ In the winter of 1776, Wythe's arguments for independence grew more intense. Ironically, Wythe was

not there in July to sign his student's great document, *The Declaration of Independence*. His vast store of legal knowledge always in demand, Wythe had been called back to Virginia to help set up the new Commonwealth. In deference to his position as a champion of liberty, the Virginia delegation left a space above their names so that Wythe could sign it when he returned. In the fall Wythe returned to Philadelphia and dutifully signed his name, making the Declaration complete. Wythe's name thus appears before those of Thomas Jefferson, Richard Henry Lee, Carter Braxton, Benjamin Harrison, Francis Lightfoot Lee, and Thomas Nelson.¹⁶

In 1777, Wythe returned to Virginia to revise the Old Dominion's colonial laws and adopt them to her new status as a sovereign state. Unlike the revolutionaries in France and Russia, where Whig principles were either ignored or cast aside, Wythe sought to build American laws on English precedents. The fruits of Wythe's labors confirmed Edmund Burke's observation that "the Americans are not only devoted to liberty, but to liberty according to English principles and ideas."¹⁷ Wythe clearly saw the danger of dis-inheriting America from the Magna Carta, the English Bill of Rights, and England's unique contribution to the progress of liberty.

In 1779 Wythe was appointed to

one of the three seats on the High Court of Chancery, a court which heard special cases involving complicated disputes in commerce and navigation.¹⁸ Wythe also sat *ex officio* on the Court of Appeals, where he heard many memorable cases. A contemporary writer has described what Wythe's legal opinions were like:

Not only was legal lore exhausted . . . but the "approved English poets and prose writers"—as he called them—and the more unfamiliar Latin and Greek authors, and even mathematical and natural sciences were quarries from which in concealed places he dug out his allusions and quotations. In the eight pages of one opinion with its footnotes, Bracton and Justinian, Juvenal's Satires, and Quintilian, Euclid, Archimedes and Hiero, hydrostatic experiments and Coke on Littleton, Tristram Shandy and Petronius, Halley and Price and Prometheus, Don Quixote and Swift's Tale of a Tub, Locke's Essay on Human Understanding, and Turkish travellers, chase one another up and down to the bewilderment of all but the universal scholar. All contemporaries stood in awe of his erudition, and referred to him as *the famous judge*.¹⁹

For Fairness and Justice

Unlike many present-day judges, who pluck their decisions from the nebulous regions of "public policy" and popular opinion, Wythe based his decisions on past precedent and a close reading of the state consti-

tution. In the *Commonwealth vs. Caton* case of 1782, Wythe wrote that "if the whole legislature, an event to be deprecated, should attempt to overlap the bounds, prescribed to them by the people, I, in administering the public justice of the country, will meet the united powers at my seat in this tribunal; and, pointing to the Constitution, will say to them, here is the limit of your authority; and hither shall you go, but no further."²⁰

Such decisions earned for Wythe the title of "the American Aristides," an allusion to the ancient Athenian who was known for his fairness and justice.²¹

When the College of William and Mary was reorganized in 1779, Wythe was named "professor of law and police." The first professorship of law in the United States, it was antedated in the Anglo-Saxon world only by the Vinerian Chair at Oxford University, first occupied in 1758 by Sir William Blackstone.²²

As a teacher, Wythe was as demanding as he was innovative. One account of what it was like to study under Wythe has been left by Littleton Waller Tazewell, who was later to become governor of Virginia. According to Tazewell, the student had to be in Wythe's study by sunrise. Before breakfast, Wythe would have the student translate passages from one of his Greek books without the aid of a Greek dictionary or gram-

mar. Wythe would then correct the student's work, and then send him home for breakfast. At midday the student would return for a similar exercise in Latin. The afternoon was taken up with the study of algebra and French, while the evening was devoted to English literature and current events.²³

Professor of Law

At William and Mary, Wythe used the lecture method, which was also being introduced at Princeton by another signer of the Declaration of Independence, Scottish preacher-patriot John Witherspoon.²⁴ Wythe's lectures included study of the United States Constitution, making him the first scholar in the United States to make American constitutional law the subject of regular instruction.²⁵ Wythe's study of jurisprudence prompted him to revive the practices of "readings" and "mootings," which had not been used at the famous English Inns of Courts since the 1600s. One of Wythe's students, John Brown of Staunton, who was later to become one of Kentucky's first two U.S. Senators, has left an account of Wythe's innovations:

Mr. Wythe, ever attentive to the improvement of his pupils, founded two institutions for that purpose, the first in a Moot Court, held monthly or oftener in the place formerly occupied by the Gen. Court in the Capitol. Mr. Wythe and the other professors sit as judges. Our audi-

ence consists of the most respectable of the Citizens, before whom we plead causes given out by Mr. Wythe. Lawyer like I assure you. He has [also] formed us into a Legislative Body, consisting of about 40 members. Mr. Wythe is Speaker to the House and takes all possible pains to instruct us in the Rules of Parliament. We meet every Saturday and take under our consideration those Bills drawn up by the Committee appointed to revise the laws, then we debate and alter (I will not say amend) with the greatest freedom. I take an active part in these Institutions and hope thereby to rub off that natural bashfulness which at present is extremely prejudicial to me. These exercises serve not only as best amusement after severer studies, but are very useful and attended with many important advantages.²⁶

Wythe encouraged his students to learn not only from Latin and Greek orators, but from contemporary speakers like Patrick Henry as well.²⁷

Wythe's chief aim as an educator was to train his students for leadership. In a letter to his friend John Adams in 1785, Wythe wrote that his purpose was to "form such characters as may be fit to succeed those which have been ornamental and useful in the national councils of America."²⁸ The idea that education was to help young people "adjust to society" was as foreign to Wythe as was the idea that the government should clothe, feed, and house its citizens. "Mr. Wythe's School"—both in his study and in the Wren Building at the College of William and

Mary—produced a generation of lawyers, judges, ministers, teachers, and statesmen who helped fill the need for leadership in the young nation.

The Constitutional Convention

In 1787 Wythe was chosen to be part of the Virginia delegation to the Constitutional Convention, joining what Jefferson called that “assembly of demigods.” Indeed, the moral force of George Wythe’s life alone is a cogent argument against Charles Beard’s socialist interpretation of the Constitution.

Unfortunately, Wythe’s beloved wife Elizabeth fell sick early in the summer. Dedicated patriot that he was, he knew that his first duty was to his family, and so, on June 4, Wythe left the convention and headed back to Williamsburg. Despite Wythe’s best efforts, Elizabeth Taliaferro Wythe died on August 14, 1787.

His wife gone, and having no children, Wythe once again answered the call of duty and fought for the passage of the Federal Constitution at the Virginia State Convention. Wythe’s prestige and influence, as well as the votes of five of his former students,²⁹ helped to overcome strong opposition from the Antifederalists, led by Patrick Henry. Later, Wythe helped to develop the Bill of Rights, basing his work on George Mason’s Virginia Declaration of Rights.

Wythe left his teaching position in 1789 when the High Court of Chancery moved to Richmond, the new state capital. There, his brilliant career ended tragically in 1806. Wythe was poisoned by George Sweeney, a grand-nephew who lived with him. Hopelessly in debt, Sweeney had hoped to profit as the principal beneficiary under his uncle’s will. Wythe lived on in agony for two weeks, long enough to both forgive and yet still disinherit his prodigal nephew. In one last act which showed his dedication to the principles of liberty, Wythe set his slaves free.

After Wythe’s death, several attempts were made to try to convict Sweeney. All failed, however, because the only witness was a slave. Disinherited and dishonored, Sweeney soon left Virginia and was never heard from again.

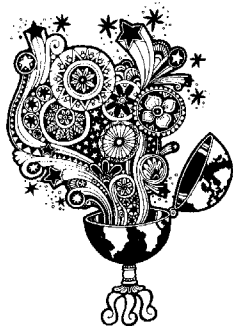
All Virginia mourned the death of the great American Aristides. To Benjamin Rush, he was “A profound lawyer and able politician,” a man who possessed “modesty” and “dove-like simplicity” and “gentleness of manner.”³⁰ William Ellery had written years before: “Let Wythe take the laurels his genius demands. I ask but this boon: to be classed with his friends.”³¹ William Munford, whose education Wythe had graciously subsidized, named a son after him. But perhaps the mature Thomas Jefferson best summed up his old master’s character when he wrote:

No man ever left behind him a character more venerated than George Wythe. His virtue was of the purest tint; his integrity inflexible and his justice exact; of warm patriotism, and, devoted as he was to liberty and the natural and equal rights of man, he might truly be called the Cato of his country, without the avarice of the Roman, for a more disinterested person never lived.³²

George Wythe—a man “devoted to liberty”—still stands as one of America’s greatest champions of freedom. His life is an example of what one man can do to advance the principles of liberty. ☉

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- ²Forrest McDonald, *The Formation of the American Republic* (Baltimore: Penguin Books, 1965), p. 158.
- ³The Rev. Andrew Burnaby, quoted in Dill, p. 7. I am indebted to Dill’s *George Wythe: Teacher of Liberty*, *op. cit.*, ref. 1, for much of the information in this article.
- ⁴*Colonial Williamsburg Official Guidebook* (Williamsburg: The Colonial Williamsburg Foundation, 1972, 7th ed.), p. 90.
- ⁵Charles S. Sydnor, *American Revolutionaries in the Making* (New York: The Free Press, 1965), p. 51.
- ⁶Dill, p. 19.
- ⁷Dill, p. 42.
- ⁸Tucker later authored the first American textbook on jurisprudence. See Park Rouse, Jr., *Virginia: The English Heritage in America* (New York: Hastings House Pub., 1966), p. 108.
- ⁹Dill, p. 21.
- ¹⁰Jefferson, quoted in Saul K. Padover, ed., *Thomas Jefferson on Democracy* (New York: D. Appleton-Century Co., Inc., 1939), p. 91.
- ¹¹Fawn Brodie, *Thomas Jefferson: An Intimate History* (New York: W. W. Norton and Co., Inc., 1974), p. 62.
- ¹²Jack P. Greene, *The Quest for Power* (New York: W. W. Norton and Co., 1972, first pub. in 1963 by the University of North Carolina Press) 528 pp.
- ¹³The mixed government theories are explained in detail in Gordon S. Wood, *The Creation of the American Republic, 1776–1787* (Chapel Hill: University of North Carolina Press, 1969), see esp. pp. 197–255.
- ¹⁴Dill, p. 28.
- ¹⁵Lyman H. Butterfield, et al., eds., *Diary and Autobiography of John Adams*, 4 vols. (Cambridge, Mass., 1961), II, p. 230.
- ¹⁶Dill, p. 33.
- ¹⁷Edmund Burke, quoted in Wallace Notestein, *The English People on the Eve of Colonization* (New York: Harper and Row, 1954), p. ix.
- ¹⁸Dill, p. 41.
- ¹⁹Dill, p. 60.
- ²⁰Dill, p. 62.
- ²¹John and Katherine Bakeless, *Signers of the Declaration* (Boston: Houghton Mifflin Co., 1969), p. 99.
- ²²Dill, p. 42.
- ²³Dill, pp. 55–56.
- ²⁴Ashbel Green, “The Life of the Rev’d John Witherspoon, D.D., LL.D., With a Brief Review of His Writings; and a Summary Estimate of His Character and Talents,” MS, New Jersey Historical Society, Newark, N.J., n.d., p. 106.
- ²⁵Dill, p. 43.
- ²⁶Dill, pp. 44–51.
- ²⁷Dill, p. 51.
- ²⁸George Wythe to John Adams, Dec. 5, 1785, quoted in Oscar L. Shewmake, *The Honorable George Wythe* (n.p., 1954), p. 16.
- ²⁹Forrest McDonald, *We the People: The Economic Origins of the Constitution* (Chicago, Ill.: University of Chicago Press, 1958), p. 259.
- ³⁰Bakeless, p. 99.
- ³¹Dill, p. 31.
- ³²Padover, p. 183.



The Increasing Abundance of Resources

OVER the last decade or so the public has been literally deluged with "scientific" studies and reports claiming that due to rapidly approaching resource exhaustion the world is on the threshold of catastrophe. The very influential *The Limits to Growth* was first published in 1972. Sponsored—but then disavowed—by the Club of Rome, an informal organization or, in the Club's own words, an "invisible college" founded to examine "the present and future predicament of mankind," the study concludes that civilization as we know it will "collapse" sometime "within the next century, at the latest." The collapse occurs, contends the study,

because of nonrenewable resource depletion. The industrial capital stock grows to a level that requires an enormous in-

put of resources. In the very process of that growth it depletes a large fraction of the resources available. As resource prices rise and mines are depleted, more and more capital must be invested for future growth. Finally investment cannot keep up with depreciation, and the industrial base collapses, taking with it the service and agricultural systems, which have become dependent on industrial inputs (such as fertilizers, pesticides, hospital laboratories, computers, and especially energy for mechanization). . . . Population finally decreases when the death rate is driven upward by lack of food and health services.¹

The study acknowledges that the future is uncertain; that other "scenarios" are conceivable. "Is the future of the world system bound to be growth and then collapse into a dismal, depleted existence?" asks the study. "Only if we make the initial assumption that our present way of doing things will not

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change."² That is to say, "assuming that there will be in the future no great changes in human values nor in the functioning of the global system as it has operated for the last one hundred years" then the collapse is inevitable.³ It can be averted only by replacing the relatively free market-growth oriented economy of today by that of a rigidly controlled zero-growth economy.

The Global 2000 Report

The year 1980 marked the publication of *The Global 2000 Report to the President*. The Report, which is the joint product of the Council on Environmental Quality, the Department of State and eleven other government agencies, is only slightly less pessimistic than the *Limits to Growth*. In the section entitled "Major Findings and Conclusions" one finds the following:

If present trends continue the world in 2000 will be more crowded, more polluted, less stable ecologically, and more vulnerable to disruption than the world we live in now. Serious stresses involving population, resources, and environment are clearly visible ahead. Despite greater material output, the world's people will be poorer in many ways than they are today.

For hundreds of millions of the desperately poor, the outlook for food and other necessities of life will be no better. For many it will be worse. Barring revolutionary advances in technology, life for most people on earth will be more pre-

carious in 2000 than it is now—unless the nations of the world act decisively to alter current trends.⁴

The fact that the major conclusions of *The Limits to Growth* are endorsed by the *Global 2000 Report* is significant.⁵ Since *The Global 2000 Report* is the joint product of no less than 13 government agencies this means that the catastrophist position has received the government's official stamp of approval.

Not only is catastrophism the official position of the government, it is also the prevailing viewpoint—in fact usually the only viewpoint—found in either educational textbooks or the more popular press. For example, I pulled two textbooks off my shelf more or less at random. One was an introductory American Government text, the other a textbook on International Relations. Both were authored by scholars who are quite prominent in their respective fields. In the American Government text I found the following:

Almost all energy resources are non-renewable. So are most of the raw materials on which our civilization is based. . . . No estimate, however optimistic, has ever suggested that oil supplies will be around longer than a generation or two if anything like present consumption continues. . . . You will discover plenty of doom and gloom when you begin to examine the policy problems of energy and the environment.⁶

The textbook on International Re-

lations contained the following:

There are *physical* limits to growth of both population and capital. . . . there is only a finite stock of exploitable, nonrenewable resources. . . . there is a finite amount of arable land; there exists a finite yield from this land. . . . Every additional human and every new item produced place demands on the earth's mineral resources; they also demand energy so that energy resources are being depleted even more rapidly.

"... long before there is a 'collapse' of the world system as such," the authors conclude, "certain regions may suffer 'collapse'—possibly within the next 75 years."⁷

The Global Mind

The same point of view permeates the popular press. The title of an article which appeared recently in the *Chicago Tribune* is self-explanatory: "Earth Headed for the Breaking Point."⁸ The future, it says, will be characterized by increasing competition for "dwindling supplies of the Earth's resources," causing high inflation, massive unemployment and economic and social stagnation or even decline. These, in turn, will result in "famine, riot, insurrection and war," the consequences of which are placed on a par with nuclear war. Perhaps the catastrophist position received its most uncompromising statement in Lewis Perlman's *The Global Mind*. For Perlman there is no doubt that the

earth is headed for collapse. The only questions are when it will occur and how severe it will be. According to Perlman:

The severity of this potential decline cannot be underestimated; it boggles the mind. We are talking about the potential of up to *seven billion people*, or about twice the current population of the globe dying off in the span of one generation, and a drop in world economic production roughly equal to today's annual world output, occurring over the same span of time. All of the wars ever fought, all of the famines, all of the economic depressions in history, combined, shrink to insignificance when compared to the magnitude of such a global catastrophe.

Only "the establishment of a state of global equilibrium or the *stationary state* . . . can save us from the inexorable decline and fall." Some of the components of the stationary state, according to Perlman, are "zero growth in the stock of capital and zero growth in the stock of human population." Other components include the reduction of "resource consumption per unit of industrial output . . . to a fraction of its current value," a "vastly more equitable distribution of wealth and power among all people of the world," and a redefinition of wealth so as to be "represented less by *things* and more by *knowledge* and *experience*, by the aggregation of wisdom and love." The type of "ecotopia" recommended by Perlman would be rather

similar, he says, to that "suggested in (B.F. Skinner's) *Walden Two* and somewhat realized already in the People's Republic of China." It is clear, Perlman concludes, "that the longer we delay and the more lax we are in establishing the conditions for global equilibrium" the less chance we have for escaping the coming collapse.⁹

In brief, there is little doubt that catastrophism is today's prevailing orthodoxy.

Catastrophism: Predictions and Realities

Of course catastrophism in one form or another is really nothing new. It can be traced back at least to 1798 with the publication of Thomas Malthus' *Essay on Population*. Since that time we have been fed a steady diet of catastrophist predictions of imminent disaster. The most revealing thing about these predictions is that they have never come true.

A brief review of oil prophecies from official government sources and their corresponding realities will give an indication of just how far wrong such predictions have been. In 1885 the U.S. Geological Survey stated that there was little or no chance for oil in California. Since that time over 8 billion barrels have been produced in that state. In 1891 the U.S. Geological Survey predicted that there was lit-

tle or no chance of finding oil in either Kansas or Texas. At least 14 billion barrels have been produced in those two states since that prediction was made. In 1908 officials of the U.S. Geological Survey placed the maximum future supply of oil in this country at 22.5 billion barrels. Yet, 35 billion barrels have been produced in this country since that time with additional proven reserves of nearly 27 billion barrels.

The U.S. Bureau of Mines placed the total future oil production at 5.7 billion barrels in 1914. Some 34 billion barrels, or about six times this "maximum," have been produced in this country since then. In 1920 the Director of the U.S. Geological Survey stated that the U.S. needed to import foreign oil since peak domestic production had almost been reached. By 1950 U.S. oil consumption was four times greater than its 1920 output. Yet, we were not relying on imports as production was in excess of consumption.

In a similar vein, in 1931 the Secretary of the Interior was convinced that we were running out of oil and stated that we must begin to import as much foreign oil as possible. During the next eight years an additional eight billion barrels were discovered, making imports unnecessary. In 1939 the Department of Interior publicly stated that the U.S. would exhaust its oil supplies within the next 13 years. Shortly af-

ter this announcement new oil discoveries were made which, in themselves, exceeded the known supply in 1939. In 1947 the Chief of the Petroleum Division of the Department of State claimed that the U.S. was rapidly running out of oil. One year later, in 1948, 4.3 billion barrels were discovered. And in 1949 the Secretary of the Interior maintained that the end of the U.S. oil supply was in sight. Yet, over the next five years U.S. oil production increased by an excess of one million barrels a day.¹⁰

The predictions of the catastrophists have proven no better for other materials. For example, the U.S. President's Materials Policy Commission, better known as the Paley Report, stated in 1952 that by the mid-1970's copper production in this country could not exceed 800,000 tons. It was 1.7 million tons by 1973. Similarly, the Report placed lead production at a *maximum* of 300,000 tons. Yet by 1973 lead production was in excess of twice this figure.¹¹

It is noteworthy that the predictions of today's catastrophists have proven no more accurate. In his dramatic 1969 article, "Eco-catastrophe," noted biologist Paul Ehrlich made his predictions for the decade of the 1970s. Among other things Ehrlich predicted (1) "increasing poverty" and world hunger. In fact, he said, "some ten to twenty million will starve to death this year

(1969)"; (2) the rapid deterioration of the "raw material situation"; (3) the reduction of life expectancy to 42 years by 1970; (4) the "end of the ocean" by 1979, and (5) "the birth of the Midwestern desert," scheduled for the summer of 1973. It is, says Ehrlich, "a pretty grim scenario." Yet it is "based on projection of trends already appearing." "We're a long way into it already."¹²

Fortunately, events have turned out quite differently. First, the United Nation's Food and Agriculture Organization began collecting data on world food production in 1948. The data indicate that between 1948 and the present, *per capita* food output has increased by 40 percent, or just over one percent per year. And data compiled by the United States Department of Agriculture presents a picture even slightly rosier. In other words, in contrast to the catastrophist predictions of Ehrlich and others, both FAO and USDA data demonstrate that world food supply has consistently outstripped population increases. Put differently, the data clearly show that the world food situation is improving, not deteriorating.

Second, for at least the last 100 years, and probably even much longer, the prices of practically *all* minerals including coal, copper, iron, zinc, aluminum and even petroleum have fallen steadily and in

TABLE 1—RELATIVE PRICE OF IMPORTANT MINERALS TO LABOR, 1970 = 100

	1900	1920	1940	1950	1960	1970
Coal	459	451	189	208	111	100
Copper	785	226	121	99	82	100
Iron	620	287	144	112	120	100
Phosphorus	—	—	—	130	120	100
Molybdenum	—	—	—	142	108	100
Lead	788	388	204	228	114	100
Zinc	794	400	272	256	126	100
Sulphur	—	—	—	215	145	100
Aluminum	3,150	859	287	166	134	100
Gold	—	—	595	258	143	100
Crude Petroleum	1,034	726	198	213	135	100

some cases dramatically. This is true whether one compares mineral prices to wages for labor, as is done in Table 1,¹³ the consumer price index, or any other relevant index. This means that, in contrast to the much publicized predictions of Ehrlich and others regarding imminent resource depletion, the logical inference is that resources are actually becoming *less scarce* over time.

Third, instead of falling, as predicted by Ehrlich, life expectancy has continued to increase and currently stands at 73.2 years for the

U.S. and 57.4 years for the world as a whole. This contrasts to 69.0 and 47.2 years, respectively, for the 1950–55 period. Fourth, not only are the oceans not dead, the world fish catch increased from 144.6 billion pounds in 1970, to 146.6 billion in 1975 and to 159.2 billion pounds in 1980.

Finally, as for Ehrlich's "Mid-western desert," I live in the Midwest and am able to see the fields from my own home. In case anyone is in doubt, I can attest to the fact that the Midwest is far from a desert

TABLE 2: U.S. GASOLINE PRICES

	1960	1965	1970	1973	1974	1976	1978	1979
Gasoline Price (current)	30¢	31¢	36¢	40¢	55¢	59¢	60¢	86¢
Gasoline Price (constant 1972 dollars)	44¢	42¢	39¢	38¢	47¢	44¢	41¢	52¢

and no farmer I have talked to over the past several years has ever mentioned losing any sleep over the prospect.

The Energy Crisis

Since the dramatic increase in oil prices during the decade of the 1970s spawned a plethora of scare stories about the imminent exhaustion of this vital nonrenewable resource, particularly close attention should be devoted to this issue. There were two major price surges in oil occurring in the 1970s, the first in 1974, the second in 1979. These are clearly evident in Table 2,¹⁴ which shows the fluctuation of U.S. gasoline prices. An examination of the causes of the price hikes shows that both were largely a result of political factors and had nothing to do with increasing extraction costs due to the depletion of oil supplies.

What caused the rise of oil prices in 1974? The United States Federal Power Commission really first began to regulate the price of natural gas during the 1950s. This policy was to prove to have dire consequences not only domestically but internationally. As late as 1967 the regulated price for natural gas was 17 cents per thousand cubic feet (MCF), or less than half the world market price. The consequences should hardly be surprising. The artificially low cost to consumers en-

couraged increased consumption, while the artificially low returns to producers discouraged drilling. By 1966, the demand for natural gas began to exceed the supply. The result was that throughout the decade of the '70s the U.S. experienced periodic "shortages" of natural gas. But the significant fact is that these shortages were a result not of a depletion of natural gas reserves but were, in fact, artificial shortages generated by FPC imposed price controls.

The irony as well as the tragedy of the situation was highlighted by two events occurring almost simultaneously. On December 28, 1980, CBS's "60 Minutes" featured a story on America's "natural gas riches," which observed that the known supplies of natural gas were so large that "they could provide the long-term answer to our energy crisis." Yet, two weeks later, Edward King, the Governor of Massachusetts, was forced to declare a statewide emergency due to a severe shortage of natural gas.¹⁵

OPEC was founded in 1960 but was unable to exercise any leverage over oil prices until the early 1970s. The key question is why was OPEC unable to exercise any significant leverage over oil prices before—and for that matter after—the 1973–74 period? Richard Erb, the U.S. executive director at the International Monetary Fund, is surely correct

when he says that the power of OPEC was exaggerated. "Oil price increases," he points out "cannot be attributed to any single event or institution," but were the product of the "confluence of a number of trends that emerged during the postwar period." Some of the factors cited by Erb are the following:

1. Most of the current OPEC members were colonies of Western nations and did not receive their independence until the 1950s, 1960s, or even, as in the case of the United Arab Emirates, 1971.

2. Western military presence in the Persian Gulf and North Africa declined during the late sixties and early seventies.

These two factors enabled many OPEC governments to adopt a more independent, which usually meant an anti-Western, stance. For example, in 1970 Libya became the first OPEC country to seize control of foreign owned oil companies. Other members soon followed suit.

3. New oil discoveries during the 1950s and 1960s caused the world market price for oil to decline, which in turn stimulated an increase in demand for oil.

4. The world-wide economic boom of the early seventies further stimulated the demand for oil. This increased demand caused prices to begin to rise in September, 1973.

5. The second Arab-Israeli War in October, 1973 disrupted oil flows to

the West and prompted some OPEC members to impose an embargo. The result was that with a world-wide demand for oil growing by about eight percent per year combined with a sudden decline in supply, oil prices skyrocketed.¹⁶

The Effect of Price Controls

One factor ignored by Erb but certainly deserving of mention is the FPC controls on natural gas prices. Since oil can be substituted for natural gas, the effect of FPC policies which encouraged the consumption of energy while simultaneously discouraging the domestic production of it was to inadvertently play into the hands of OPEC by artificially stimulating our reliance on foreign energy sources in general and foreign oil in particular. According to economist Paul MacAvoy, who testified before Congress in 1976, price controls on natural gas increased the consumption of oil by nearly 2 million barrels per day. Today, according to Warren Brookes, the figure would be closer to 4 million barrels.¹⁷

Meanwhile, U.S. dependence on foreign energy sources increased from 9 percent in 1969 to 19 percent in 1973 and to nearly 26 percent by 1977.

While it is probably impossible to determine exactly how much FPC policies contributed to OPEC leverage over oil prices in the early sev-

enties, its impact cannot be ignored.

In brief, the dramatic increases in oil prices during the early 1970s were in no way a result of a natural or *actual scarcity* of oil. One has merely to observe that while the *price* of Mideast oil rose to about \$35.00 per barrel, its *cost* of production remained at between \$0.05 and \$0.15 per barrel. The price rises were largely the consequence of the confluence of political factors.

But what of the second round of price hikes occurring in 1979? Here the causes, while somewhat different, were likewise unrelated to actual scarcity. Perhaps the most interesting aspect of the 1979 price hikes is the relative insignificance of OPEC. The very success of OPEC was responsible for its waning influence in the post-1974 period. And this, of course, is precisely what economic theory would lead one to expect. The higher oil prices caused consumers to moderate their demand.

For example, prior to 1973 U.S. energy consumption was growing rapidly. In 1950 total U.S. consumption was 33.6 quadrillion Btu. By 1960 it had risen to 44.1 quadrillion Btu. In 1970 the figure stood at 66.8 quadrillion Btu, and at 74.6 quadrillion Btu in 1973, after which consumption moderated. The 1981 figures show consumption at 73.8 quadrillion Btu, slightly *less* than in 1973.¹⁸ Consequently, energy im-

ports, which reached nearly 26 percent of the U.S. supply in 1977, had fallen to 17.8 percent by 1981.¹⁹ In a like vein, economic theory would predict that the higher profits enjoyed by OPEC members would encourage non-OPEC members to increase their production. Again, this is exactly what one finds. While OPEC's share of world oil production stood at 54 percent in 1973, it had fallen to less than 40 percent by the end of the decade.²⁰

Further Intervention

What, then, accounts for the dramatic jump in gasoline prices in 1979? In order to "fight inflation" President Nixon imposed general wage and price controls on August 15, 1971. In time the controls were lifted for nearly all products. But the fear was that, in the wake of the "OPEC revolution," lifting the controls on energy products would cause their prices to skyrocket. Since this would be politically unpalatable, controls remained in effect for oil, gasoline and other petroleum products. But using price controls to fight high prices is a lot like treating measles by covering up the spots: it deals with the symptoms, not the cause.

While the government could stipulate maximum prices at the domestic gasoline pump, it had no control over the market price of oil internationally. The consequence was that

the refiners and retailers were caught in a price squeeze. They had to purchase crude oil at the unregulated world market price but sell gasoline at the government controlled maximum price. The result is what is commonly, but incorrectly, known as the "gasoline crisis of 1979." The problem was not a scarcity of oil. There was an abundance of oil on the world market. The problem was how to purchase the crude oil at the world market price while selling gasoline and other petroleum products at the domestically regulated price.

Deteriorating Service

The normal response to a profit squeeze created by the imposition of price controls is an attempt to lower costs, which usually means a deterioration in the quality of the product controlled. But since a gallon of gasoline is a gallon of gasoline, the effects of maximum gasoline prices were felt not on the physical product itself but on the "auxiliary services" associated with it. As economist Thomas Sowell has put it:

Just as rent control tends to reduce such auxiliary services as maintenance, heat and hot water, so controlling the price of gasoline reduced such auxiliary services as hours of service at filling stations, credit card acceptance, and checking under the hood. . . . In New York City, for example, the average filling station was open 110 hours a week in Sep-

tember 1978 and only 27 hours a week in June 1979. The actual amount of gasoline pumped declined by only a few percentage points, while the hours of service declined by 75 percent. That is, filling stations tried to recoup their losses from price control by reducing the man hours of labor they paid for, while the motorists' losses of man-hours waiting in gasoline lines went up many times what the filling stations had saved. Moreover, the motorists suffered from increased risks in planning long distance trips, given the unpredictability of filling station hours en route. This prospective psychic loss to motorists was reflected in dramatically declining business at vacation resorts. . . .²¹

The government was forced to admit the failure of controls when later in the year it adopted a policy of partial decontrol. The result was an immediate spurt in gasoline prices. But it also signalled a return to more normal hours of operation for filling stations and, consequently, the abrupt end of the gasoline lines.

In brief, the fact that gasoline consumption during 1979 declined hardly at all meant that what occurred was not a "gasoline shortage" at all, but a *service shortage*, which was caused by nearly a decade of government price controls.

Despite the many catastrophist spawned scare stories that oil price rises during the seventies signalled the imminent depletion of oil supplies, both the 1974 and the 1979

TABLE 3: HOW "KNOWN RESERVES" ALTER

Ore	Known Reserves in 1950 (1,000 Metric Tons)	Known Reserves in 1970 (1,000 Metric Tons)	Percentage Increase
Iron	19,000,000	251,000,000	1,321
Manganese	500,000	635,000	27
Chromite	100,000	775,000	675
Tungsten	1,903	1,328	-30
Copper	100,000	279,000	179
Lead	40,000	86,000	115
Zinc	70,000	113,000	61
Tin	6,000	6,600	10
Bauxite	1,400,000	5,300,000	279
Potash	5,000,000	118,000,000	2,360
Phosphates	26,000,000	1,178,000,000	4,430
Oil	75,000,000	455,000,000	507

SOURCE: Council on International Economic Policy, Executive Office of the President, *Special Report, Critical Imported Materials* (Washington, D.C.: U.S. Government Printing Office, December 1974).

price rises resulted from non-economic, largely political, factors which had nothing to do with the actual, or natural scarcity of oil.

The Catastrophists and Chicken Little

The catastrophists are quite reminiscent of Chicken Little who, after being plunked on the head with a falling apple, spread panic among the barnyard animals with her irrational cry that the "sky was falling."²² As soon as the price of an important natural resource begins to rise or the "known reserves" of a raw material begin to decline we are immediately met with the deafening refrain of "resource depletion."

We have, proclaims the Chicken Little Gang, reached the "end of affluence." We are, they loudly insist, at the dawn of the "age of scarcity." Yet, like Chicken Little, they never stop to consider the actual evidence. In the area of resources, such vital indicators as world per capita income, world per capita food consumption, raw material prices, and natural resource reserves, have not only improved over the past 200 years or so, but this trend shows no sign of abating. There are of course occasional setbacks just as there are particular countries that have shown little improvement. But these are explained, as we shall see, by factors that have nothing to do

with "resource depletion." The crucial question is: how have the catastrophists gone so far wrong?

Resources: Increasing Abundance

The most revealing *fact* about resources is that for over the past one hundred years their prices, in real terms, have fallen. This suggests that their supply is growing, not diminishing. And this, in fact, is the case. A study prepared for the President of the United States by the Council on International Economic Policy disclosed that the "known reserves" or stocks of eleven out of twelve important metals have, despite growing consumption, actually increased over the twenty year period from 1950-70. (See Table 3)²³ Iron reserves grew by 1,321 percent, Potash by 2,360 percent and Phosphates by 4,430 percent.

Similar conclusions were reached by Earl Cook. "Despite large increases in consumption over the past 40 years," Cook concludes, "we now have many more 'years' of lead reserves than we did 40 years ago, as well as about 25 percent more years of copper and zinc reserves. . . . There is currently an over-supply of both copper and crude oil in the world, and the supply of ores of iron and aluminum despite enormous increases in the production and consumption of both during the past 50 years, seem almost boundless."²⁴ Clearly, the *predic-*

tions and *expectations* of the Chicken Little Gang are directly counter to the basic *facts* of the resource situation. But how is such a thing possible? Resource consumption has increased enormously during the twentieth century. How, then, can it be that our supply of resources, instead of diminishing, has actually expanded?

The catastrophist view of resources is *static*. There is, they believe, a fixed amount of oil, copper or natural gas, and the more of these stocks we consume, the less there is left. That the supply of resources is finite is a very plausible notion. It is also wrong.

Technological advances permit us to utilize existing resources more efficiently. For example, in 1900 the lowest grade of copper ore economically mineable was about 3.0 percent. Today, the cutoff point has fallen to 0.35 percent. Similarly, while much of the coal closest to the earth's surface has already been extracted, advances in mining technology have actually reduced the cost of obtaining coal despite having to go much deeper to extract it.

Aluminum is another example. Throughout the nineteenth century aluminum was a precious metal on a par with gold and silver. But with advances in technology aluminum can now be extracted from bauxite very cheaply. And since bauxite and other materials containing alumi-

num deposits are so plentiful, we are now in the fortunate position of possessing a valuable resource whose cost is relatively low and whose supply is virtually inexhaustible. And these examples are the rule rather than the exception. The reason the "known reserves" for resources have increased so phenomenally in recent years is that advances in science and technology have led to improved methods of mineral detection and extraction.

The results of these improved methods are as significant as they are astounding. Economist Wilfred Beckerman, using data supplied by the World Bank, has calculated that the stock of metals in the top mile of the earth's crust is sufficient "to last about one hundred million years." Herman Kahn and Associates have concluded that 99.9 percent of the world demand is for metals whose supply is either "clearly" or "probably inexhaustible." Very similar conclusions were reached by W. D. Nordhaus. "The clear evidence," he concludes, "is that the future will not be limited by sheer availability of important materials." This includes energy. "With only current technology" Nordhaus says, "there are resources for more than 8,000 years at the current rate of consumption." Allowing for technological advances during this time, "there is virtually unlimited energy available."²⁵ In short, the prospect of

"resource depletion" is not a matter of decades, as the Chicken Little Gang would have us believe, but it lies hundreds, probably thousands of years in the future.

But even this prospect, distant as it is, is without foundation. For not merely does technology enable us to find and use existing resources more efficiently, it also enables us to create new resources by discovering uses for previously worthless materials. Oil is only the most dramatic example. Prior to the nineteenth century oil was a liability and land known to possess this slimy ooze was worth very little. It was only with the dawn of the machine age that oil became a resource.²⁶ But while technology creates resources, it must be borne in mind that technology itself is created by the human mind, which Julian Simon has aptly dubbed the ultimate resource. As Thomas Sowell has written,

A natural resource is something occurring in nature that *we know how to use* for our purposes. Our knowledge is as integral to the concept of a natural resource as the physical thing itself. An inventory of natural resources two centuries ago would not have included uranium or hydroelectric power, because no one knew how to use such things. Once resources are seen in this light it no longer follows that there are fewer natural resources with the passing centuries.²⁷

While the supply or stocks of given physical *materials* is, in some ultimate sense, finite, the "stock" of human knowledge is not. And this is the crux of the matter. Since the human mind creates resources, this means that the supply of resources is not finite but is limited only by the "stock" of knowledge. And since this "stock" has been increasing rather than running out, it should come as no surprise that the supply of "physical resources" has also been expanding. As one writer recently put it, to worry about running out of resources is very much like worrying that, because there is a finite number of musical notes, we are in danger of "running out" of music.²⁸

Governments, Markets, Poverty and Prosperity

The foregoing is merely meant to demonstrate that "resource depletion" is not limiting economic growth. It is not meant to imply that everything is splendid. There are of course many people and societies which continue to exist on the verge of starvation. While this is tragic, it has little to do with resources.

It is often forgotten that the developed countries of today were not always developed. Until only recently all nations were "undeveloped." It was only in the eighteenth century, in what is now termed the "Industrial Revolution," and only in a particular part of the world, in

what is designated as the "West," that the standard of living began to rise above the subsistence level. Even today poverty is the rule for the great bulk of mankind, wealth the *exception*. Thus, the real question is not why most nations are poor but why some are wealthy. That is, what made possible the dramatic transformation of one small section of the world while conditions elsewhere remained practically unchanged?

Viewing the problem in this way permits us to see the fallacy in the popular notion that the reason Third World countries haven't developed is that they are too poor to save and invest. Not only was Europe even less developed in the seventeenth century than most Third World nations are today, but since at one time all nations were poor and since some nations succeeded in developing it is clear that poverty in itself cannot explain the lack of economic development.

Economic development is a very complex issue. But certainly a major element is the presence of an environment which affords the proper incentives for saving and investment, both domestic and foreign. Europe's environment offered a reasonably close correlation between individual effort and individual reward. In contrast is the environment in which tradition is highly valued, which views change and in-

novation as evils, or an authoritarian environment in which individuals are used to allowing all important decisions to be made by a small group of leaders. Such environments discourage precisely those attitudes which are crucial for capital accumulation and development. As economist Peter Bauer points out, the environment

has for centuries been less authoritarian in the west than in Africa and Asia and thus more conducive to experimentation, a questioning turn of mind and an interest in material advance. The subjection of the individual in Africa and Asia to political authority and to tradition has discouraged these qualities; and so has the greater prestige (compared with the West) of a life of contemplation compared to one of action. An authoritarian tradition is normally unfavorable to material progress in the sense of a rise in the standard of living, which require a liberation and modernization of the mind.²⁹

In brief, what is required to overcome poverty and hunger is really quite simple: economic freedom. All the resources in the world will not produce economic growth in its absence. Conversely, the single most significant factor in perpetuating poverty is excessive regulation of individual behavior. While this may take the form of social custom, such as communal land tenure or the caste system in India, government regulation is no doubt more important.

For example, as everyone knows, post-war China has suffered from "overpopulation" and has taken rather extreme measures to reduce its growth. What is not so well known is that its population was growing by only two percent a year, which was actually *below* the world's average during this time. China's problem was that due to government mismanagement, food production between 1950 and the mid-1970s either remained stable or actually declined. It has only been since the death of Mao that the "socialist" experiment has been largely abandoned and agricultural output has increased.³⁰

Elsewhere in the Third World government policies such as minimum wages, state-created monopolies, tariffs in excess of 100 percent, and widespread nationalizations, have frightened off investors, both domestic and foreign, thus impeding economic growth.

Restrictions in Africa

United Nations data show that during the decade of the 1970s *per capita* food production increased for every single region of the world but one. That one was Africa, where *per capita* food production declined by 10 percent.³¹ It is scarcely a coincidence that Africa has taxed and regulated its economy, and in particular its agricultural sector, more heavily than any other region

TABLE 4: AVERAGE ANNUAL GROWTH OF GROSS DOMESTIC PRODUCT

Private			Public		
Sector Economies			Sector Economies		
	1960-70	1970-79		1960-70	1970-79
Hong Kong	10.0	9.4	India	3.4	3.4
Singapore	8.8	8.4	Uruguay	1.2	2.5
Thailand	8.2	7.7	Ghana	2.1	-0.1
South Korea	8.6	10.3	Chad	0.5	-0.2
Ivory Coast	8.0	6.7	Zaire	3.6	-0.7

in the world. In order to stimulate industrialization, many African countries have introduced tax concessions, subsidies, tariffs, and licensing restrictions in order to "reduce the risks of investing in domestic manufacturing by protecting local industries from competition." "The cost of these programs," says Sara Berry, "was borne primarily by the agricultural sector." For many African countries taxes on agricultural output have become the prime source of revenue for government. In fact, "in many countries," says Berry, "farmers were required by law to sell their crops to state marketing boards, which paid them prices well below world market prices and used the difference as a form of public revenue." P.T. Bauer estimates that nearly one half of the commercial value of their crops has been withheld from the farmers in such states as Nigeria and Ghana. To make matters worse, thanks to the protection afforded domestic industries, prices for domestic goods, including tools and other products

purchased by farmers, have risen significantly. Thus farmers faced the dilemma of confronting artificially inflated prices with artificially deflated incomes. Even though it may have been, as Berry puts it, "contrary to the expectations of the planners," it should hardly be surprising that these policies "failed to relieve shortages of food and foreign exchange . . ." ³²

Similarly official data show quite conclusively that the low tax and private sector oriented Third World countries have clearly outperformed the high tax and public oriented Third World countries. ³³ (See Table 4) In fact, the growth of the low tax and market oriented countries has been so rapid that there are some who maintain that these "newly industrializing countries," or NICs, should no longer be considered as part of the Third World.

The superiority of the free market over the planned economy is also demonstrated by an examination of nutritional data. "Of all the socialist experiments" says Nick Eberstadt,

TABLE 5: 1979 PER CAPITA INCOME IN U.S. DOLLARS

Market economy	Taiwan	\$1,667	W. Germany	\$10,670
Controlled economy	China	\$ 576	E. Germany	\$ 6,318
Market economy	S. Korea	\$1,373	Ivory Coast	\$ 916
Controlled economy	N. Korea	\$ 750	Ghana (Gold Coast)	\$ 411

"only two provide evidence of nutritional results noticeably better than their non-Communist neighbors: Soviet Asia and Cuba." Yet, the neighbors lack heavy subsidies and can hardly be termed market oriented.³⁴

Perhaps the easiest way to examine the performance of economic systems is simply to contrast the performance of several market oriented countries with the controlled economies of their neighboring or sister states. This is done in Table 5.³⁵ The results are dramatic and can hardly be attributed to accident or coincidence. In fact when Korea was partitioned in the early 1950s, North Korea possessed 95 percent of the industry. It was richer and much better fed. Today the reverse is true.

In brief, contrary to conventional wisdom poverty and hunger are closely correlated with government planning and regulation. Economic development and nutritional progress are correlated with economic freedom. In its comparison of the countries of the world on the basis of GNP per capita one finds this revealing comment in *The Book of World Rankings*: "It is significant

that the top 20 countries are all free-market economies."³⁶

Conclusion

The widespread belief in the prospect of imminent resource depletion is unfounded. The supply of resources is actually expanding, not diminishing. While such maladies as poverty and hunger may in fact worsen in the future, the tragedy is that they are likely to be caused by the very thing the Chicken Little Gang sees as the solution to the mythical problem of resource depletion: more government controls and regulations. ☼

—FOOTNOTES—

¹Donella Meadows, et al., *The Limits to Growth* (New York: Universe Books, 1972), p. 125.

²*Ibid.*, pp. 227–228.

³*Ibid.*, p. 123.

⁴Council on Environmental Quality and the Department of State, *The Global 2000 Report to the President* (New York: Penguin Books, 1982), p. 1.

⁵The similarities should not be all that surprising since the authors of *The Limits to Growth* were also contributors to *The Global 2000 Report*. See Julian Simon, "Global Confusion, 1980: A hard look at the Global 2000 Report," *The Public Interest* (Winter 1981), pp.

3-20, and especially p. 6.

⁶Robert Lineberry, *Government in America* (Boston: Little Brown, 1980), pp. 526-32. Actually, there were quite a few estimates that "suggested that oil supplies will be around longer than a generation or two . . ."

⁷Bruce Russett and Harvey Starr, *World Politics* (San Francisco: W.H. Freeman, 1981), pp. 533-67.

⁸Loretta McLaughlin, "Earth Headed for the Breaking Point," *Chicago Tribune* (Sunday, September 19, 1982), Section 2, pp. 1 and 2.

⁹Lewis Perlman, *The Global Mind* (New York: Mason/Charter, 1976), pp. 46-47 and 179-81.

¹⁰Presidential Energy Program, Hearings before the Subcommittee on Energy and Power of the Committee on Interstate and Foreign Commerce, House of Representatives (Washington, D.C.: U.S. Government Printing Office, February 17, 18, 20 and 21, 1975). Cited in Herman Kahn, *et al.*, *The Next 200 Years* (New York: William Morrow and Co., 1976), pp. 94-95.

¹¹Kahn, *et al.*, p. 93.

¹²Paul Ehrlich, "Eco-Catastrophe," *Ramparts* (September 1969), pp. 24-27.

¹³The table is reprinted from William D. Nordhaus, "Resources as a Constraint on Growth," *American Economic Review* (May 1974), p. 24. Also see Julian Simon, *The Ultimate Resource* (Princeton: Princeton University Press, 1981), pp. 96-97 and 349-51 for a comparison of resource prices with the Consumer Price Index.

¹⁴Table 2 is reprinted from Warren Brookes, *The Economy in Mind* (New York: Universe Books, 1982), p. 134.

¹⁵*Ibid.*, p. 140.

¹⁶Richard D. Erb, "The Organization of Petroleum Exporting Countries Members and U.S. Policies," *The Annals of The American Academy of Political and Social Science* (March 1982), pp. 111-17.

¹⁷Brookes, p. 141.

¹⁸U.S. Statistical Abstract, 1982-83 (Washington, D.C.: U.S. Government Printing Office, 1982), Table 972, p. 572.

¹⁹*Ibid.*

²⁰Erb, p. 113.

²¹Thomas Sowell, *Knowledge and Decisions* (New York: Basic Books, 1980), p. 182.

²²I am indebted to Chris Miller for calling my attention to the similarities between the contemporary catastrophists and Chicken Little.

²³The Table is reprinted from Kahn, *et al.*, p. 92.

²⁴Earl Cook, "Limits to Exploitation of Non-renewable Resources," *Science* (February 1976), p. 678.

²⁵Wilfred Beckerman, *Two Cheers for the Affluent Society* (New York: St. Martin's, 1975), p. 196; Kahn, *et al.*, p. 102; Nordhaus, pp. 24-25.

²⁶Sowell, pp. 75-76.

²⁷Thomas Sowell, "Second Thoughts about the Third World," *Harpers* (November 1983), p. 36.

²⁸*Ibid.*

²⁹Peter Bauer, *Dissent on Development* (Cambridge: Harvard University Press, 1972), pp. 529-30.

³⁰Eric Preindel and Nick Eberstadt, "Paradoxes of Population," *Commentary* (August, 1982), p. 43.

³¹*World Statistics in Brief* (New York: UNESCO, 1980).

³²See Sara Berry, "Economic Change in Contemporary Africa," *Africa*, eds. Phyllis Martin and Patrick O'Meara (Bloomington: Indiana University Press, 1977), p. 271. And Bauer, p. 413.

³³Source: *World Development Report, 1981* (Washington, D.C.: World Bank, 1981), pp. 126-37. Also see the comparative country analysis in Helen Hughes, "Private Enterprise and Development," *Finance and Development* (March 1982), pp. 22-25. And Michael Novak, "Why Latin America is Poor," *The Atlantic Monthly* (March 1982), pp. 66-75.

³⁴Nick Eberstadt, "Hunger and Ideology," *Commentary* (July 1981), p. 47.

³⁵Source: compiled from *Economic Handbook of the World, 1981* (New York: McGraw-Hill, 1981), eds. Arthur Banks, *et al.*

³⁶George Thomas Kurian, *The Book of World Rankings* (New York: Facts on File, 1979), p. 82.

Behind Enemy Lines

THE modern liberal, says Republican Congressman Mickey Edwards of Oklahoma in his *Behind Enemy Lines*, seems to care more about the environment than about the people who use it. The result is that the liberal sometimes "treats trees like people and people like trees."

In daring to take on the extreme environmentalists, Mickey Edwards has led a charmed political life. He comes from a section of Oklahoma that used to send Democrats to Washington, yet he wins with black votes even while serving as President of the American Conservative Union, which is against such things as busing and quotas. He doesn't think much of the way Congress has behaved for the past half-century—it has, he says, "created the mess we are in." The people, he observes, do not respect Congress—it is "one of the least trusted institutions in America." Yet, amazingly, the members of Congress are consistently re-elected.

How to explain it? Mickey Edwards does the best he can, by showing how the Congressional committee and sub-committee systems allow special interests to triumph over the general. It seems to be a matter of intensity—a broad public will have only a narrow individual pocketbook interest in opposing a particular bill, while the proponents, with much bigger individual sums at stake, will be ready to scratch and scabble for it to the last inch. The cure for the troubles is education—and this is what Mickey Edwards' book is mostly about.

Ideas come first, in Mickey Edwards' observation—and before Congress can really change, "ideas must have form, substance." Rhetoric is not enough. So, in his section on "new directions," Mickey Edwards focuses on what is happening to crystallize opinion out in the country. He speaks of the Jarvis amendment (Proposition 13) which

mandated a big cut in property taxes in California. The Jarvis amendment did not exist in a vacuum; it was only the latest in a series of events that included voter rejections of school bonds, library bonds, road bonds and new taxes. Congress has not yet decided to bite the bullet in turning to a "low tax, low spend" policy, but Mickey Edwards' account of the proselytizing efforts of the so-called Core Group in the House of Representatives (dubbed the "yellowjackets" by commentator David Broder) shows the way a new wind is blowing.

Mickey Edwards makes no hard-and-fast predictions, but he doubts that our present "pragmatism" will do for the 21st century. Our debates, he says, "do not call for adding machines, computer printouts and econometric models; they call for passion, for commitment, for principles, for vision." We need more than a Congress obsessed "with instant, simple solutions . . . regulating the design of toilet seats, for example."

The Common Situs Bill

In fighting the institutional breakdown in Congress, Mickey Edwards and his friends have won some unexpected victories. Big Labor, as represented by the AFL-CIO, has yet to recover from the defeat of the so-called common situs bill in the 95th Congress. If common situs had won, the labor unions would

have been able to extend a strike against a single contractor to a walk-out involving all unions on a given job. The unions would have gained the right to maintain "secondary boycotts." The conventional expectation was that union campaign payoffs to Congressional members in the 1976 elections had been sufficient to insure a thumping victory for common situs. But with John Ashbrook of Ohio leading the fight, the conservatives persisted in what they thought was a hopeless rearguard action.

Edwards is both graphic and amusing in his story of the meetings in John Ashbrook's office. Ashbrook was a newspaper publisher who never threw any printed matter away. They called him "Trashbrook." The piles of papers on the "floors, chairs, laps and in the aisles" of his office in the old Longworth building had the conservatives huddling in corners. But if "Trashbrook's" room was cluttered, his mind was uncommonly clear. The object was to present a bill with few amendments to the Senate, where freshman Orrin Hatch of Utah might conduct a filibuster that would prevent final passage. Curiously enough, however, a final House version was defeated on the floor. As Ashbrook and Edwards watched the electronic tallyboard they could hardly believe their eyes. The Big Labor juggernaut had

failed.

John Ashbrook is now dead from a heart attack incurred while he was running for the Senate. Other players in the battle—Ron Sarasin of Connecticut, Al Quie of Minnesota—are no longer in Congress. But the labor supporters of the bill have never been able to regroup. Their long-time dismay is what led to the AFL-CIO's preconvention endorsement of Walter Mondale for President, a sign of desperate resolve to restore their old domination of Capitol Hill. The desperation tactic has probably hurt Mondale more than it has helped—people with a growing suspicion of government do not like to be treated as a complaisant monolith.


Playing Politics

In telling about life in Congress Mickey Edwards is willing to admit there must be quarrels between a man's innermost philosophical convictions and his need, as a "small-d" democrat, to represent the people in his district back home. In 1979 the Senate needed funds to complete the magnificent new office building—the Taj Mahal—which it had, with the help of the House, voted itself. Edwards, with Steve Symms of Idaho, opposed the more lavish features of the proposed Senatorial marble palace. With bad blood existing between Senate and House, Mickey Edwards promised to be

waiting for the Senate to revive its demand for Taj Mahal money. But when the bill finally came back he didn't have a word to say.

What had happened was that the Senate request for office building funds had been made part of a catch-all appropriations bill. With two Oklahoma water projects pending in the Senate, Edwards did not dare risk the displeasure of his constituents by opposing the catch-all legislation. "I kept quiet," he says, "and let others fight—a classic example of the way expedience takes precedence over principle."

Maybe the answer would be to outlaw the device of the catch-all bill. This would be a Congressional equivalent of the line-item veto which the President would like to have. But Mickey Edwards is against the line-item veto on the ground that it might give too much power to the Executive branch. His feeling is that Congress should be jealous of its powers, which presumably include the ability to save time by turning to catch-all legislation.

In all, *Behind Enemy Lines* is a most instructive book. It is civics as it is practiced, not as it is imagined in theoretical works. 

Copies of *Behind Enemy Lines* are available at \$15.55 from Mickey Edwards, 10319 Yellow Pine Drive, Vienna, VA 22180

**FROM BRETTON WOODS TO
WORLD INFLATION: A STUDY OF
CAUSES AND CONSEQUENCES**

by Henry Hazlitt

(Regnery Gateway, 360 West Superior
Street, Chicago, Illinois 60610)
182 pages ■ \$10.95 cloth

Reviewed by Bettina Bien Greaves

FROM July 1–22, 1944, the world's most renowned monetary authorities convened at the huge old-fashioned hotel in Bretton Woods, New Hampshire. World War II was not yet over. Nevertheless, the Allied politicians were meeting to try to work out arrangements for post-war monetary reform.

The world "authority" on money in 1944 was the Englishman, John Maynard Keynes. About a year earlier, Keynes' proposals for an International Clearing Union had appeared. In one of those papers Keynes, a long-time advocate of inflationism, had recommended credit expansion on an international level. As he put it, he wanted to repeat through worldwide credit expansion "the same miracle, already performed in the domestic field, of turning a stone into bread." And this inflationist proposal of Keynes became the working blueprint for the Bretton Woods Agreements.

From 1934 to 1944, Henry Hazlitt was writing most of the economic editorials for the prestigious *New*

York Times. Most of his editorials dealing with the Bretton Woods Conference and the Agreements that ensued have now been collected in this small volume. Each treats with some specific development relating to the Bretton Woods Agreements. These 23 short editorials written as commentaries on daily events, arranged here in sequence and combined with added materials, make a remarkably unified and consistent analysis. Mr. Hazlitt's later comments on the "economic consequences" of Bretton Woods, written in 1967, 1969, 1971, together with the 1983 introduction and epilogue, "What Must We Do Now?" make the book pertinent to today's readers.

When these editorials appeared, Mr. Hazlitt had yet to write his best selling *Economics in One Lesson* (1946) and his devastating critique of Mr. Keynes, *The Failure of the "New Economics"* (1959)*. Yet Mr. Hazlitt brought to *The New York Times* editorial page his firm understanding of economic principles and of the need for an international gold standard to avoid inflation and credit expansion.

The first five editorials were written prior to the Bretton Woods Conference and dealt with the proposals to be discussed. A basic assumption of the participants was the widespread fallacy that a nation's cur-

*Both available from FEE in paperback, \$4.95 and \$15.00 respectively.

rency if "allowed to drift would finally 'seek its own natural level'." Mr. Hazlitt pointed out that if a national currency was to maintain its value, it must be redeemable in gold, or some other real commodity. Otherwise, its "natural level" would become "precisely what governmental policies in the long run tend to make it. There is no more a 'natural value' for an irredeemable currency than there is for a promissory note of a person of uncertain intentions to pay an undisclosed sum at an unspecified date" (p. 32).

Mr. Hazlitt's editorial on the opening day of the Conference asserted:

The most important contribution that this country could make to world currency stability would be to declare unequivocally its determination to stabilize its own currency. It could do this by announcing its determination to balance its budget at the earliest practicable moment after the war, and by announcing that the dollar would no longer be on a "twenty-four" hour basis, and subject to every rumor, but firmly anchored to a fixed quantity of gold. (pp. 48-49)

This recommendation was ignored. The participants at Bretton Woods proceeded to establish the International Monetary Fund, which called for complex government controls and regulations in the vain attempt to promote international monetary stability and cooperation. Yet, as Mr. Hazlitt pointed out:

In the economic field, on the contrary, true international cooperation means the termination of such governmental controls, which are invariably conducted in the interests of political pressure groups, and the return to a world in which men are free to trade and produce at the prices fixed by supply and demand and competitive efficiency. (p. 67)

Almost all news commentators of that day were praising the Bretton Woods Conference as a wonderful example of international cooperation. As Mr. Hazlitt was writing economic editorials about the Conference, *The New York Times* management asked if he would like to cover it in person. Mr. Hazlitt turned the offer down; he said he could read in the office about what they were doing and criticize it "much better not being there. . . . I can also write on other subjects." So the matter was dropped.

However, even after it was announced that 43 governments had signed the Bretton Woods Agreements, Mr. Hazlitt continued to oppose them. His editorials in *The Times*, Mr. Hazlitt said in a recent interview, "were the only sour note." Mr. Arthur Hays Sulzberger, then President and Director of *The New York Times* came to Mr. Hazlitt at that point and told him that, with almost the entire world in favor of the Agreements, they could not continue to oppose them editorially. "All right," Mr. Hazlitt said, "if

you want, but in that case I can't write anything further about Bretton Woods. This is just an inflationist scheme that is going to end badly and I can't support it."

A couple of years later, when Mr. Hazlitt began writing a weekly column for *The Times*' financial page, he again had occasion to comment on the outcome of the Bretton Woods Conference and again he criticized it. Mr. Sulzberger then suggested to Mr. Hazlitt that a disclaimer appear below his columns saying that "the opinions of Mr. Hazlitt are not necessarily those of *The New York Times*." When Mr. Hazlitt pointed out that this would imply *Times* endorsement of all its other columns, Mr. Sulzberger reneged. However, Mr. Hazlitt soon left *The Times* for *Newsweek*. When *The New York Times* lost Henry Hazlitt as an economic editorial writer, it lost one voice of sanity.

To indicate the decline in the understanding of economic principles since Bretton Woods, among spokesmen for the "establishment," Mr. Hazlitt cites recent statements in favor of the International Monetary Fund from *The New York Times*, *The Wall Street Journal* and Secretary of the Treasury Donald Regan. Very few people realized then, and very few realize now, the danger inherent in the IMF's provision making the U.S. dollar, itself being inflated, the basis for all other na-

tional currencies. Because little disgrace or difficulty attached to inflating and devaluing under the IMF provisions, inflations and devaluations of national currencies became rampant worldwide. As Mr. Hazlitt had pointed out, the "natural value" of an inconvertible national currency soon becomes "precisely what government policies in the long run tend to make it."

The Special Drawing Rights (SDRs), created in 1970, were one more attempt on the part of the IMF to turn stones into bread by expanding the world's credit money. After that, it was not long before our government's stock of gold had declined so much that President Nixon was forced, on August 15, 1971, to "close the gold window," i.e. to stop redeeming in gold U.S. dollars in the hands of other governments and government central banks. As Mr. Hazlitt writes:


No single nation's currency could long be expected to hold up the value of all the currencies of the world. Even if the United States had itself pursued a far less inflationary policy in the twenty-seven years from 1944 to 1971, it could not be expected indefinitely to subsidize, through the IMF, the International Bank, and gold conversion, the inflations of other countries. The world dollar-exchange system was inherently brittle, and it broke. (pp. 18-19)

Mr. Hazlitt's words were borne out; the U.S. dollar proved a pretty slim

reed on which to erect a world monetary system.

The International Monetary Fund has fostered worldwide inflation; it has subsidized socialist programs in countries that inflated more, at the expense of those that inflated less; and it "is now using its loans as leverage to force the extension of old and the making of new private loans" (p. 20). Thus, Bretton Woods, especially the IMF, must be held responsible also for the current world debt crisis.

The International Monetary Fund and the International Bank for Reconstruction and Development (the World Bank), both offsprings of the 1944 Bretton Woods Conference, were/are costly institutions and in time must prove untenable. It is good now to have in print Mr. Hazlitt's explanations of the reasons.

Incidentally, anyone seeking to use the index of this book should be warned that it is seriously botched; most of the page numbers are four digits too low. 

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Don't Overdo It—

A Page on Freedom, No. 8

Lao-Tze 387

Govern lightly, and leave the people free.

The Collectivist Fallacy

Clarence B. Carson 388

The individual outranks the group he helps to empower.

Danger: A Lesson from Language

Ian Ravenscroft 396

The change from "lordship" to "the threat of harm."

Concessions and Givebacks

Hans F. Sennholz 400

Deregulation allows market pricing of labor.

In the Name of Protection

Ridgway K. Foley, Jr. 411

Unseen damages by those who profess to help.

Italian Lemonade

James Doti 416

How government takes over business ventures.

The Constitutional Crisis:

An Historical Perspective

Barry W. Poulson 424

Personal liberty under the Constitution.

Greed, Envy and Justice

Steven E. Daskal 433

The urge for "social justice" tends to backfire.

If We Want Reindustrialization

Charles R. La Dow 438

The Industrial age stems from sound money and a free market.

Book Reviews:

445

"Tyranny of the Status Quo" by Milton and Rose Friedman

"The Railroaders" by Stuart Leuthner

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Don't Overdo It

AS RESTRICTIONS and prohibitions are multiplied in the Empire, the people grow poorer and poorer. When the people are subjected to overmuch government, the land is thrown into confusion. When the people are skilled in many cunning arts, strange are the objects of luxury that appear. The greater the number of laws and enactments, the more thieves and robbers there will be. Therefore, the Sage says: "So long as I do nothing, the people will work out their own reformation. So long as I love calm, the people will right themselves. If only I keep from meddling, the people will grow rich. If only I am free from desire, the people will come naturally back to simplicity." If the Government is sluggish and tolerant, the people will be honest and free from guile. If the Government is prying and meddling, there will be constant infraction of the law. Is the Government corrupt? Then uprightness becomes rare, and goodness becomes strange.



Verily, mankind have been under delusion for many a day! Govern a great nation as you would cook a small fish. (Don't overdo it.) ㊦

—Lao-Tze, 560 B.C.

The Collectivist Fallacy

A CLASS to which I belong is either going or has gone out of existence. If the class had a formal title, I never heard it, but it could be described this way. It was comprised of those who suffered property damage as the result of a brief voltage reduction which occurred in the early morning hours on a certain day in April of 1983. It was a local phenomenon, restricted mostly to a portion of the county in which I live.

Here is how I came to be a member of this particular group or class. My older daughter awakened the household around 5:30 of the said early morning with the announcement that we had a power "brown-out." I got up to check, and sure enough the lights were dim, and there were indications that the situation was general. My first

thought was that we should turn off the heat pump lest it be damaged. That done, my daughter called the electric company. The person who answered the phone said that they were aware of the condition and were working to correct it. Within 30 or 40 minutes, the power came up to full voltage, and that should have been that. Except, it wasn't.

Our refrigerator began to develop strange clicking noises, and my amateur investigation disclosed that while the air was circulating through it, it was cool air, not cold. Moreover, the air soon developed that unmistakable fetid odor characteristic of refrigerators when they are not refrigerating. There was nothing for it but to get help from some person familiar with the innards of refrigerating devices. Late in the afternoon, the service man arrived to check the refrigerator. His findings were not encouraging. The compressor had locked, he declared.

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Well, I asked, what do you have to do to unlock it? You don't, he replied, you replace the compressor. So, he carted off the refrigerator to the repair shop, and several days later it was returned and worked as well as before.

My pocketbook was lightened of its burden by some \$250 to pay for the restoration, of course. Evidence began to accumulate that there was a connection between the power reduction and compressor failures. Mine was no isolated case. The refrigerator business I had used was kept busy for weeks repairing and replacing refrigerators, food freezers, and the like. The man who owned the business had got up at about the time the brownout occurred, investigated, and discovered that the voltage was exactly one-half normal strength. He recommended to his customers that they seek relief from the power company. I filed a written claim; some of the others went in person to assert their claims.

The efforts were to no avail; I never received a reply to my letter, but I heard that the power company was denying its responsibility. Spokesmen for the company talked vaguely about acts of God and other mishaps beyond their control. If the Deity actually acts by way of the wind and weather, He was especially quiet on the night in question. The wind was calm; it was clear; not

a single bolt of lightning had been seen nor clap of thunder heard. My insurance man explained that if the voltage reduction had been the result of an act of God, the insurance companies would pay the claims.

Loath as I am to take collective action, I had just about worked myself into a sufficient lather to instigate a class action suit, when I got a call one night from a man who lives in a nearby community. He said an attorney had been found who would undertake such a suit for a portion of the proceeds and asked if I wanted to make a claim. I assured him that I did and told him the amount of my claim.

Many months went by without any word of proceedings or lawsuit before there came another call from the man who had contacted me in the first place. He said that the power company was going to pay the claims and that to get mine I would have to go by the attorney's office and make a formal statement of mine. The next time I was in the vicinity of the lawyer's office I went by, filled in the amount of the claim, and signed the paper. More weeks or months elapsed before I got a call from a local lawyer who must have been associated in the case some way. He said he had a check for me, and I could come by and pick it up or he would mail it to me. I picked up the check, was satisfied with the amount, and my membership in the

class which had brought (or threatened) the suit was at an end.

These rather trivial incidents probably have no particular significance in themselves. I have related them in some detail, however, because of the light they may shed upon collectivism and what I believe to be the central collectivist fallacy. But before applying them in that way, some observations about collectivism and what I conceive to be the collectivist fallacy are in order.

First, some observations about collectivism. I take it that the main thrust for change in the way we do things in America over the past half century has been collectivism. That is, it has come from what I once called, a "collectivist curvature of the mind," the bent to organize and solve problems collectively rather than to do so individually. This bent has been expressed forcefully by the increasing use of government to manage and control the lives and activities of people.

This governmental control is also sometimes described as socialism and the tendency in that direction socialistic. But collectivism is much the better word for describing and thinking about the method of the action; it does not have to be encumbered with the intellectual baggage of ideological socialism. Socialism, after all, may be nothing more than a figment of the fertile imaginations of intellectuals. Collectivism, on the

other hand, is quite real. It is as real as all the governmentally organized or supported organizations which rule today in so many areas of our lives: as real as the Department of Agriculture, of Health and Human Services, the Federal Reserve Board, the Securities and Exchange Commission, the AFL-CIO, the AEA, the Food and Drug Administration, and so on and on.

A Preference for Collective Action

Collectivism can be defined as the *preference* for the collective over the individual. In practice, it is the preference for government-directed action over private, individual, and independent ways of doing things. It is the preference for collective over individual responsibility, for government-guaranteed security over free enterprise, for control over liberty. The collective acts through government, according to the dominant contemporary democratic theories. The electorate votes and, by so doing, grants its support to the collectivizing activities of government.

Undergirding this thrust to collectivism is the view not only that collective action is preferable to that of individuals but also a conception of the nature of man that mandates collectivism as the solution to our problems. Man is a part rather than a whole, an incomplete being on his own, inadequate to the task of life. The individual following his own

way is sundered from the organism of which he is a part.

This aspect of collectivism, which I consider central to it, was brought home to me recently by correspondence which I had with a reader of one of my books. In *Organized Against Whom?* I quoted from the decision of a New York court in 1835 in the case of *The People v. Fisher*. The judge ruled that combinations of men, as in a labor union, had no right to set the prices at which others might sell their goods or labor. He reasoned that "If one individual does not possess such a right over the conduct of another, no number of individuals can possess such a right."

My reader indicated "that while the court reasoned fallaciously in my opinion, its conclusion was correct." The example the "court cited did not 'logically' support its conclusion." More specifically, he claims that in the sentence from the court quoted above the court was guilty of "the fallacy of composition." The fallacy of composition, he explains, "occurs when one reasons fallaciously from the attributes of the parts of a whole to the attributes of the whole itself." Thus, "Regarding *The People vs. Fisher*, the court reasoned from the attributes of the parts of a whole (i.e., individual members of a union) to attributes of the whole itself (i.e., the union). I submit that this was fallacious reasoning."

Parts and Wholes

On the contrary, I think that the judge not only reached a sound conclusion but also reasoned correctly on his way to it. I doubt very much that he was guilty of a fallacy of composition, but it is entirely possible that my correspondent has, perhaps unwittingly, fallen under the sway of what I am here calling the fallacy of collectivism. In any case, the difficulty, and the difference, is ontological, not logical. That is, it has to do with the nature and character of being, not with some weakness in reasoning conclusions from his premises.

Given his premises, so far as I understand them, the judge was rigorously logical in arriving at his conclusion. Here is a recap of his reasoning as I understand it. If a union has the right to impose its will upon others it must have obtained the right either from its members or from other sources. He had surveyed the state law on the subject and found in it no authority for such union activity. In the absence of positive law to the contrary, he looked for the right in the only place it could reside, in the rights of individuals. On his showing, individuals had no right to set prices for others. Therefore, he concluded that no number of individuals by combining could confer on an organization rights which they did not themselves possess.

The question with which my reader is dealing goes beyond the logical; it is, as I said, ontological. It has to be answered in the realm of being. Are men partial *beings*? And, are labor unions, and other organizations, whole *beings*? If we answer these two questions in the affirmative, the judge might indeed have made the fallacy of composition, but it would still be only a formality as my reader suggests, since we would still be missing a source for the alleged rights of the union. But there is much more than a mere formality involved in affirming that men are partial beings and that groups, classes, and organizations are whole beings. That is to affirm the basic premise of collectivism. That is to commit the fallacy of collectivism, i.e., to hold that individuals are but partial beings who attain such fruition as they do in wholeness as parts of groups, classes, or other organizations.

Groups and Organizations Tend to Be Temporary Arrangements

It seems to me that the bulk of the evidence points in the opposite direction from the collectivist position. That is, it points toward the conclusion that man is the whole being and that organizations can at most only simulate the wholeness of a man. Groups and organizations are by their nature usually temporary, ephemeral, occasional, and

short-time arrangements. Ordinarily, the people who are thought of as members or belonging to them commit only a portion of themselves to the group.

With these things in mind, let us return to an examination of the opening account of my membership, if it should be called that, in the class of persons who suffered property damage due to a voltage reduction in the electricity. Clearly, this was a temporary class or group of people, arising from the occasion of property damage from a common source. Many of the people in the class did not, and do not, know one another. The only person belonging to it that I know is my mail carrier. No general meeting of members was ever called or held, no social functions, rallies, or other gatherings. It lasted less than a year, and it is difficult to imagine circumstances under which the class or group would ever come back into being. None of us gave much of ourselves to the class; even the lawyer who was appointed to present our claims probably gave no more than a few hours to the task over a period of six or eight months. Obviously, the class was ephemeral and, by comparison with the solidity and relative permanence of the individual person, of little account.

Granted, as organizations go, this example was not very impressive. Even so, it is appropriate, because it

exemplifies the essence and nature of organizations more vividly than do complex and more enduring ones. Its singularity of purpose, its limited claim on the involvement of members, and its short duration highlight the essence of groups. Groups vary, of course, from the shifting groups at a social gathering, which form for only a few moments and whose members may be linked only in the most casual way by some circumstance to those that may exercise some claim for the whole of one's life, such as being members of a family. But all share a common trait of dependence upon the loyalty and involvement of individual members. Even the law is a slender thread when it prescribes or compels membership.

Distinctive Individuals

Although we speak of being members of or belonging to groups, the language is more figurative than literal. People are not members of groups in the sense that an arm or leg is a member or part of a body. An arm or a leg severed from a body no longer has significant existence; it is no longer even a part of a whole. A severed leg can no longer walk, nor an arm perform its function. They are neither whole nor parts of a whole, and the body from which they have been severed is no longer physically whole.

None of this is literally true of the

relationship of members to organizations. A man who withdraws from an organization is still a whole being literally, as whole as he was within the organization. He is separable from and retains his full being without "belonging" to any organization. He may, of course, feel a sense of psychic or spiritual loss, but, then again, the act could fill him with a sense of his wholeness which he had lost sight of in the organization. In any case, these are moods, which are most noted for being transient and ephemeral, having little to do with the state of being of creatures.

The wholeness of a normal human who achieved anything in the vicinity of his potential evinces itself in numerous integrated and independent acts. Man is self-starting, can originate acts of his own, is largely self-contained, is mobile and separable from other beings. He can walk, talk, sing, whistle, draw, write, calculate, bend, stand erect, flex his muscles, listen, smell, taste, produce, build, and operate things. It is true that he requires sustenance from outside himself from time to time. He must breathe, drink, and eat, and he may require other aids to survival, such as warmth and shelter, from time to time. But these needs do not so much detract from his wholeness as a being as provide challenges to his energy and ingenuity in providing

them which tend to fulfill his potentiality.

None of this is intended to denigrate associations, groups, or organizations as such. They are often valuable, beneficial, and sometimes essential adjuncts to man. An infant cannot ordinarily survive for long without aid from adults. Man is a sociable being and often gets pleasure from the company of others. Even grown persons often need the help of others. All of us benefit from the division of labor, some of which is most effective when it is organized. Nor is it my intention to suggest that all social relationships are simply for the convenience of the individual and dissolvable at will. On the contrary, such associations as those involved in marriage and family, citizenship, and church membership may be of an enduring character and are certainly fraught with greater significance than some casual grouping.

Groups Are Lesser Beings

In any case, my purpose is not to unknit the bonds of society but to put in ontological perspective the difference between individual persons and associations. The distinction I am making is this. Individual persons are a higher order of being than groups, classes, and organizations. They are potentially complete, as beings, on their own, separable and independent. Groups

are lesser beings, dependent upon the wills of individuals, and contingent in character. Far from man having existence as part of some organization; groups have their existence from some (usually) partial attachment of men to them.

Collectivism attempts to reverse this order of being, to stand it on its head, so to speak. It accords a superior reality to classes and tends to view men as extensions of them. Such notions might be of concern mainly to philosophers and grist for the debates of sophists except for one overweening consideration. Collectivists are hardly content with merely asserting their perverse views or practicing them in voluntary organizations. They have long since thrust to bring others under the power of this idea by empowering groups. Indeed, the very idea—the collectivist fallacy—is so contrary to reality that any general adherence to it is possible only by using government power to maintain it.

These aspects of collectivism can be seen most clearly, perhaps, in Marxism. There should be no doubt that Marx attributed a superior reality of classes to that of individuals. According to his scheme, the class to which one belongs determines his ideas, beliefs, the content of the laws, and whether he can prosper or fail. Even his religion is foisted upon him by the ruling class

for class purposes. Thus, the individual man is in his being simply an extension of the class to which he belongs.

Marx envisioned a series of coming revolutions in which the power of class would finally be broken, and man would be freed from the hold of class in a classless society. But the instrument that would bring all this about was to be the proletariat class when it would seize power. Marxism in power—Communism—creates a facade of rule by the proletariat by proclaiming the empowerment of the workers. In practice, Communists establish tyrannical dictatorships because the alleged working class does not possess the solidity required for revolutionary purposes. No class does or can; that is the collectivist fallacy that they could or do possess such solidity. One-man rule is a reflex of the collectivist fallacy.

But all collectivists are more or less under the sway of the collectivist fallacy that the collective is of a superior reality to that of individuals. Generally, too, collectivists attribute moral superiority to some one or more of their choice collectives. They are the groups or classes which are supposed to find special favor with government and to be empowered by it. Usually, it is some class or classes which are alleged to have been wronged in times past. Their having been wronged is supposed somehow to have purified

them and made them superior. For the communists, it is the working class or proletariat. For the Nazis, it was the German race. For laborites, it is industrial workers organized into unions. For democratic socialists, it may be described as "the people," by which we may understand the poor people, the working people, the minorities, and so on. Indeed, any classification of people that can work up into an historical wrong some real or imagined grievance can at least lay claim to empowerment by the government dominated by the collectivist fallacy.

In my opinion, the court did not err in the case of *The People v. Fisher*, because it considered each individual as a whole. And, when wholes are added one to another, there has only been an increase in quantity, not a change in quality. If, as the judge said, one individual does not have the right to use force on another to make him observe some set price, then neither does a group of individuals. A group is not superior to an individual in either being or right. Granted, a group acting in a concerted fashion may intimidate or overpower individuals on their own. But that does not make them right unless might makes right. In the upside down world of collectivism, of course, might is believed to make right. That is the grotesque reality toward which the collectivist fallacy points.

DANGER: A Lesson from Language

dān'-ger: n. Liability or exposure to harm, risk, or peril. [Earlier sense *power* from Old French *dangier*, from Latin *dominus*, lord.]

—*The Concise Oxford Dictionary*

SOCIAL SCIENTISTS are concerned with explaining the regularities and patterns that occur in the tapestry of human events. Physicists and chemists also look for patterns and regularities, but unlike the social scientist, the natural scientist is concerned with molecules and magnetism, electrons and elements, not social structures.

The social scientist can also be distinguished from the psychologist because the latter observes the behavioral patterns of an individual, while the former studies regularities for which no individual is solely responsible. Indeed, the regularities which interest the social scientist arise from the interaction of countless men and women.

The social patterns which arise unintended from the behavior of

millions of individuals have been described by F.A. Hayek as constituting a "spontaneous order." Language is a prime example of spontaneous order. It is not the work of any one individual. Nobody invented language, and no one controls its destiny. Language, in all its complexity, arose from the social interaction of individuals creating a pattern of sound and meaning. To quote Professor Hayek, "language shows a definite order which is not the result of any conscious design."¹

Just as language arose without conscious intent, so may it change without individual decision. Such alterations can reflect changing attitudes within the speech community, and so etymology may give us a clue to the discoveries and intuitions of numberless individuals over the centuries. The etymology of the word "danger" provides such a hint.

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Today, the word "danger" refers to risk or peril. But this has not always been so. A thousand years ago, "danger" meant "power." The word crept into English from the Old French "dangier." In its turn, Old French acquired "dangier" from the Latin "dominus," meaning lord or ruler. Thus, there is a chain of sound and semantics from ruler to power to danger.

The metamorphosis of "ruler" to "danger" is a telling one. It tells us that over the centuries people have realized that rulers and power are dangerous, and it tells us that today we must be vigilant of our lords. Danger emanates from rulers and creeps down the corridors of power.

I have selected three dangers which confront us today. Other pressing dangers could be cited, but those I have chosen are familiar and so underline my thesis clearly.

Economic Disorder

One major danger of the 1980s is economic disorder. We are beset by unyielding deficits, massive unemployment, falling savings, and low investment. The statist spells of the Washington magicians have failed to exorcize these ills. This is hardly surprising as government is the devil, not the holy water.

Language is one example of spon-

taneous order. The market is another. In the market, the self-interested individual sets out to earn a profit by administering to the needs of others. Unintentionally, the search for profit creates a pattern of employment and productivity.

Just as language is not the result of conscious decision, neither is the market. No one individual can claim responsibility for the pattern of prosperity which the market generates. Even armed with the most powerful computer, no ruler could coordinate the means and ends of the countless individuals who make up the economy. There is too much information dispersed in too many individuals' minds for any political group to master. To compound the matter, needs and desires, techniques and methods, are always changing. Ours is a dynamic world.

Only the market, with its entrepreneurs driven by hope of profit and fear of loss, can cope with the vast quantities of information dispersed throughout the economy. Subtle changes in price convey facts about availability and desirability between consumers and producers. But governments insist on interfering with the market. They arrogantly claim to have access to the minds of millions of people, and enforce their values upon us all.

The consequences of this presumptuous meddling are all about

¹F. A. Hayek, *The Counter-Revolution of Science*, 2nd ed. (Indianapolis: Liberty Press, 1979), p. 69

us—idle resources and broken dreams.

War

A second obvious danger that faces us in the latter part of the twentieth century is war—be it nuclear or conventional. There is bloodshed in Central America, Africa, the Middle East, and Afghanistan. There is mounting tension between the major powers, and distrust among the minor ones.

Let us make it clear once and for all: individuals do not wage war—States do. As Proudhon noted: "War is the health of the State." Wars are unleashed by rulers and arise from the abuse of power. But this is not to question that governments should raise armies. I am not advocating unilateral disarmament. Far from it. The sole legitimate function of government is to protect the individual from force, theft, and fraud. Armed forces are necessary if the individual is to be defended from aggression by foreign powers. But the key term is "defended." Armies must be defensive, not aggressive.

Unfortunately, rulers tend to be covetous of others' property, be it within their territory, or beyond their borders. The danger of war tends to wax as individual rights wane. Hence, to no small extent, citizens can protect their safety, not by advocating interference with other States that are potentially aggres-

sive, but by concerning themselves with their own government's activities. Safety is maximized by individuals insisting on their government maintaining a defensive posture, and being able to back that posture with force. Ironically, peace comes out of the barrel of a gun.

The Growth of Crime

The final danger I will mention is the danger inherent in the growth of crime. Many crimes—the so-called "victimless" ones—aren't crimes at all. They are merely unusual forms of behavior which happen to be illegal. An activity can only be accurately described as criminal if it interferes with an individual's right to dispose of his or her property as that person sees fit. Hence, fraud, theft, robbery, assault, rape, and murder are all clearly crimes. They all involve one individual or group of individuals transgressing against another individual or group of individuals.

Such activities as prostitution, the sale and use of drugs, and gambling, are not crimes. They are often socially unacceptable, and almost invariably illegal, but they interfere with no one other than those people who freely agree to be involved. One may not personally approve of these activities, but one must—if one is to remain civilized—approve of the right to be involved by those who see fit.

The danger that faces us stems not from an increase in victimless crimes, but from an upsurge in crimes of violence against others. The State is failing everywhere to prevent the rise in these activities. I suggest that there are two reasons for this. First, the State has lost its will to protect the individual. The ideology of the State is increasingly couched, not in terms of the individual, but in terms of abstractions such as "class" and "society." Thus, the energy of the State is not directed toward real individuals' problems, but toward such non-issues as the "class struggle" and "social justice."

Secondly, what energy the State does apportion to crime prevention and detection is largely spent on harassing the non-criminals men-

tioned earlier: prostitutes, drug addicts, and back yard gamblers. If this energy were directed toward the prevention of real crimes, our streets and homes would be safer.

This short survey of the dangers we face today is, I think, sufficient to support the link between rulers, power, and danger which etymology suggested. We are confronted by dangers that are due either to rulers exercising their power in illegitimate domains, or due to rulers failing to exercise their power in the only legitimate direction: defense of the individual.

We need to reaffirm just what the State ought and ought not be doing. And we need to do this in terms of the rights of the individual—the inalienable rights to Life, Liberty, and the pursuit of Happiness. ☉

The Role of Government

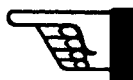
IN the free society government keeps the peace, protects private property, and enforces contracts. Government must do these things effectively, and it must do nothing else; otherwise, the conditions absolutely necessary to genuine personal freedom in society are absent. Whether or not a genuinely free society is attainable no mortal man can know; the limits of our knowledge are too narrow. But one thing we do know: that until at least the advocates of the free society are fully aware of the conditions necessary to its existence, it can never come about. For they must ever be on guard against new movements, ideas, and principles which would endanger its realization. And on the other hand, they must be sharply aware of existing impediments so that they may direct their energies intelligently to the removal of the causes of current imperfections.

IDEAS ON



LIBERTY

CONCESSIONS and GIVEBACKS



WHEN AFL-CIO officials meet they pass resolutions, hold press conferences, listen to speeches by political hopefuls, and condemn the administration. They give ringing endorsement to higher minimum wages, any and all jobs bills, more "dislocated" workers and youth programs, accelerated public works, public housing construction and rehabilitation, and the like. They call for Federal spending that is many times the amount spendthrift administrations could actually spend.

In their public pronouncements, labor leaders are as forceful and intransigent as ever. But in their contract bargaining with employers many are settling for smaller pay raises than at any other time in recent years. Some even consent to

givebacks, that is, voluntary forfeitures of previously won benefits. Even in the citadels of unionism, the steel and auto industries, unions for the first time in history have agreed to reductions in hourly wages and fringe benefits. What may be even more significant, some unions are acquiescing in concessions on working conditions. A leading business journal called it a "quiet revolution in the nation's industrial sector, as labor and management agree to eliminate many long-standing and costly work rules in an effort to raise productivity and profits."¹

Revolutions of any kind are the work of ideas and principles, and are achieved in the realm of thought before they are translated into action. A revolution of unionism must be visible first of all in the sphere of thought about unions, in publications and public pronouncements, in newspapers, journals, and books.

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The leading textbooks in schools and colleges would have to revolt against popular notions about unions, and overthrow old suppositions. In particular, they would have to explode the prevalent notion that unions can improve the income and working conditions of their members without inflicting serious harm on other workers. They would have to show how union tactics and policies cause mass unemployment, especially among young workers and racial minorities, and inflict harm on the public, which consists largely of fellow workers. Short of such a revolution of thought it is difficult to fathom a revolution in labor union action and policy.

Tactical Retreats

Concessions and givebacks are alien concepts in the ideology of unionism. If it is true that labor is handicapped in its bargaining position, or even exploited by greedy employers, concessions and givebacks can only aggravate the situation; they are regrettable steps back in the long struggle against capitalist oppression. Faithful unionists, therefore, treat them as tactical retreats that provide opportunities for regrouping and preparation for future counterattacks.

There have been very few retreats in recent decades. Governments throughout the nonsocialistic world lend strength and support to the

union movement. Governments and unions are allies in interventionism the essence of which is the seizure and consumption of wealth. As it is the economic objective of both to take from people with higher incomes and give to those who have less, they act like teammates in a game of give-and-take. Labor unions deliver political votes to administrations that promise to be friendly and cooperative; the administrations in return create legal privileges and immunities for labor unions so that they may be more effective in their economic struggle. The U.S. government even took labor disputes out of the courts of law and placed such matters with a new Federal agency, the National Labor Relations Board.² It set the stage for unions to seize income and wealth from employers, consume productive capital, and cause goods prices to rise. It set unions free to strike against the rest of the people.

Despite all their legal advantages, labor unions may founder on the rock of reality. There are natural limits to the wealth that can be seized and distributed; there are margins beyond which the disastrous consequences of unionism can no longer be denied. There are limits to misinterpretation that would lay the blame for mass unemployment in unionized industries on witless and greedy employers or hapless foreign labor. Having

reached the limits set by inexorable economic law, unions are forced to beat a retreat in the form of concessions and givebacks.

Depressions Are Lethal to Unions

Throughout union history nothing has been more damaging to the movement than economic depressions. They clearly reveal to anyone willing to see that labor unions cannot raise the wage rates of all workers seeking employment. During economic booms when prices are rising and wage rates are increasing, union agents are quick to take credit for the raises. They increase in prominence until a severe business depression causes prices to fall, wage rates to be cut, and unemployment to soar. They lose credibility when members lose their jobs. Before the days of generous unemployment compensation, chronic unemployment caused union members to desert their organizations in order to find work at market rates under market conditions. Labor unions foundered on the rock of economic depression.

To many Americans the 1981-1982 recession looked like a dreaded depression. By November and December 1982, unemployment kept more than 10.8 percent of workers idle. An estimated 11,987,000 Americans were jobless, which was the most since 1940. Another 6.6 million were reduced to part-time

work, and 1.6 million were no longer looking for work. In 1982, more than 2.5 million workers exhausted their unemployment compensation.³

The economic recession was felt most keenly in the unionized industrial heartland, from the steel cities in Pennsylvania to most of the "smokestack" towns that line the rivers and lakes in the Midwest. In northern Minnesota, iron ore towns and ports suffered jobless rates in excess of 20 percent. In Michigan the rate rose to 17.2 percent; in the strongholds of unions it soared to multiples of that amount. The old industrial belt has become a "Rust Bowl," with ghost towns of rusting steel mills and empty machine shops. Mass unemployment is haunting the unionized industries.

The unemployment rates would be even higher if they were to include all those workers who were dismissed or rejected in the past, but found employment elsewhere. A 17.2 percent state unemployment rate may actually amount to a 50 percent rate of union membership, to 75 percent of all present, past and would-be members, and to 99 percent of young people eager and willing to work but barred from employment by seniority rules. It is misleading to speak of a 17.2 percent rate of state-wide unemployment if it consists primarily of pockets of stagnation and decline in union strongholds.

Settlements with Concessions

Recessions diminish union bargaining power and impose wage restraints, which may even take the form of freezes and cuts in pay and benefits. The Bureau of National Affairs, Inc., a private research organization which monitors hundreds of wage settlements each year, counted 159 settlements with concessions in 1982 and 430 through most of 1983.⁴ Union concessions are likely to be made only when senior members are vulnerable to job loss. When junior people are laid off or not hired, the senior members, who are the most numerous and therefore most powerful group in a union, usually continue to demand wage increases. Only when their own jobs are at stake because the employer is suffering dangerous losses or may move elsewhere, will senior members consider wage cuts.

A concession may be too little and too late for saving an employer. When union rates exceed unhampered market rates by several hundred percent, a concession of five or ten percent may not correct the situation. But this may be all the concession senior workers are willing to make. Being eligible for generous shutdown benefits and magnanimous pensions, they may prefer old-rate retirement benefits over cut-rate wages. They may take militant positions and "no more concession" stands which, in the

end, may destroy the very provider of the pensions.

Capital Consumption Demands Concessions

The wave of union concessions that swept through many unionized industries as a result of the 1981-1982 recession may be ebbing, but it is likely to return in the coming years of high unemployment. The continuing problems of capital consumption and declining labor productivity may exact additional concessions, especially in capital-intensive industries such as steel, autos, trucking, and the airlines.

The essence of virtually all economic policies is to take income and wealth from one group and give them to another. Economic programs are designed to confiscate and distribute; laws and regulations are passed to benefit the poor by taking from the rich. Government budgets propose to tax the rich and borrow from them in order to improve the economic conditions of the poor. Labor laws and regulations mean to raise wages or reduce the onerousness of labor by burdening employers. In short, the end of virtually all intervention is the consumption of productive capital.

The confiscation principle obviously depends on the existence of private incomes and fortunes that can be confiscated. As long as some individuals manage to accumulate

productive capital and provide net additions per head of the population, the confiscation merely reduces the pace of economic progress. The situation becomes more painful, however, once the confiscation exceeds the capital formation and begins to reduce the amount of capital invested per head of the population. At that critical point every confiscatory measure visibly reduces the economic well-being of the masses whom it is supposed to benefit. New programs now have painful side effects, new entitlements inflict unexpected harm. New strikes work evil on the rest of the people. New business taxes cause wage rates to fall and unemployment to rise. Budgetary deficits consume productive capital and destroy jobs. As transfer expenditures can no longer be financed by "soaking the rich," they must be carried by the masses through lower wages, fewer jobs, and deteriorating living conditions. When that point is reached, further confiscation is inexpedient. It becomes advisable to beat a temporary retreat by making concessions. The givebacks reluctantly granted by the steel and automobile unions must be seen in this light.

Capital-Intensive Industries Are Favorite Targets

Capital-intensive industries always are the favorite targets for labor union assault. They may yield

billion dollar returns on many billions of dollars of owner and creditor capital invested, which unions are ever eager to distribute to their members. An industry that earns millions and billions after taxes issues an open invitation for labor union attack. The automobile industry which at times may earn \$5 billion or more is a perennial target. Unions simply ignore the fact that the return to owners may constitute but a marginal return on the capital invested. A \$1 billion net return on \$10 billion of investments may be barely sufficient when the market rate stands at 10 percent. If the rate should go higher while the company return remains at 10 percent or falls even lower, it would become "sub-marginal," that is, the company would lose productive capital to other investment opportunities and be forced to contract. There would be no new investments in modern tools and equipment because the returns no longer warrant the expenditure.

In the grip of militant labor unions, many companies are prevented from earning a market rate of return on the capital invested. They tend to fall behind their domestic and foreign competition in technological efficiency and innovation, renovation and maintenance, which in the end may cast doubt on their survival. A few union concessions and givebacks may delay the decline, but do not prevent it.

Capital Mobility Imposes Restraints

Battered by a decade of economic stagnation and rising unemployment, many unions are forced to choose on a plant-by-plant basis between cutbacks, shutdowns and givebacks. Capital mobility between regions and communities is adding to the pressure. This is not to imply that employers learned to pull up their stakes and move to friendlier economic environments. Most business property may consist of fixed assets, tangible or intangible assets long associated with a given location. To move them is clearly impractical. But it may be advisable to close a plant and suffer a limited loss rather than face open-ended losses year after year. In fact, it may become imperative for the survival of an enterprise that loss-inflicting operations be discontinued, and profitable operations in other plants in other communities be expanded.

At times, enterprises with proven records of profitability are closed down because they are said to have lost their ability to compete. Such shutdowns, which seem to be as numerous as the loss-induced shutdowns, always infuriate union agents and public officials who condemn them for their "callous disregard of worker employment and community interest." But a cursory reflection often reveals that all such shutdowns of "profitable" enter-

prises involve only "submarginal" enterprises that are earning and expecting to earn returns substantially lower than market rates. A union shop earning 2 percent on the capital invested when the going rate of return is 15 percent may be closed if the retrievable funds can yield higher returns elsewhere. After all, the owners may be wary about continually losing 13 percent to union pressures and practices. They serve not only their own personal interests but also those of society by withdrawing productive capital from 2 percent uses and investing it in more urgently needed production.

There is new life in the deep South. The economic expansion rates in the South usually exceed those of the Northeastern and Midwestern manufacturing districts. But it would be a grave mistake to credit the South's good fortune to Dixie raids on Northern industry. The region's economic development is building on business profits and expansion of existing firms. Business seems to be more profitable in the South despite its greater distances to population centers and goods markets in the North.

An important factor of expansion is the "wage-advantage" of the South. Three features of labor cost are creating a competitive advantage over industrial production in the North. First of all, wage rates are generally lower because they

may be market rates reflecting the true productivity of labor. They may be unimpaired by union coercion and institutional force. Moreover, there may be no union rules and contract restrictions that hamper management in its use of labor. Such rules and restrictions tend to raise labor costs far beyond any boosts in hourly wages. And finally, the attitude of labor may be more positive to personal exertion and effort. Labor unions always create an adversary relationship between worker and employer, which does not make for high labor productivity. The union member who just spent several weeks on a picket line, acrimoniously denouncing his employer and inflicting maximum harm, is unlikely to give him his maximum effort after the strike has been settled. Union labor usually is angry labor with long lists of grievances. Southern labor tends to be more peaceful labor, and its costs per unit of output may be significantly lower than the costs of angry labor in union strongholds.

Cost disadvantages in the old North cause firms to contract their operations or go out of business entirely. When the demise of an enterprise comes in sight there may be some bargaining about concessions and givebacks. In most cases it is too little and too late. The few senior workers who continue to be employed to the end may consent to a

mere fraction of the cost reduction needed for keeping the plant afloat. But even if they were to consent to significant cost-cutting they would continue to view it, in union perspective, as a tactical retreat that affords opportunities for reorganization and preparation for counter-attacks. A giveback today may be the harbinger of a double-take tomorrow.

Mergers and Conglomerates

In the industrial Northeast plant closings are a familiar story. Conglomerates, which are corporations made up of a number of different corporations operating in widely diversified fields, are quick to close plants that are no longer competitive. They do not hesitate to pressure labor unions for concessions and givebacks.

The pressure springs from the conglomerate's need to earn maximum returns on the capital invested. The corporation probably was built on a mountain of debt at a time when inflation kept interest rates artificially low and corporate stock could be bought at bargain prices. To serve its debt and support the price of its stock, a conglomerate may impose minimum annual profit targets on its corporate divisions or subsidiaries. Managers who meet the targets may receive generous executive "perks"; those who fail may suffer early dismissal. Compa-

nies that continually fail to make the "hurdle rate" may be shut down.

Many locally owned enterprises are coasting along on submarginal returns. They are easy prey to powerful national unions imposing their rates and rules. But such companies may be well endowed with real assets that make them worth more dead than alive. The local owners may be reluctant to close them and liquidate their assets because of the calamitous effects such a liquidation may have on employment and the community. While the local owners may hesitate, the conglomerate-owners usually do not. The company, therefore, is sold to a conglomerate that conducts the necessary operation. It closes the plant, liquidates the assets, and assigns the proceeds to more productive employment. It renders a valuable service to consumers and the public at large. As can be expected, local politicians and community leaders may be outraged about the "sudden" shutdown. When the company was besieged and tormented by a national union they probably relished the situation, watching in silence. When the torment finally draws to an end through shutdown, they come alive in a common denunciation of owners and managers.

Nothing foreshadows a shutdown like failure to reinvest. The equipment may be outmoded, the machinery worn out, and fixtures and

fittings may be going bad. Union spokesmen have a ready explanation for the decline and eventual shutdown: the greed, folly, and shortsightedness of employers that keep them from reinvesting their profits. This is the most popular explanation in the centers of unemployment and economic decline.

"Incompetence" and "Greed"

As such ugly charges are rather rare in non-unionized industries, it appears that unionized industries are confounded by an extraordinary number of incompetent managers and greedy owners. But such a conclusion contradicts the fact that unionized industries recruit their managers in the very executive market that supplies all other industries. And the owners usually hold stock in other companies in other industries as well. If they fail to invest their funds in unionized industries while they continue to invest in other industries, with "greed" and "incompetence" being the same in all, the explanation must be sought in the only differential factor: the union shop itself. When the owners are suffering painful losses or, at best, are permitted to earn only meager submarginal returns, while the wages and benefits of unionized labor greatly exceed those of other labor, it is unreasonable to accuse the owners of greed and the managers of incom-

petence. But it is sensible to question the practices of the labor unions.

It is rather revealing to observe unions fume and fuss about the suggestion of small concessions and givebacks. But when operations are winding down or actually have ceased and the workers themselves have become the owners, with much state and community assistance, they usually seek a new beginning by drastically cutting labor costs. The worker-purchase, pulled together in panic and haste by the workers and their community, produces significant concessions and givebacks that were intolerable before the shutdown.

Weirton Steel Corporation, the largest employee-owned company in the U.S., is employing 7,100 workers with another 2,600 on layoff. The purchase of the steel works from National Steel, after National had announced that it would begin to wind down production, had one primary objective: to save employee jobs and the community of about 26,000. The concessions and givebacks granted to the new company were rather astonishing. The wage concession passed by the workers cut base wages to August 1982 levels, resulting in a total reduction of wages and benefits of about 20 percent. The new labor contract prohibited strikes and wage increases during its six-year duration, and re-

scinded the workers' claims to some \$320 million in shutdown benefits, or some \$40,000 per worker, to which they would have been entitled if the plant had closed under National's ownership. Moreover, the workers agreed to a purchase price of \$193.9 million and the assumption of \$192.3 million of existing debt, for a total of \$386.2 million, or some \$48,000 per job.⁵

In most instances of economic decline the workers neither own the funds nor possess a line of credit for borrowing the funds needed to purchase the firm that employs them. And even if they would manage to raise the required funds, their chances of success would remain minimal because the transition from a union shop mentality that is forever fostering inefficiency, to that of a viable partnership of owners, is rather substantial. But a great deal always depends on the quality of management retained by the worker-owned company for managing its affairs.

Foreign Competition

A large part of American unionized production is lying idle. Unemployment rates, no matter how calculated, are disheartening, exerting a powerful pressure for labor concessions and givebacks. But the agents of labor are ever ready to resist the pressure and lay the blame on the doorsteps of someone else.

When they do not flail at "incompetent management" or "greedy owners" they may lash out at "unfair" foreign competition and "exploitative foreign labor." Foreign competitors are not free marketeers, they affirm, but are nationalistic, mercantilistic enterprises overrunning American industry in the name of free trade. Therefore, it becomes necessary, so they argue, for the U.S. government to limit the rate of import growth in key industries, such as steel, autos, and machine tools. Government needs to protect the jobs of American workers.

Such arguments need to be refuted again and again. Surely, import restrictions may safeguard a few jobs for American auto workers, but inevitably destroy countless other jobs and depress the living standards of people around the globe. They invite retaliation and breed confrontation. They make matters worse. And yet, import restrictions continue to be most popular with union people because they promise instant relief to an industry facing tough foreign competition. By pointing at foreign conditions attention is diverted from domestic conditions. Domestic industries may suffer from new institutional barriers to production, such as higher taxation, more stringent regulation, or costly labor strife. Foreign industries may face no new production ob-

stacles and, therefore, may enjoy relative cost advantages.

The Japanese seem to be superior at making autos, TV's, tape recorders, cameras, steel, machine tools, and other such products. American observers may point at lower labor costs or at Japanese government intervention as the cause of Japanese superiority. They are blind to the fact that the U.S. government may have handicapped American industries through costly production barriers. It may have imposed prohibitive taxes and expensive regulations, or may have consumed the necessary business capital through massive budget deficits.

Capital Shortages

Capital-intensive industries depend on the availability of capital. They prosper and grow where capital is coming to the market at falling rates; they stagnate or even decline where governments consume capital and cause interest rates to soar to prohibitive levels. Throughout the 1960s, 70s and 80s, the U.S. government suffered phenomenal budget deficits, which caused interest rates to rise to inordinately high levels. It cannot be surprising, therefore, that capital-intensive industries are laboring under growing handicaps. They are contracting in the U.S. while they are expanding in Japan. When Gen-


eral Motors Corporation must pay 15 percent on capital needed for the construction of a plant while Toyota can secure its capital at 8 percent, it should be obvious that Toyota rather than General Motors will build the modern plant. Toyota labor can expect increases in pay and improvements in benefits; American automobile workers must be prepared to grant concessions and givebacks in order to safeguard their jobs.

Deregulation

Foreign competition is not the only problem for unionized labor. The airline deregulation of 1978 and the motor carrier regulatory reform of 1980 unexpectedly put pressures on labor unions and the carriers that employ union labor. Since then hundreds of small commuter airlines and motor carriers have come into existence. It is significant that they all begin service with nonunion personnel, drawing their labor from the large number of unemployed pilots, drivers, and other skilled personnel on indefinite furlough from the unionized carriers.

Market wages and fringe benefits that are markedly lower than union rates and fringes, as well as freedom from restrictive work rules, give a distinct advantage to the nonunion newcomers. They may offer fare and

freight rate discounts, which in turn cause an increasing proportion of passengers and freight to be handled by nonunion labor. Some unions may sense the pressure from nonunion labor and respond with significant concessions. Others may refuse to acknowledge the new situation. Trapped in patterns of the past, they do exactly what they always have done: seek higher wages and benefits for less effort and output.

The concessions and givebacks may be insufficient to cure American industry's problems. And yet, the energizing effects of deregulation together with the wholesome corrections prompted by the 1981-82 recession offer new hope. After fifty years of government regulation and union inhibition, many companies are enjoying their first breath of fresh air. 

—FOOTNOTES—

¹Barron's, March 7, 1983, p. 11.

²Roscoe Pound, *Legal Immunities of Labor Unions* (Washington, D.C.: American Enterprise Association, 1957), p. 21 *et seq*; Sylvester Petro, *The Labor Policy of The Free Society* (New York: The Ronald Press Co., 1975), pp. 129-131.

³*Business Week*, January 16, 1984, p. 23.

⁴*Facts on File*, World News Digest, New York, N.Y., September 30, 1983.

⁵*Pittsburgh Post-Gazette*, September 24, 1983, p. 1.



IN THE NAME OF PROTECTION

LIBERTY falters by reason of the cumulative effect of myriad little follies, each in itself relatively insignificant but in concert producing a resounding crescendo of slavery. Tiny assaults on voluntary action tend to lull us to sleep or at least inaction. No one wishes to deal with the insubstantial or the inconsequential. Nevertheless, each inroad into our freedom fuels and serves to justify succeeding constraints as mankind becomes mesmerized into acquiescence to tyranny.

Consider a case in point: An impending attack upon a proposal to return the sale of airline tickets and the conduct of the travel agency business to the marketplace. The *Oregon Motorist* (January-Febru-

ary, 1984; p. 2), a bimonthly newsletter of the Oregon Section of the American Automobile Association (a cooperative of motor vehicle drivers designed to provide emergency service and tour planning) devoted three columns to the perceived "confusion and irritation" sure to follow if the Civil Aeronautics Board proceeds "with this disastrous plan" to "decontrol" the sale of airplane tickets. Under a banner headline entitled "AAA Opposes Deregulation Plan Threatening Air Travel Convenience," the Oregon AAA staff warned that "this order will mean that virtually anyone can operate a travel agency or dispense airline tickets . . . without the current safeguards" provided by protective law.

The astonishment displayed in the article at the very thought of an unplanned and uncontrolled market

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enterprise sadly reminds the reader of the depths of our descent into the miasma of socialism. What, pray tell, is so perturbing about the belief that any individual—even a person uncertified or unaccredited (whatever that entails) by the state—might provide a service of planning travel adventures and selling tickets to the general public? The article parades additional horrors, such as “more complicated air travel,” “higher fares,” and “more complex ticketing procedures.”

Had the writer studied history in place of polemics, he might have discovered that just the opposite results will occur: Free market entry produces more numerous competitors, each striving to offer the most favorable and efficient services at the lowest possible cost consistent with profitability; the providers who best serve the subjective requirements of the user survive, only to be challenged by other, more innovative men and women who create yet better, more expeditious, less costly service. In place of the perceived complexity and high price, removal of regulatory bars will mandate simpler service at a cheaper cost.

Frederic Bastiat taught us of “the seen and the unseen” effects of governmental slavery; unfortunately, those who pen and publish the *Oregon Motorist* have failed to learn these lessons of history; the tragedy is not so much that they are thus

condemned to repeat the mistakes of the past, but that we who are unwilling bystanders must be swept along with the tide of collectivism.

Voluntarism versus Coercive Regulation and Control

History contains countless examples of private, voluntary response in solution of surmised complexities of commercial interaction. Shipping in the late Middle Ages proffered the prospects of great reward and cataclysmic loss; a gaggle of young creative entrepreneurs who gathered for morning discussion and sustenance at Lloyd's Coffee House happened upon the method of taking shares of the possibilities of cargo gain or loss in order to diffuse these extensive risks; from this unsculpted beginning arose Lloyd's of London and its many imitators in the marine insurance field. Similar examples abound, private and voluntary bank clearing houses for the rapid conduct of commercial practice premised upon negotiable instruments and private guaranteed delivery/courier systems, to name but two of many.

Unseen results of compulsion probe more deeply into the fabric of human freedom. Regulation proves to be a useless, fruitless, and worthless pursuit. It shuts out new ideas while consuming countless hours and endless energy, all for naught. The oppressor loses almost as much

liberty as the serf. Regulation presupposes regulators, those who decree, those who police, and those who adjudicate controls. Each person in the dictatorship thus created devotes substantial time to destructive, noncreative endeavors.

More pertinently, the regulator not only loses his opportunity to exercise his force creatively (and perhaps some measure of his self-respect) but also forgoes the chance to benefit from the creative results of human action which he and his fellow social planners have delayed, denied, or destroyed. In addition, few barriers effectively stymie determined citizens who wish to avoid them. Free men and women are risk-takers, and mankind blessed with an idea may very well escape the monitors by fitting into the interstices of the law or by dwelling in grey or black markets, although at the cost of the waste of vital energy, creativity and morality on the part of both producer and traducer.

Another curious factor perturbs one dedicated to liberty when a clamor arises for government protection. Presumably, unaccredited vendors of airline tickets will occasion excessive charges and great complications in the travel industry. Why? Presumably, because mankind lacks the capability of self-control, decent conduct and effective action. If so, how choose we the regulators? Does some feature of char-

acter set them apart from those to be regimented?

I have looked in vain for lo these many years for particular indicia or noteworthy traits enabling me to discover the ideal social planner or assumed public benefactor. I find none. Were I unkind, I might remark that certain tendencies do characterize persons who seek and secure employment in government and that I do not find these hallmarks particularly laudatory. In all fairness, however, one must submit that state servants, by and large, resemble the rest of the citizenry—marked by wens and blemishes, flavored and flawed by mottled qualities of intelligence, ability and integrity—what Leonard Read might have termed “the mill run” of us all.

The Wisdom of Governors

In simple terms, the guardians or saviors who emerge to govern our business affairs are persons much like each of us, blessed with no special ability to forecast, to plan, or to decree. If confusion and complexity will result in the unregulated travel agency business, I fail to comprehend how the appointment of an overseer lacking in any particular ability will improve our lot.

Moreover, the AAA plea for member petition for Congressional action on the premise of disorderly markets ignores the very real existence

of Dr. F. A. Hayek's seminal concept of spontaneous order developed by the unconstrained market. Adam Smith long ago noted that spontaneity of order follows from the works of the "invisible hand" which harmonizes the multitude of subjective values in a marketplace not partial to the poor nor deferential to the mighty (Leviticus 19:15). Order will transcend from removal of regulatory bindings, an order bereft of little dynasties necessarily conducted with the advent of control.

A further matter deserves attention. Many illiberal intrusions develop from a benevolent but inaccurate motivation that purchasers of goods or services must be "protected" against an array of posited evils. Ofttimes, these dire results are not delineated at all or, at best, are garbed with confusing and ambiguous dress. I suggest that most if not all of these imagined consequences fall under one of the three great heads of Anglo-American equity jurisprudence: Fraud, duress, and mistake. Traditionally, if the common law did not afford relief from some action arising in one of these categories, the chancellor at equity would do so, in order to prevent injustice. Apparently, in muddled form, that quaint jurisprudential theory undergirds the interventionism of our age.

Sound analysis renders it imperative to engage in two interrelated

differentiations: (1) Between fraud and duress on the one hand, and mistake on the other; and (2) between prior restraint and post-conduct sanctions. cursory consideration reveals the defects of reasoning which plague us today in the vast array of regulations contorting our conduct.

First, few will dispute that man should not be permitted to prey upon another by initiating aggression. Coercive action—state or individual—remains anathema to most moral creatures. Society cannot long tolerate unrestricted fraud and duress because tradition and sensible rules of consensus morality, if nothing more, apprise us of the inherent evil. However, the state should be chary of intrusion to prevent or "right" a mistake (unless induced by misrepresentation) because the very concept of mistake arises from a subjective value judgment both on the part of the actor and on the part of the observer.

Self-Responsibility

Conventional wisdom often proves unwise; an apparent error may induce a desirable result. In any case, an individual should not be allowed to shunt the consequences of his voluntary choice onto the shoulders of another person (or society) merely because he forecast poorly and failed to achieve his desired result. If regulation alleviates

fraud and duress, it merits acceptance (subject to my second *caveat*); if it seeks to correct individual mistakes, however, it should be expunged from the books.

Second, ponder and differentiate between prior restraint and post-conduct sanction. I have treated the subject at length elsewhere (*The Freeman*, October 1981, "Prior Restraint") and thus pause only to observe that prior restraint—a common tool of traditional courts of equity (e.g., specific performance and injunctive relief)—deserves but a limited place in our world of action. In the absence of serious and unquestionably malevolent consequences, it works far better to permit creative human action to flow freely, allowing one actually damaged by improper conduct after the fact to seek legal redress. Human beings, being finite and fallible, possess analytic abilities better suited to assess causality and harm *after the fact* than with prescience. Prior restraint contains too great a chance of forever annihilating conduct and results of positive merit.

As the magnificent historian Richard Weaver chronicled, ideas do have consequences. Man is a moral creature, ultimately responsible for

his actions and for the results of his behavior. Thus, each individual must bear the ethical burden both for the idea he espouses and for the consequences which ensue: The adoption of those ideas into hardened law or practice and the effect of those ideas upon subsequent deportment of other men and women. Like it or not, we are accountable, now and hereafter, for our handiwork, and we cannot ameliorate our responsibility by acting as a voluntary or cooperating adjunct to a team, a staff, a mob, or an electorate.

The state consists of those who partake of the power and of the beneficiaries of that coercive body. The state cannot create rights, but it can destroy them. The state cannot create wealth, but it can destroy it. The state cannot create life, but it can destroy it. The state cannot create moral conduct, but it can destroy it. All of these untoward events can occur only if the individuals within the state permit it to pervert the law. We who allow petty little irrationalities—restriction of market entry to purveyors of airplane tickets—with applause or without a whimper in the name of protection, stand accused. ☸

Italian Lemonade



THE TASTE of Italian lemonade. . . . How can one describe it? Can't be done! For Italian lemonade to be at its best, it takes more than the right blend of ice, sugars and fruit chunks. And I don't agree with the so-called experts who say it has something to do with perfecting the right ice crystallization techniques.

Surely, these are relevant technical factors, but I think there is more to it than meets the eye or, for that matter, the taste buds. It has something to do with the environment. That's right—slurping on Italian lemonade is an aesthetic experience. I think that is the reason why Italian lemonade in California never tasted as good to me as the Chicago variety.

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There is something about the late afternoon on a particularly hot and muggy summer day in Chicago. Just when your body feels most ravaged by the effects of the humidity and your legs feel like they are ready to buckle, the humidity lets up and a faint balmy breeze begins to blow in from Lake Michigan. It was at that moment, I found, that Italian lemonade tasted the best. As the cooling flavors of the lemonade invaded the senses, the body's natural rhythm and flow seemed to be restored. It even seemed to help release the grip of the malaise that typically affected Chicagoans during the most severe of summer "scorchers."

No better lemonade could be found than that made by Bella Ciozia in that part of Chicago known as Little Italy. Not only did all technical aspects of her lemonade rate a

perfect "10," but the aesthetic conditions couldn't be better. Little Italy was close enough to the lake to benefit invariably from the soothing effect of the lake breezes. An added bonus was that these breezes also helped push out the fetid odor of the nearby stockyards that hung like a cloud around the area on the hottest of days. Thus, if someone were to ask me what is the epitome of true joy, I would not hesitate: Just when the breezes begin to blow on some hot and sticky summer day, true joy is slurping on a Bella Ciozzia Italian lemonade.

I first developed a taste for Bella Ciozzia's Italian lemonade when as a young boy I would spend several weeks visiting my grandmother during summer vacation. Coming from the suburbs, I found Little Italy to be my wonderland, my land of adventure. Nothing I read in "Classic Comic Books" that retold the novels of Alexander Dumas and Robert Louis Stevenson could compare to the real life adventures of Little Italy. The tightly built neighborhood of row houses and scaled-down Victorians with aluminum awnings and permastone siding was such a contrast to the pasteurized environment of suburbia, so too were the idle pleasures of the youth.

When I asked Vito, the son of a friend of my grandmother who was forced to play with me, how he liked the movies, "Creature from the

Black Lagoon" or Walt Disney's "Peter Pan," he responded with a blank stare. His favorite show was put on by the "Ratman"—a local impresario who used captured vermin to put on a show for all those willing to plunk down a quarter. The show consisted mainly of igniting the unfortunate creatures using what sounded like a variety of rather elaborate stage trappings. The Ratman soon displaced the creature from the black lagoon as the principal heavy in my nightmares.

One might well understand and appreciate then the respite from this world offered me by my daily visits to Bella Ciozzia. My nickel's worth of Italian lemonade bought an inestimable amount of pleasure. A special treat was that Bella Ciozzia allowed me to jiggle her snow-filled glass memento of the 1933 "Century of Progress" Exhibition. Perhaps the most vivid memories of my summertime visits to Little Italy consisted of my slurping an Italian lemonade while watching snow fall on the silhouetted background of the "Century of Progress" skyline.

A Fierce Fighting Spirit

Bella Ciozzia was a soft-spoken, petite and quite beautiful woman. She earned her name "Bella" because her small nose, blond hair and blue eyes were roundly admired by the locals. Bella Ciozzia came from a small village in Sicily that was in-

vaded by Nordic traders who evidently had nothing to offer in trade for the goods they received except for some very dominant genes. To this day, everyone who comes from that village has blond hair and blue eyes. But as I was soon to find out, Bella Ciozzia inherited more than her good looks from the Norsemen; she also inherited some of their fierce fighting spirit.

The following summer, probably because of the strange fascination that all children seem to have for the macabre, I inquired about the latest theatrical efforts of the Ratman. Vito glumly responded that the shows had come to an end. It so happened that Bella Ciozzia somehow got wind of the goings-on. Evidently, seeing no socially redeeming merits in the show, Bella Ciozzia interrupted the presentation during a particularly climactic moment, flailing away with a huge Italian rolling pin. The Ratman made a quick and ignominious final exit. So too, as Vito related, did the youthful audience.

From that moment on Bella Ciozzia was my hero. She seemed to represent those of the quiet and meek who say little but when pushed beyond a certain point by some outrage will trigger a mechanism that operates suddenly to release their pent-up emotional energy.

So ten years later when I moved back to Little Italy to attend a

nearby university, I was happy to find Bella Ciozzia still scooping out Italian lemonade. But now the calming effect of the lemonade soothed the ravages to my system brought on by "Beowulf" and national income accounting rather than the Ratman. You can well imagine then the consternation I felt when on one balmy Friday afternoon Bella Ciozzia told me the building department came and took her equipment away.

"They tella me I no sella no more. They say I donna have 20 . . . 222 . . . 280 . . . I donna know—somma kinna wires," she said as she shrugged in the characteristic Italian way that roughly translated to, "That's life."

I couldn't understand it; Bella Ciozzia was a neighborhood institution. But being a young student who had just mastered the basic elements of political science, I felt that a wrong had been committed that I could help right.

Take It to Alderman

The person to see was Alderman Tom Cooley, otherwise known as the "General." I was sure that he could help even though everyone in the neighborhood considered him a buffoon and political gladhander. In fact, the General was commonly known in the neighborhood as the "Citrlulu"—an Italian term of derision reserved for the more inept of

the human species. The locals put up with him though and even regularly elected him to his office in spite of the fact that everyone resented his expecting and getting all the free beer and beef sandwiches his belly could hold at the annual festival of Our Lady of Mt. Carmel. The fact was he controlled all the patronage jobs that were doled out to a few people who were related in some extended and convoluted way to everyone in the neighborhood.

When I walked into the General's office, he sprang out of his chair to shake my hand. The General was animated and lively when we started talking about the people I knew in the neighborhood. But when I began to present an impassioned plea for the gross injustice done to Bella Ciozzia, his eyes glazed. As I continued, his facial expression turned to a look of concern. But the concern was not one of compassion or empathy, it was a look that told me he wasn't listening to a thing I was saying. I was quickly escorted out to meet with the many aides who hovered like flies around his office. All they could do was point to the voluminous stacks containing the city code that specifically pointed to the illegality of Bella Ciozzia's transgressions.

The truth finally came out after meeting with our local precinct captain who said, "Are you crazy . . . going to see the General? That Ci-

trulu actually thinks that Bella Ciozzia was closed down because she doesn't have 220 wiring. Ha! The squeeze has already been put on with the higher-ups. Big Jake is building a new house next to Bella Ciozzia's. You think he wants to live next to a lemonade stand? Besides, Bella Ciozzia doesn't need the money; she's living with her daughter."

This was the information I needed. I felt elated as I ran to inform Bella Ciozzia about the seamier side of politics and the real motivation in closing her down. As I ran, I had mental pictures of the General and his aides scurrying in various corners of City Hall being hotly pursued by Bella Ciozzia and her infamous rolling pin.

When I finally got there and told her, Bella Ciozzia gave another one of those shrugs of acceptance. I couldn't believe it. Had the passage of ten years taken away her Nordic fighting spirit?

I don't think so. It was more than that. I think it really involved the fact that Bella Ciozzia, like most of those living in Little Italy, came to this country to escape a land and an economy that was ravaged by an oppressive and corrupt government. Coming to this country, they cherished the freedom and opportunities this new land offered. A little corruption is something these street-wise people understood as a fact of

life. Compared to what they had left, it was something they could even accept.

The Tendency of Governments to Expand in Size and Scope

Karl Marx believed he had uncovered an inherent flaw in capitalistic systems when he wrote that exploitation by capitalists will bring about the downfall of capitalistic systems. History has proven Marx wrong. But Marx's use of the Hegelian dialectic could have been directed in a different way to expose a more real danger in capitalistic systems. And that danger relates not to the "unearned surplus" or "subsistence wages" but to the tendency for governments within a capitalistic system to expand in size and scope until they ultimately stifle individual freedom and the inherent efficiency of private markets. Marx's prophecy of doom for capitalism would have been more plausible if he tied its downfall to the exploitation of government and collective decision making rather than capitalists' urge to maximize profits.

A limited government is necessary in a capitalistic system. Adam Smith was specific about the role that government should serve in providing national defense, a judicial system and other public institutions and works that in the main facilitate the commerce of society. (*The Wealth of Nations*, The Modern Library Edition, pp. 653-682) But

Smith was not specific enough; nor could he be. There is no clear line that separates a public from a private good. Thus, those who find operating in the cold cruel world of the marketplace a less than happy or not very profitable state, have a strong motivation in expanding the role of the government in the free market. This motivation, however, is fairly commonplace. In the end, the free market loses its vitality as economic matters are decided in a tug-of-war fought out among competing interest groups in the halls of government rather than in the arena of the marketplace.

These are the powerful interest groups that have strong incentives to either help make laws or manipulate well-intended laws to their own advantage. The political clout of such groups is evident when one considers that the top spending political action committees (PACs) increased their donations to federal campaigns eighty per cent in 1983 compared to the previous non-election year of 1981. Recent trends also suggest that spending for the 1984 federal congressional elections will near a half billion dollars of which a large share will be funded by PAC spending. (*The Wall Street Journal*, Feb. 23, 1984, p. 54.)

The willingness of groups to spend such vast sums is certainly tied to the economic advantages to be gained by a benevolent government.

As stated by a representative of the National Association of Realtors: "We give early money to our friends, people who are tried and true. We don't care if a knight in shining armor comes in and runs against him (the incumbent); he's been our knight in shining armor." (*The Wall Street Journal*, Feb. 23, 1984, p. 54)

And though the private gains that could occur from this knight come at the cost of a greater loss to society, the gains accrue to an individual or identifiable group while society's loss is spread out thinly among many. As a result, the significant private gains provide a much more powerful incentive to influence government than a less interested individual has in politically opposing such influence. Hence, all groups who find that a system of government coercion will somehow make the uncertainties of the world (profits) less uncertain will continually prod our government until the laws work to their own advantage. And the more laws that exist, the more likely it is for powerful interest groups to bypass normal market forces.

In the case of Bella Ciozzia, someone found it cheaper to use some well-intended building code to close her down rather than use the normal market procedure that would otherwise have been followed—buying her out. It may seem as if the two have the same ultimate impact,

but they don't. If a mutually agreed upon price could be reached, that suggests retiring Bella Ciozzia's lemonade scoop would bring about a smaller loss to lemonade consumers than the private gain to the person living in the new residence. But if such a price cannot be agreed upon, the opposite would be true; society would gain more by Bella Ciozzia staying in business. Unfortunately, when government coercion applies, there is no assurance that the efficient market solution will occur.

Someone had a strong private interest in closing Bella Ciozzia's business. And this private interest provides the basis for a much stronger incentive to push the government in a self-serving way than any single Italian lemonade consumer can muster to oppose it. Thus, Italian lemonade connoisseurs will likely lose in any political tug-of-war even though in the aggregate or from a social point of view, the loss to consumers may be greater than the gain to the person who shut Bella Ciozzia's operation down. In the end, the inefficiency occurs because it is both possible and cheaper to get the building department to close her down rather than buy her out.

Many Similar Incidents

The Bella Ciozzia incident can be retold in countless forms. All you have to do is look at the vast number

of laws and regulations that envelop this country. Behind many of these laws, a Bella Ciozzia story is ready to be told. There will be different names, a different location and different motivations, but the theme will be the same: The laws favor a few at the expense of many.

Who are at fault? Are they the General Cooleys of this world? No, they are simply willing dupes. Are they the powerful interest groups that push for self-serving laws? No, they are simply attempting to maximize their private gains—the prime motive force of any economic system. The real fault rests with a people who are not sufficiently vigilant in holding the reins on their government. As John Stuart Mill stated in his classic essay, *On Liberty*:

Let them be left without a government, every body of Americans is able to improvise one, and to carry on that or any other public business with a sufficient amount of intelligence, order, and decision. This is what every free people ought to be: and a people capable of this is certain to be free; it will never let itself be enslaved by any man or body of men because these are able to seize and pull the reins of the central administration. (*On Liberty*, W.W. Norton & Company, p. 104)

In our recent history, however, we almost seem eager to enslave and shackle ourselves with a heavy chain of laws and taxes. Usually under the guise of helping someone or

other or providing for this or that, such laws and taxes may seem justified to a reasonable people. Yet, piling laws and taxes on top of each other ultimately places a heavy burden on society. And this burden becomes more oppressive as laws become agents for dispensing with the normal forces of a free market. We should not quickly forget the greatest danger that John Stuart Mill saw in a rapidly growing government:

The third and most cogent reason for restricting the interference of government is the great evil of adding unnecessarily to its power. Every function superadded to those already exercised by the government causes its influence over hopes and fears to be more widely diffused, and converts, more and more, the active and ambitious part of the public into hangers-on of the government, or of some party which aims at becoming the government. (*On Liberty*, p. 102)


Nor should we forget the words of Henry David Thoreau who wrote in a similar vein:

... this government never of itself furthered any enterprise, but by the alacrity with which it got out of its way. It does not keep the country free. It does not settle the west. It does not educate. The character inherent in the American people has done all that has been accomplished; and it would have done somewhat more, if the government had not sometimes got in its way. (*On the Duty of Civil Disobedience*, The Simple Life Press.)

* * *

A number of years ago, as I was leaving O'Hare Airport to fly to my new home in California, I caught sight of an article in a local newspaper. It reported that the Chicago City Council was considering a proposal of the Illinois Gasoline Retailers Association to make it illegal to display signs that posted the price of gasoline at local service stations. The rationale was that getting rid of unsightly signs would create a better environment for the city.

Settling back in the airplane, I felt content and happy to escape from a city that allowed such blatant collusion between business and government. But as I started to read a complimentary copy of the *L.A. Times* that the airline had kindly provided, my eyes were drawn to a headline: "State Assembly Considers Limits to Optometrist Advertising."

The airline attendant could only stare when I asked her for an Italian lemonade. 

Individual Liberty

I must not, in picking to pieces the notion that wishes are rights, leave the impression that wishes, of and by themselves, are proper objects of scorn. On the contrary, wishes, hopes, aspirations are among the most important forces motivating human progress, evolution, emergence. At issue here is only the means of their gratification.

We who reject illusory schemes are not denying the good life to others but merely pointing out that these political nostrums can lead only to desolatory dead ends. No good end can be reached by choosing a wrong way.

While it is not the purpose here to explain the right way, that way is far from a secret—even though it be but little practiced and only slightly perceived. The right way is the greatest gratifier of human wishes ever come upon—when allowed to operate. It is as morally sound as the Golden Rule. It is the way of willing exchange, of common consent, of self-responsibility, of open opportunity. It respects the right of each to the product of his own labor. It limits the police force to keeping the peace. It is the way of the free market, private property, limited government. On its banner is emblazoned Individual Liberty.

LEONARD E. READ, "When Wishes Become Rights"

IDEAS ON



LIBERTY

The Constitutional Crisis: An Historical Perspective

As we approach the bicentennial of the ratification of the Constitution, Americans face what many regard as a constitutional crisis. A resolution calling for a constitutional convention to limit the spending powers of government has been approved by thirty-one out of a required thirty-four states. Over two hundred other constitutional amendments, many of them dealing with economic issues, have been proposed in Congress in the last three years. We seem to be rapidly approaching a state of constitutional anarchy in which a host of economic problems remain unresolved within the framework of the Constitution. If we are to avoid a constitutional crisis, we must understand the origins of the economic provisions in the Constitution and what has happened to those provisions through Supreme Court interpretation over time.

In 1776 Adam Smith published the *Wealth of Nations*, the foundation of modern economic science,

wherein he explained the basis for American prosperity:

Plenty of good land and liberty to manage their own affairs in their own way, seem to be the two great causes of the prosperity of all new colonies. In the plenty of good land the English colonies of North America, though, no doubt, very abundantly provided, are, however, inferior to those of the Spaniards and Portuguese, and not superior to some of those possessed by the French before the late war. But the political institutions of the English colonies have been more favorable to the improvement and cultivation of this land, than those of any of the other three nations.¹

As Smith pointed out, America began not only with an abundance of resources, but more importantly, with a set of political institutions that had evolved over centuries in England. As citizens of the British Empire, Americans enjoyed property rights embodied in the British constitution and defined and enforced through common law. The origins of those property rights can be traced back to the Magna Charta in 1215, which states that no freeman "shall be arrested or detained in person, or deprived of his freehold,

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or outlawed, or banished, or in any way molested . . . unless by the lawful judgment of his peers and by the law of the land." The precedent for limited government was established in the Statute of Monopolies when the British Parliament limited the power of the crown to create legal monopolies. From the Glorious Revolution of 1688 emerged a set of political institutions based upon a constitution and representative democracy.

British citizens, including the American colonists, enjoyed property rights that were defined and enforced through a system of common law that had also evolved over centuries. American courts referred to common law precedents in Blackstone to define and enforce individual property rights. In Blackstone, property rights are vested in the individual by the immutable laws of nature before they enter a constitutional contract to form a civil society; the law "will not authorize the least violation of it; no, not even for the good of the whole community . . . the right of property is founded in the law of nature, and it is antecedent to all civil regulations."²

Underlying these political institutions of constitutional government and common law was the ideology of classical liberal political economy as developed in the writings of Hobbes, Locke, Rousseau, Burke, and others. The Lockean

concept of natural rights and social contract was the foundation for British law translated to the American setting.

The American colonists, in fact, enjoyed property rights that were more clearly defined and enforced than for countrymen in England, as revealed by property rights in land. As Adam Smith observed,

But in all the English colonies the tenure of the lands, which are all held by free socage, facilitates alienation, and the grantee of any extensive tract of land, generally finds it for his interest to alienate, as fast as he can, the greater part of it, reserving only a small quit-rent.³

Free and common socage meant that the owner of the land could will, lease, or sell the land as he chose. He might have to pay certain incidents or taxes on the land, but those payments had to be fixed and certain and no new obligation could be imposed upon him. After the Revolution the right to impose taxes on the land was vested in the state, and traditional feudal obligations and constraints on the landowner were abolished. From a system of free and common socage evolved the fee simple form of land ownership.

Fee simple was the clearest definition of property rights giving the individual the maximum freedom to use the land, sell it, or pass it along to his heirs, unencumbered by obligations or constraints upon his

rights of ownership which still persisted in Europe. This property right in land provided individuals with an incentive to utilize the land in productive ways, facilitated the rapid development of our natural resources, and established the institutional framework for the small family farm which predominates in American agriculture down to the present day.

Unprecedented Freedom

The freedom to enjoy those property rights depended upon constitutional constraints on the power of government to intervene in economic affairs. The American colonists enjoyed an unprecedented freedom from government taxation and regulation of their affairs; indeed, this period in American history can be described as an anarchistic utopia. While the British had an elaborate system of taxation and regulation embodied in the British Navigation laws, the American colonists successfully ignored and circumvented those laws. The American Revolution was triggered by British efforts to enforce these taxes and regulations.

After the Revolution, Americans probably would have preferred to return to the anarchistic utopia they had enjoyed in the early colonial period, but the necessity for a constitutional contract establishing at least a limited central government

had been revealed during the war and post-war years. The *Federalist Papers* written to support ratification of the Constitution convey the ideological foundations for this fundamental institution in classical liberal political economy. The concept of property rights was embodied in the 5th Amendment, that a person shall not be deprived of "life, liberty or property without due process of law." Americans interpreted these property rights in very broad terms as revealed in the writings of Madison:

This term [property] in its particular application means "that dominion which one man claims and exercises over the external things of the world, in exclusion of every other individual." In its larger and juster meaning, it embraces everything to which a man may attach a value and have a right, and *which leaves to everyone else the like advantage*. In the former sense, a man's land, or merchandise, or money, is called his property. In the latter sense, a man has a property in his opinions and the free communication of them. He has a property of peculiar value in his religious opinions, and in the profession and practice dictated by them. He has property very dear to him in the safety and liberty of his person. He has an equal property in the free use of his faculties, and free choice of the objects on which to employ them. In a word, as a man is said to have a right to his property, he may be equally said to have a property in his rights.⁴

Property rights were also protected by specific constitutional con-

straints on the power of government. In addition to the due process clause, the Constitution specifically prohibits retroactive laws and requires that laws affecting private property, such as laws of taxation, be general and uniform. The contract clause placed limitations on the power of the government to interfere with contracts between the state and the individual as well as contracts between private individuals. The commerce clause restricts federal government regulation to interstate commerce, reserving regulatory powers over intrastate commerce to the individual states. Property rights were also protected by the broader provisions of the Constitution reserving powers to the states, and establishing separation of powers in the different branches of government.

Equal Opportunity Meant Equal Protection Under the Law

In the early 19th century, the Supreme Court established the neutrality of the Court and the supremacy of the Court in adjudicating constitutional issues. In a series of decisions, the Supreme Court defined the various provisions of the Constitution so as to more clearly define and protect the property rights of American citizens. American society was governed by a rule of law which protected the property rights of a citizen from coercion by

government as well as by his fellow citizens. A person's actions were judged to be legally permissible, not by reference to whether they yielded benefits or losses to society, but whether they violated the rights of others in the society. Equal opportunity meant equal protection under the law.

It should not be surprising to find that the 19th century witnessed rapid economic growth and development. Within this institutional framework, Americans had the greatest freedom to maximize their individual welfare and in the process maximize the welfare of the society as a whole. This was reflected in rapid growth in population and westward expansion, high and sustained rates of growth in income per capita, and improvements in standards of living.

Rapid economic growth was also accompanied by greater inequalities in the distribution of income and wealth. One could identify a group of wealthy citizens, a larger middle class, and a number of Americans living in what Henry George referred to as vice and misery. In his book, *Progress and Poverty*, George called for the redistribution of wealth to achieve a more egalitarian society.⁵ Reinforcing these sentiments was a utilitarian ideology developed by Bentham and others. The presuppositions of classical liberalism were replaced by utilitar-

ianism, i.e., improving social welfare by maximizing the greatest good for the greatest number.

For Bentham and other utilitarians, the calculus of pleasure and pain could be refined into a rationale for legislation and adjudication. Of course, this required some definition of social welfare that would take precedence over individual property rights, and political economists were quick to offer such definitions in terms of an egalitarian society, rapid economic growth, and other visions of social progress. The new philosophy of empiricism seemed to establish utilitarianism as a scientific approach to human affairs analogous to the developments taking place in the physical and natural sciences.

Special Interests

Within this ideological environment, changes began to occur in American institutions. Various interest groups began to look upon government, not as a set of institutions to guarantee individual property rights, but rather as an institutional arrangement to be used to benefit their narrow interest group. Farm organizations such as the Grange, labor unions, and business interests successfully lobbied for special interest legislation, and government at both the state and national level responded with an unprecedented array of taxes and

regulations that conflicted with individual property rights.

The crucial question was whether the courts would legitimize this change in the rules of the game or continue to protect individual property rights under the Constitution. The courts did not suddenly abandon their role as a neutral arbiter on constitutional issues, but they did begin to redefine the Constitution in ways that permitted an expansion in the powers of government, resulting in an erosion of individual property rights. While this change in the rules of the game occurred over a long period of time, one can identify the case of *Munn v. the State of Illinois* in 1877 as the landmark decision.

In response to the Grange influence, the state of Illinois passed legislation fixing the rates charged by grain elevators. *Munn*, who was a grain elevator operator, challenged the regulations as a violation of his property rights under the due process clause of the Constitution. In upholding the regulatory power of the state government, the Supreme Court introduced a doctrine that would have a profound effect on property rights in this country. The Court ruled that property cloaked with the public interest may be subject to control for the common good.

In subsequent decisions, the Court continued to protect private property rights under what is de-

financed as substantive due process. The courts legitimized government regulation that infringed upon private property rights, but they maintained that such regulation must be reasonable. Before the state could infringe upon private property rights, it was required to demonstrate that the ends were justified and that the specific government legislation was a reasonable means to that end. For example, railroad rates could be regulated, but the state was required to show that the regulated rates were not unduly confiscatory but were reasonable. This required that the courts interpret the reasonableness of legislation with respect to the ends and the effectiveness of the legislation in achieving those ends.

The "Rule of Reason"

This "rule of reason" left a wide scope for judicial interpretation depending upon the point of view of the justices, which of course changed over time. While the decisions of the justices were often conflicting and arbitrary, the courts negated a wide range of legislation that did not satisfy the rule of reason. Thus, the courts continued to function as an independent judiciary protecting economic liberty under the Constitution during the half-century of substantive due process up to the 1930s.

The Great Depression brought

fundamental changes in American institutions. Farmers, workers, and businessmen all turned to the government for aid in the economic crisis. The Roosevelt administration responded with the New Deal calling for government regulation of virtually every aspect of economic activity. The National Recovery Act established government controls over most manufacturing industries, regulating prices and output. The Agricultural Adjustment Act imposed similar controls over the agricultural sector. Banking and financial institutions were subject to a wide range of government regulations. The Tennessee Valley Development Act brought the government into direct competition with private utility companies. The Wagner Act shifted the government to the support of labor unions as collective bargaining agents in labor markets. Governmental transfer activities expanded at an unprecedented rate through employment programs, welfare programs, social security, and unemployment insurance.

This decidedly collectivist shift in our institutional framework was defended on pragmatic grounds. The architects of the New Deal argued that we could no longer rely on laissez-faire institutions based upon private property rights; the problems of the Great Depression required a governmental solution. The philosophy of pragmatism developed

by Charles S. Peirce, William James, and John Dewey provided ideological underpinnings to this pragmatic approach to government policy, and the political economy of John Maynard Keynes provided an economic rationale for the expanded role of government in the economy. But the crucial question in the 1930s was how the Court would deal with the new legislation.

The initial response of the Supreme Court was to negate much of the New Deal legislation on the grounds that it violated the Constitution. However, in the late 1930s, the Court reversed itself, sanctioning New Deal legislation which it had earlier declared unconstitutional. Legal scholars still debate the causes for this shift in the Court's position. Certainly, the political pressures of the Great Depression, and more specifically Roosevelt's Court packing scheme to change the composition of the Court, must have influenced the justices. Yet the shift in judicial interpretation must also be understood in the context of the erosion in private property rights that had occurred since the late 19th century.

Abdication of the traditional role of the Court in judicial review of economic legislation was justified on the grounds that economic liberties are subject to a lower standard for judicial review than personal liberties. In the words of Justice Douglas:

We are not concerned, however, with the wisdom, need or appropriateness of the legislation. Differences of opinion on that score suggest a choice which should be left where it was by the Constitution . . . to the states and to Congress . . . There is no necessity for the state to demonstrate before us that evils persist despite the competition which attends bargaining in the field. In final analysis the only constitutional prohibition or restraint which respondents have suggested for the invalidation of this legislation are those notions of public policy embedded in earlier decisions of this court, but which, as Mr. Justice Holmes long admonished, should not be read into the Constitution. Since they do not find expression in the Constitution, we cannot give them continuing vitality as standards by which the constitutionality of the economic and social programs of the states is to be determined.⁶

The Rational Relation Test

What emerged from this judicial interpretation was the rational relation test requiring minimum scrutiny of economic legislation. Any legislation can pass this minimal standard for judicial review if it does not impinge upon the personal rights defined in the first amendment and has some rational relation to a public purpose. Since every economic regulation has some rational relation to a public purpose, the rational relation test has meant judicial withdrawal from further review of legislation, even when it violates individual property rights, imposing

severe economic burdens on the individual. Since the 1930s, the Court has not invalidated a single piece of economic legislation on Constitutional grounds. A virtual explosion in legislation has established a ubiquitous role for government in the economy sanctioned by judicial abdication in reviewing that legislation.

This change in the rules of the game has had a profound impact on the institutional framework of the American economy. The expanded role for government has created even greater incentives for transfer activities as opposed to productive activities. As more resources have been allocated to transfer activities through the public sector, the productivity and wealth of the society has diminished. In spite of this shift from productive activities to transfer activities, the economy has continued to experience growth and development.

In the words of Adam Smith, "the uniform, constant, and uninterrupted effort of every man to better his condition, the principle from which public and national, as well as private opulence is originally derived," has been "powerful enough to maintain the natural progress of things toward improvement, in spite of both the extravagance of governments and of the greatest errors of administration. Like the unknown principle of animal life, it frequently

restores health and vigour to the Constitution, in spite, not only of the disease, but of the absurd prescriptions of the doctor."

Changing Rules of the Game

Recently, economists have questioned whether our society will continue to prosper in an institutional framework which motivates people to engage in transfer activities rather than productive activities. More importantly, they have challenged the change in the rules of the game that gave rise to these transfer activities. It is clear that the writers of the American Constitution incorporated a concept of property rights which included economic liberties as well as personal liberties. Over the first century of our history, the courts functioned as an independent judiciary interpreting the Constitution so as to protect individuals' economic as well as personal liberties. In the last century and especially since the 1930s, those property rights have been eroded as the courts abdicated their role in subjecting economic liberties to a lower standard of judicial review than personal liberties.


The modern heirs of classical political economy such as James Buchanan and Gordon Tullock, have developed the public choice paradigm built upon the Lockean presupposition of natural rights and social contract. In the public choice

paradigm, there is no constitutional basis for a dichotomy between economic liberty and personal liberty; indeed, it is difficult to perceive of a society in which individuals enjoy one set of property rights without the other. The freedom to do material things is just as important as freedom of expression and other personal liberties.

How Americans resolve this controversy over the economic provisions of the Constitution will have a profound impact upon the future of the society. Some political economists, such as Milton Friedman, argue that property rights have been so eroded over time that the only course of action to secure those rights is through constitutional amendment. Yet a constitutional convention organized to incorporate an economic bill of rights into the Constitution could easily lead to changes in the Constitution that would destroy individual property rights rather than secure them.

For those of us unwilling to take that risk, an alternative course of action appears more viable. We can enact rules to limit federal government spending and taxation as we have done at the state and local level. We can demand the withdrawal of government from anti-trust, and regulatory activities, that infringe upon private property rights. We can substitute private enterprise for government enter-

prise where the private sector can perform those activities as well or better than the government. Finally, we can set limits to the transfer activities that take place through the public sector.

These proposals appear radical only because in the last half-century, we have learned to live with the dead weight burden of a ubiquitous role for government in the economy. Our economic liberties have been eroded because the government has expanded; if we are to protect those liberties, we must set limits to the power of government to intervene in our economic affairs. We can do that within the framework of the Constitution because economic liberties are embodied in the property rights provisions of the Constitution dealing with personal liberties. The burden of protecting those liberties is no greater today than it was when the Constitution was written. 

—FOOTNOTES—

¹Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (New York: Random House Modern Library, 1937), p. 538.

²W. Blackstone, *Commentaries* 134, 135, 140.

³*Op. cit.*, Smith, p. 539.

⁴*The James Madison Letters*, March 27, 1792 (New York: Townsend McCoun, 1884), p. 478.

⁵Henry George, *Progress and Poverty: An Inquiry into the Cause of Industrial Depression* (New York: Robert Schalkenbach Foundation, 1979).

⁶*Olsen v. Nebraska*, 313, U.S. 236 (1941).

⁷*Op. cit.*, Smith, p. 326.

Steven E. Daskal



Greed, Envy and Justice

MOST PEOPLE would agree that justice is an admirable thing, something that should be guaranteed as a right to all people throughout the world. It is a term that implies reason prevailing over emotion, good over evil, and fairness over inequity. Greed and envy, on the other hand, are generally seen as undesirable traits, railed against from pulpit and rostrum throughout the world. Yet despite this near-universal praise of justice and an equally universal condemnation of greed and envy, we still seem to have little justice in the world, while having made no significant dent in the amount of greed and envy. Why is this true?

For over three millennia, organized religion and wise governments have cried for justice, worked for justice, and in some cases de-

clared justice to be their primary goal. At the same time, most religious and secular rulers have criticized greed and envy as base emotions, likely to lead to criminality or such confusion of the mind as to prevent the attainment of enlightenment and spiritual peace. Why, then, are so many human beings still denied (or denying others) justice? Why are there so many envious, greedy people still in the world?

For a significant number of modern politico-economic thinkers, the reason for this problem is that the common conceptions of justice are wrong, and that government action (i.e., the sanction to use force) is necessary to eliminate greed and eliminate the cause of envy. The number of prominent figures supporting this notion seems to have grown alarmingly in recent years, and many na-

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tions have taken up these new conceptions. Justice was traditionally seen as the equal application of law to all citizens, regardless of status or wealth. In religious teachings, justice was linked to basic norms of desirable behavior, such as treating people with honesty, compassion, and respect in all situations. Justice did not entail equality for all citizens, but rather equal access to legal recourse in the event of an attack on their life, property, or personal freedom (however wide or limited such freedom was in that society).

Two Views of Justice

Equality was not equated with justice. Greed and envy were accepted as part of life, but it was hoped that with all citizens protected from infringement upon their physical and economic liberty, all citizens would turn that greed and envy into a productive force, a force motivating them to hard work, frugal habits, and imaginative approaches to improving their lives and their products. The American Declaration of Independence well summed this up as "life, liberty, and the pursuit of happiness." Note that the *pursuit* was guaranteed, not happiness itself.

The new conception of justice, greed, and envy is quite different. Justice in the new conception is directly equated with equality, espe-

cially social equality. Hence, justice is often called "social justice," and is used to signify a process of enforced equalization, the goal of which is to lessen the differences in material wealth between individuals. Greed becomes a totally irredeemable trait that is socially destructive and intolerable. Greed is what motivates people to resist social justice. Envy is considered a totally acceptable trait, on the other hand. It is expected that everyone will envy those more fortunate or successful than they are unless there is true social justice. Only social justice, which will bring equality to all, can eliminate envy.

Greed and envy as driving forces to encourage hard work, frugality and innovation are now eliminated, replaced by "social consciousness" or other terms that signify that what men once would do out of self-interest, they would now magnanimously do for the good of all, without recompense. This is quite a lot to expect of most people, and so most societies totally committed to this new conception of "social justice" call for the creation of "the new man," or "the socialist man," and will create him through a variety of means, including childhood education, rigid social discipline (elimination of personal freedom), and re-education of adults (either in psychiatric hospitals or "development camps").

What of our own country, though?

We are not totally committed to "social justice," are we? We still maintain a firm desire to encourage free enterprise, hard work, frugality, and innovation through market means, after all. Or do we? We have progressive income taxes, restrictions on what can be taught and where it can be taught, and a variety of other measures that seek to bring about a certain amount of "social justice" right here in the United States of America. Many prominent political, religious, and social figures call for more "social justice": more guaranteed rights and entitlements, more ways to eliminate "windfalls" and "excessive profits." We aren't as free from these "new conceptions" as we might like to think.

Demands for Equality

Some of those political figures who call for "social justice" mask their goals, by crying out for a "safety net" for those unable to fend for themselves, whether that weakness is by choice, by chance, or by necessity. These political figures claim that the "average American" wants to see everyone who earns more than he does have that "excess" taxed away to bring the "needy" up to the level of the "average" man. Is this true? I suspect not.

If you were to ask the "average" man if he wished he were wealthier, I suspect the majority would say yes.

However, if the "average" man were asked if other people's money should be taken to make him wealthier, I suspect the "average" man would say no, with considerable indignation. He might even add, "I'm no thief; I can make it on my own." That "average" man certainly would not want to become rich if it meant that the added effort involved would only make him liable to new taxes that will reduce him back to "average" wealth. In fact, the real problem is that in such a society, that "average" man wouldn't even try to get ahead through hard work and frugality and imagination. He would just try to get by and hope for better times . . . just as the majority of "average" men in Eastern Bloc countries do today!

If the "average" American isn't the one calling for "social justice," then who is? It might be those at the bottom of the economic ladder, those unfortunates who are unable or unwilling to get up out of the poverty trap. However, many of these poor individuals are doing their best to get ahead on their own. They wish that their taxes were lower, and that their dollars would go further, and that they could get a raise . . . just like the "average" guy. Others wish that they had more money for "big ticket" items such as homes, cars, and medical care . . . items whose prices have been pushed up by the cost of a variety of measures

trying to promote "social justice" beyond their reach. In frustration, these people ask for government help, not aware that the government was a major cause of their plight in the first place.

Finally, there are those poor people who seek to live off the wealth of others. They feel "entitled" to "social justice," and feel no obligation to seek work. At one time, they may have tried to work, but found that union seniority rules, limited education, and minimum wage laws (to name a few causes) conspired to deny them access to a job. Or, they may be physically unable to work due to handicaps beyond their control. Yet, it is questionable that this group of beneficiaries of "social justice" have the influence or ability to propose and carry out such a plan. They are poorly educated, they are psychologically depressed, and they tend not to vote or write their political representatives for assistance. There must be some other group responsible for the big push for "social justice" and equality.

Pressure from Intellectuals

My suspicion is that another group is really responsible for pressing for "social justice" throughout the world. They are a very sophisticated group, influential at all levels of society, and generally very unhappy with the way they feel they are mistreated by, and undervalued

by, society as a whole. They are the people who led the original Bolsheviks, the original Chinese Communist Parties, and the majority of leftist organizations found in the Western World today. They are educators, professional academics, and social workers. They are frustrated students who never found professions worthy of them, and petty bureaucrats who felt the existing governments denied them the power they "needed" to perform their duties "efficiently." These people tend to consider themselves superior to the "lazy bankers," "rich capitalists," and "wealthy landowners" who are economically better off than they are. These same individuals use their positions in government, in schools, and in the media, to influence the "average" man to agree with them, and to encourage the wealthy to support them out of guilt and a sense of duty. They have succeeded all too well.

What about the "average" man? Does he think that he is worth as much as the wealthy person? He very well might, because he equates *effort* with *product*. To the average man, his thirty-seven hours building machines on an assembly line is worth at least as much as a banker's thirty-seven hours behind a desk. The workman can say he helped build three hundred hydraulic presses or twenty-five trucks, but to his way of looking at it, the banker

built nothing. There is no *visible* product coming out of the banker's effort.

This common sense approach, while honest, is incorrect. Yet it is played upon by the "social justice" promoters, despite the fact that they know that the banker's ability to pool and manage scarce resources (capital) creates products that are just as critical as those built by the assembly workers. The average bureaucrat or educator certainly uses that argument on his own behalf. . . . "our product is ideas," they might say, or "we keep society running," or perhaps even "our product is the human mind." Yet, these products are just as intangible as the capital produced and managed by the banker, if not more so. The ingenuousness of the "social justice" concept begins to become apparent.

Yes, it is regrettable that there is far too little justice in the world, and that many people allow greed and envy to dominate their lives. Unfortunately, the "social justice" concept cannot bring justice. Justice must

treat all people equally, regardless of their wealth or status. It is just as wrong to allow bias against the wealthy in the law as to allow bias against the poor. To allow either sort of bias is to eliminate *equal access*, and to deny *equal treatment*. This is the basic, inherent contradiction in "social justice": it is not true justice at all.

Governments created by men, and composed of men, cannot miraculously legislate justice or equality due to the contradiction involved in allowing governments to steal from some men to enrich others, but calling such action by private individuals criminal. Attempting to create equality through such injustice will lead to both economic collapse and to despotism. Ultimately, greed and envy may be undesirable traits, but the free market system turns them to society's benefit in most cases. "Social justice," on the other hand, will only benefit the small minority who will gain ultimate power to decide what is "just." ⊕

Justice and Freedom

IDEAS ON



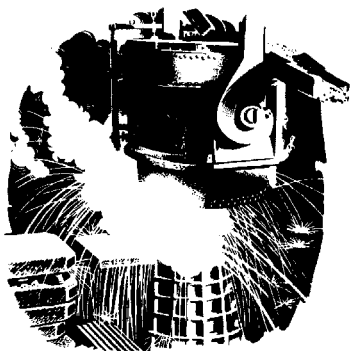
LIBERTY

JUSTICE is the only foundation upon which a society of free and independent people can exist. Justice is a concrete, recognizable, and objective principle. It is not a matter of opinion.

In our day and age the word justice is rarely used in political and economic discussions. The entire reason for the existence of communities, laws, governments and court systems has been forgotten. But if life and property are to be protected and secured, which is the purpose of society, then justice *must* be the rule.

LESLIE SNYDER

If We Want Reindustrialization



WHEN a person with the accomplishments of Felix G. Rohatyn calls for a reborn Reconstruction Finance Corporation, we are at least required to take note of his argument. A senior partner in Lazard Freres & Company, who has chaired New York City's Municipal Assistance Corporation for eight years, Mr. Rohatyn is not only given large credit for saving the city from financial disaster; also his thoughts suggest how leading investment bankers may be thinking. For that matter, his point of view probably reflects that of the financial and business establishment at large. In an interview, in the January 30, 1984, *Forbes*, entitled "A Case for Reindustrialization," Rohatyn set forth his views.

Anyone interested in learning the details of the interview may read

Mr. La Dow of San Diego, is a retired teacher of social studies with an ongoing concern for maximizing the freedom of the individual.

them in *Forbes*; but it is not necessary to delineate them here in order to meditate upon the very different roles, attitudes, and virtues required of good business as compared to good government. Although the successful businessman must possess foresight, his most important need is to deal with the realities of the here and now.

On the other hand, the statesman as a policy maker is measured by distant effect of today's decisions, while he may often be allowed to ignore today's disaster. This difference is recognized by terms of office vouchsafed to elected government officials, assuring them more time to achieve results. In our government, we can see, for example, that the House of Representatives, due to biennial elections, is more vulnerable to immediate pressures than the longer-termed President and Senate. Having the shakiest tenure of

all, corporate executives are most tied to immediate results.

This observation brings into question the assumption that government will be better now than more businessmen are directing it than during heydays of the academics more favored by Democrats. Liberal academics have long been addicted to an ameliorative approach to society. This view, eventuating in the welfare state, is made to order for excellent business executives, like Felix Rohatyn, whose forte is untangling knotty situations by the efficient use of money. While Rohatyn is aligned with Senator Edward Kennedy, there are undoubtedly numbers of Republican businessmen who would go with Senator Robert Dole in resisting any dismantling of the welfare state. Not only does the remodelling of society offer even greater challenges than corporation-building; but the temptations of sovereign power and the opportunities in market insight and juggling must be close to overwhelming.

The trouble with Mr. Rohatyn's formula is that it will not achieve the end he hopes for: reindustrialization. It did not work in the 1930s and will not work now. Only World War II succeeded in revitalizing U.S. industry then and Rohatyn does not suggest, nor would he dare, a similar bailout for his revitalized R.F.C. Pumping public funds into business is a proven recipe for such

eventual stagnation as we have lately experienced, even making due allowance for the miracles of computerism and robotics. Accurate circuitry cannot overcome the intelligence—and ambiguity—of human nature. To play on James Thurber's wit, "The germs are more astute than the police." As Fred Allen said, "The world is moving too fast for the Moses model man"; but he has his ways of slowing it down.

Pump money into business and the workers will busy themselves in pumping it out, while the distributory bureaucracy takes its cut off the top. This breeds "price inflation," adding to the costs of doing business. Meanwhile, escalating Federal debt, with this and all the other programs and commissions, push us into fiat money inflation exacerbating the original effect beyond rational prediction. Our business barometer, the stock market, flutters with uncertainty at each flip in interest rates.

Sound Money, Free Market

If we want reindustrialization, we must ask what brought industrialization in the first place. The answer is plain enough. The Industrial Age was ushered in by sound money and a free market. In our guilt over affluence, we tend to forget how awful conditions were before industrialization. Centuries saw direst need, while today's poor thrive compared

to their counterparts even so recently as 1920. Even then, we were already putting the brakes on capitalism—a process which has proceeded with increasing urgency ever since.

Under such difficulties, only the inventiveness, skill, and wisdom of the private sector has managed to create increasing wealth. At that, until the “computer revolution,” we were trapped in a state of “stagflation.” We dare not count on such technological breakthroughs to save us. If we want reindustrialization, the heavy hand of government must be removed from the economy.

Commendable though it is for President Reagan to have commissioned J. Peter Grace to head a group to bring businesslike standards to the Federal bureaucracy, the effect can be no more than a poultice on the disease when surgery is called for. When a business is bankrupt, it is either a target for takeover, or must go out of business. Government, being a court of last resort, cannot be taken over—save by another government. We do not want that to happen. Therefore, a good many Federal agencies must go out of business. That is a moral, as well as a simple economic, truth. They have not only run us into unmanageable debt, but have also stretched the meaning of our Constitution beyond tolerable bounds. Beyond that, in the aggregate they

have created an economic atmosphere in which our industries are in disarray and basic ones are losing out to foreign competition, or are pushed into foreign operations.

Lobbying for Favors

In a free market, expectations tend toward equilibrium with possibilities as individuals and firms set their standards and goals in light of their own peculiar strengths and handicaps. To the extent the welfare state enters into the scheme of things, persons are encouraged to ignore this wisdom and see the state as guarantor of their hopes and expectations. This provides an undeterminable multiplier effect on aspirations, which, today, is evidenced in intense lobbying, and even violence, rather than in productive efforts. To all concerned, business, labor, and the consumer, this state of affairs is cruel and immoral by any standard—regardless of constitutional issues.

Since government has nothing to draw resources from other than the economy, state support of its citizens' expectations has the end result of trading dreams for goods. Recognizing it or not, we have found that Albert Jay Nock was right decades back when he said: “No state on earth can afford to support all its idle people.” A treasury debt of better than a trillion dollars is the proof of that.

There is wringing of hands on all sides concerning the debt and escalating budget deficits; but, although the "war on poverty" appears to have reached stalemate, we are now faced with indefinable claims of equality with respect to race, sex, and whatever else may come to mind. Also replacing handouts are efforts so absurd as to call for a pristine environment, an absolute safety standard, and salvation for all endangered species. Noble ideals for sure; but out of accord with both the vagaries of human nature and mother nature, herself.

Perhaps this observation was best epitomized by a newspaper comic strip, "The Wizard of Id." Sir Rodney was delivering an ultimatum of the little king. He said that the king had ordered removal of all pollutants from the land, the sea, and the air. A peasant spoke up, asking: "Where do they come from?" (He must have been related to the little boy in the fable, "*The Emperor's New Clothes*.") Whatever may be said for these latest goals of the welfare state, they add an immeasurable cost and handicap to our industries in the frivolous way in which resultant regulations are made and applied. By and large they have been anti-reindustrialization in effect.

Nor is it probable that cost-benefit analysis could bring the bureaucracy into workable relation to the

economy. Such power, however moderated, is inimical to the liberties proclaimed in the Ninth and Tenth Amendments. Although they may be unaware of it due to massive indoctrination, our people, like any others for that matter, are imbued with a necessity for personal independence. Although not immune to temptation to use political power for their own benefit, they are immensely resentful when it is applied to them individually. In playing up to that temptation, our politicians have so far been able to survive the resentment.

The Fading Dream

Since capitalism, disregarding the demonology of Marxism, has catapulted most of us into the middle class, where is that proletariat which assures them of continuing support in socialization? The dream is fading and the bills are coming due. Coercion is more palpable than the benefits in today's welfare state. While it is in the nature of things that a large vested interest will support any *status quo*, and that most of us may accept the intolerable rather than upsetting change, it is still true that there was an American revolution a little over two centuries (three lifetimes) ago.

We are fortunate that we need go no farther than the purposes of that revolution to find our bearings toward resolving current difficulties.

Hearken to the Declaration of Independence enumerating the outrages of King George III: "He has erected a multitude of New Offices, and sent hither swarms of Officers to harass our People, and eat out their substance . . . He has combined with others to subject us to a jurisdiction foreign to our constitution, and unacknowledged by our laws; giving his Assent to their acts of pretended legislation. . . For taking away our charters, abolishing our most valuable laws, and altering fundamentally the Forms of our Governments." Items deleted in this series of charges do not here apply.

However, most especially in the last four decades, the government with which we replaced George III has progressively erected a multitude of new offices and sent forth swarms of officers to harass and eat out the substance of our people. The accompanying regulations and administrative law have surely subjected us to jurisdictions foreign to our Constitution, whose "pretended legislation" often runs even beyond any mandate of our supine elected officials. It is notorious that the bureaucracy is now largely beyond the control of President, or Congress, composing so many "independent agencies." As for taking away our charters, the Federal leviathan has largely emasculated state and local government, all but abolishing the highest law on division of power.

Continuous Turmoil

If the basic reasons for our withdrawal to independence as a nation were not enough, there stands our "highest law," the Constitution of the United States of America. No rational feat of legal legerdemain can construe that document as justifying the vast interventions into matters that were once truly civil rights. It is generally agreed that such were not the intentions of the Founders, but is widely assumed that this was changed by the Civil War Amendments (13th, 14th, and 15th). Not only did congressional debates leading to the formulation of those amendments fail to support such an assumption; but down to the beginning of these troublous times legal opinion held stoutly otherwise. It was generally understood that the meaning of a law was to be found in the intentions of its promulgators and ratifiers. Changes in such meanings must be made in clearcut definition and by due process. As it now stands, such changes may be made by passing court decisions. Civil rights historically have been understood by their classical definition as "the non-political rights of citizens." They are now thoroughly politicized, having become public property. The outcome: continuous turmoil.

There exists no constitutional mandate for managing the economy, unless one chooses to stretch the

"elastic clause," or the "promote the general welfare" in the Preamble beyond the bounds of imagination. The government could promote the general welfare by ensuring a sound money, assuring free interstate commerce, properly handling public lands, judiciously managing foreign affairs including war responsibilities, and wisely using police powers incident to such duties, while guarding civil rights as reflected in the Bill of Rights. Such were the obvious intent in the general welfare phrase and that "necessary and proper" in the elastic clause. To pretend otherwise is, in the words of Chief Justice John Marshall, to extend a power "in itself illimitable."

Nothing exists in later amendments which could be legitimately construed to replace original limitations of power. Any state was free, within its boundaries, to prohibit intoxicating drinks—as Kansas first did—promote sexual equality and universal suffrage, regulate intrastate commerce and personal behavior within the limits imposed by the Bill of Rights. Chattel slavery, like indentured servitude, was soon to be doomed by industrialization, including that of agriculture; but, in any event, with the 13th Amendment in place, the Bill of Rights provided all necessary authority for the Federal protection of civil rights.

As for discipline of the states, the American people have proved them-

selves fabulously capable of that by "voting with their feet" (or other transportation) in moving their business and persons to what they themselves considered the most favorable environments—and that without the least bit of Federal support or coercion. Perhaps the most obvious evidence of this has been the dispersal of our Black population throughout the country although it applies to all of our races and classes. And New York City has long been the Mecca of liberated women. According to personal limitations, each of us may be counted on to pursue his own welfare. Limitations are ineluctable.

The Vanishing Frontier?


Still, one must deal with the ultimate fatuity that Federal interventionism has become necessary: that the vanishing of the physical frontier and complexities of industrialization demand centralized control. First of all, we have not conquered the frontier, but have leaped over most of it. One can drive for hours through much of the United States without encountering anything but competing traffic, or perhaps wild animals. Even if we choose not to privatize it, honesty requires us to admit that most of our land remains undeveloped by any standard of modern industrialism.

As for complexity, the answer to that is simplification and decentral-

ization. To use the economists' words, economies of scale demand decentralization. Large enterprises, in order to survive, must break up their operations. Even more obviously, 50 disparate states, with their widely variant resources and activities, are beyond rational centralized control from Washington, D.C. Even to feel required to point this out seems, itself, to be an absurdity. In this light, the original blueprint of the Constitution appears to be ever so much more apposite to the current situation than when it was first struck off.

While adherence to oaths is taken more lightly in these days of easy divorce and overlooked treason, they still possess considerable force in a court of law. The constitutional oath is a case in point. Every public officer in the United States, down to the local public school teacher, is required to take that oath to "protect

and defend the Constitution of the United States." No intellectual fad, including that which passes as liberalism, or socialism, has a warranty of permanence. Now that its promises have been proved to be illusory, with tyranny and terrorism rife in much of the world, a new respect for that oath may appear.

If those who swear take the trouble to study more carefully that splendidly brief, simple, but profound document—free of small print—we should be on the way toward that reindustrialization so devoutly hoped for by most of us, as well as by Felix Rohatyn. It will not happen until we truly turn to those principles which nurtured this industrial giant in the first place, but have since been eroded away by fraternal strife, misunderstanding, and corruption. It is high time for a new birth of liberty. 

Reprints . . .

A Page on Freedom

Each of these brief messages is a handy way to share with friends, teachers, editors, clergymen and others a thought-starter on liberty. It also serves to introduce the reader to our work at FEE.

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Tyranny of the Status Quo

THE FRIEDMANS, Milton and Rose, have jumped the boundaries of economics in their *Tyranny of the Status Quo* (New York: Harcourt Brace Jovanovich, 182 pp., \$10.95) to make a generalized study of the way democracy works to stymie legislative innovators whether they be libertarian, socialist or mixed-breed partisans of the Middle Way. But if this is primarily a work in political science, it manages nonetheless to keep up a steady drumbeat for the Friedmans' own economic program. Their hopeful assumption is that the American people will some day insist on returning to their ancestral ways of freedom despite the special interests that continue to frustrate them.

Briefly, the Friedmans argue that if a newly elected leader in a democracy can't put his or her program into operation within six to eight months after taking office, the supposed "mandate" will vanish. This is what happened to Ronald Reagan in the United States and to Margaret Thatcher in England. Reagan and Thatcher had similar conservative

agenda, but the "law" of democracy pays little attention to questions of "right" and "left" when it comes to preserving the status quo. Mitterrand of France is a socialist, but he ran into the same roadblocks as Reagan and Thatcher in his efforts to change the French economy.

The Friedmans speak of an "Iron Triangle" that inevitably forms to preserve or extend the special privileges that status quo beneficiaries have already nailed down. A special interest group with a strong lobby will zero in on the politicians, with the help of bureaucrats whose jobs are connected with special interest dispensations. The special interest group may not be numerically important, but it has a strong incentive to get what it wants. Meanwhile the many who have very little money at stake in a particular instance won't bother to fight. The "Iron Triangle" of the special interest lobby, the bureaucrats, and the politicians who are afraid to trifle with the status quo, will carry the day.

The Friedmans quote Congress-

man Phil Gramm to buttress their theory. "Every time you vote on every issue," says Gramm, "all the people who want the program are looking over your right shoulder and nobody's looking over your left shoulder. They're sending letters back home telling people whether Phil Gramm cares about the old, the poor, the sick, the bicycle riders . . . the list goes on. It's perfectly legitimate. The problem is that nobody's looking over the left shoulder."

Since our Congressmen aren't chosen to represent all the people, that job is left to the President and the Vice President, who do have a national mandate. But if a new administration can't establish a "hundred days" climate in Washington on first taking office, it will succumb to the status quo tyrants.

Achievements of the Reagan Administration

The Friedmans give Reagan good marks for his first year in the White House. With Congressman Jack Kemp at his elbow Reagan managed to reduce tax rates by 25 per cent over a three-year period. He provided for indexing taxes in 1985 to banish inflationary bracket creep. He cut the top income tax rate from 70 to 50 per cent. And he did manage to reduce the rate of public spending increases.

This was the extent of the Reagan honeymoon. In 1982 there was a leg-

isolated rise in "peripheral" taxes. The Social Security tax went up. There was a gas tax. The fight to lower the costs of regulation slowed. The Friedmans observed that government spending "continued to rise as a fraction of income even after allowing for the expenditures associated with recession."

The Friedmans credit Reagan with a victory over inflation, but think the Federal Reserve Bank might have used its control over the money supply without provoking some barbarous swings that deepened recession by putting people out of work. Now that the bad days are in the past, however, the Friedmans are hoping a Reagan victory at the polls next November will be sufficiently impressive to breathe new life into the Reagan "revolution."

A Program for Action


If Reagan does get a new mandate, the Friedmans are ready with a promising program for action. They are hoping that a Constitutional Amendment requiring a balanced budget will pass. A flat tax, set at around 17 per cent, would raise all the money needed to keep the budget in balance and still allow for a military program strong enough to deter the Russians. The Friedmans' flat tax would provide for personal allowances that would exempt the poorest people from hardship, but it would deny the host

of special deductions that have made the current "progressive" tax forms almost impossible for lay people to understand. The Friedmans think the "rich" would gladly give up recourse to their fancy tax shelters in favor of simplicity at a low fixed rate.

The Friedmans want to see the balanced budget requirement made part of the Constitution in order to give to timorous politicians an excuse for deserting their particular corner in the Iron Triangle. The other two occupants of corners in the Triangle—the special interests and the bureaucrats—could hardly expect legislators to flout a law that would require "package" treatment of the budget as a whole. As an additional safeguard the Friedmans also advocate giving the President an item veto.

The Friedmans part company with Jack Kemp, Lewis Lehrman, Ron Paul and others on the subject of returning to the gold standard. It would have to be international, they say, and most foreign nations are in no position to put their currencies at the mercy of runs on their treasuries. Better, so the Friedmans say, to require the federal government to keep the increase in the quantity of money it issues to a low fixed rate that will not vary widely from year to year.

To my mind, the trouble with relying on political appointees to

make a judgment of how much money is necessary to sustain a proper rate of growth is that it could always be second-guessed. With robotics and the silicon chip playing new roles in the business of making new productivity records, how do we know that a three or four per cent increase in the money supply each year is enough? The virtue of a gold standard is that it would take decisions out of the hands of the politicians. One can agree with the Friedmans that a return to gold is not likely in the near future. But why foreclose discussion of the problem? 

THE RAILROADERS

by Stuart Leuthner

(Random House, Inc., 201 East 50th Street, New York, N.Y. 10022) 1983
152 pages • \$19.95

Reviewed by Robert M. Thornton

THIS is not just another nostalgic book about railroads. You can find many books beautifully illustrated with gorgeous steam engines, but scant attention is paid to those who kept them running. The author has done for old-time railroaders what Lawrence Ritter did for old-time baseball players twenty years ago in

his *The Glory of Their Times*. For a dozen years Leuthner has traveled over the country interviewing all sorts of railroaders (including women), some of whom went to work early in this century. We hear the stories of engineers, firemen, conductors, porters, freight agents, brakemen, executives, stewards, chefs, mechanics, machinists, red caps, baggage masters, station masters and railway mail clerks.

One day a few months ago I was putting together some notes and clippings on railroads and suddenly realized that while my father, my step-father and two fathers-in-law worked on the railroads (three of them all their working careers), none of my four children (youngest age 20) has ever ridden on a railroad! Here in a sentence is the sad story of American railroads. (While the persons interviewed in this book observed the decline of railroads in this country, none of them appeared to have understood why it happened—they were, I guess, too close to the forest to see the trees. To understand this decline, read Clarence Carson's *Throttling the Railroads* or Albro Martin's *Enterprise Denied*. These books document the government regulations that dealt great harm to the railroads, beginning about the turn of the century.)

This book celebrates the men and women who loved working on the railroads, who looked forward to

going to work each day, as did my relatives. Now remember how it was on the railroads years ago—long hours, dirty and dangerous work. Yet these persons enjoyed the challenge of the job and took pride in doing it well.

All of these men and women share an appreciation of competence. Like men of the Old West, they were not so concerned with parentage and background as with whether you could do the job. Therefore, they had little patience with "college boy" bosses who might have a lot of book knowledge but who were sadly lacking in practical experience.

The whole tone of this book is lighthearted but the underlying theme is a very serious one. With few exceptions, everyone interviewed in this book hated to see steam engines replaced by diesels. All agreed the diesels were more economical, safer and easier to operate—but the men hated to see steam go, not out of sentiment, but because all the skills they had mastered over the years were suddenly obsolete. Running a diesel was a piece of cake and hence no challenge. But running a steam engine efficiently and safely was a very demanding job, and there was pride in doing it well. We don't wish to go back to "the good old days," even if we could, but we need to keep in mind that not even progress is without cost. ☼

the Freeman

VOL. 34, NO. 8

AUGUST 1984

Morals and the Welfare State—

A Page on Freedom, No. 10

F. A. Harper 451

Private property undergirds freedom.

Leave the Pricing to the Market

Russell Shannon 452

The market solution of the Greyhound conflict.

Stewards of the Candle, Keepers of the Flame

Ridgway K. Foley, Jr. 455

The stewardship of property and its transfer.

Myths of Employment Protection

Ronald M. Ayers 465

Harmful restrictions on imports and capital flow.

Robber Barons and the Real Gilded Age

Edmund A. Opitz 468

"Rugged individualists" in cahoots with government.

Orwell's 1984—and Where We Stand

Ronald Larson 475

Is America the victim of the poison mind?

The Drift of Modern Psychology

Ivan Thorn

A critical appraisal.

William K. Kilpatrick 478

An Experience on the Mount of Olives

Herbert V. Prochnow 488

We know not what we may be.

Marxspeak—Marxthink

William H. Peterson 490

A 1984 review of some ideas of Marx.

The Market and Scarce Resources

Joseph S. Fulda 497

The proper way to allocate.

The Effects of Airline Regulation

Christine Chmura 498

The pros and cons of government regulation as a market alternative.

Book Reviews:

505

"The Doomsday Myth: 10,000 Years of Economic Crises" by Charles Maurice and Charles W. Smithson

"Broken Earth: The Rural Chinese" by Steven W. Mosher

"We Must Defend America" by Lt. Gen. Daniel O. Graham

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the Freeman

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Morals and the Welfare State

STEALING and coveting are condemned in the Decalogue as violations of the basic moral code. It follows, then, that the concepts of stealing and coveting presume the right to private property, which then automatically becomes an implied part of the basic moral code. But where does private property come from?

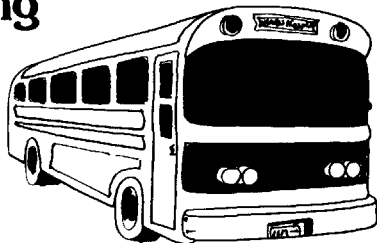
Private property comes from what one has saved out of what he has produced, or has earned as a productive employee of another person. One may also, of course, obtain private property through gifts and inheritances; but in the absence of theft, precluded by this moral code, gifts come from those who have produced or earned what is given. So the right of private property, and also the right to have whatever one has produced or earned, underlies the admonitions in the Decalogue about stealing and coveting. Nobody has the moral right to take by force from the producer anything he has produced or earned, for any purpose

whatsoever—even for a good purpose, as he thinks of it.

If one is free to have what he has produced and earned, it then follows that he also has the moral right to be free to choose his work. He should be free to choose his work, that is, so long as he does not violate the moral code in doing so by using in his productive efforts the property of another person through theft or trespass. Otherwise he is free to work as he will, at what he will, and to change his work when he will. Nobody has the moral right to force him to work when he does not choose to do so, or to force him to remain idle when he wishes to work, or to force him to work at a certain job when he wishes to work at some other available job. The belief of the master that his judgment is superior to that of the slave or vassal, and that control is “for his own good,” is not a moral justification for the idea of the Welfare State. ®

—F. A. Harper

Leave the Pricing to the Market



LAST FALL a friend of mine working as a ticket agent for Greyhound in Atlanta told me a strike was likely. The bus company, he said, felt the workers' wages were too high and, contrary to long-standing tradition, sought to reduce them.

On both accounts, my friend was right. Rejecting the company's final wage offer, the union struck. Not content to remain idle, the workers picketed. But the bus company was not idle either. Vowing to provide service on a limited basis, it offered jobs to all takers, at reduced rates of pay. The bus company's offices were besieged by eager job applicants—53,000 in five days.¹ That response seems to validate the company's view that wages were, indeed, "too high."

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Of course, the workers' complaint that wages were "too low" does not lack merit. With the average cost of a new home running close to \$100,000 and the official level of poverty at about \$10,000, average annual pay and benefits to Greyhound bus drivers of about \$35,000 do not seem excessive.²

Clearly, in such a dispute, the two parties will disagree on what is proper. Who is right? Who should arbitrate? Why not let the market serve that function? If the bus company was having trouble hiring competent drivers and ticket agents, then it ought to pay more to attract workers away from alternate jobs. But if many people covet the jobs—even when the bus company makes wage reductions—the market is telling us that for them no better job opportunity exists. Wages in the bus

business should fall, not so much to help the company earn extra profit as to provide more openings for aspiring workers.

If car dealers must cut prices to empty their lots of inventories, then most people would agree that the previous prices were too high. Dealers had been charging more than their cars were worth. Similarly, if the harvest of a new crop makes fruit prices fall, then it follows that the old ones were excessive.

Of course, our government keeps the price of such items as milk above the free market level and then buys up the surpluses, using taxpayers' money. In much the same way, the union had driven wages up to a point where there was a surplus of people wanting to drive busses.

If the price of milk were permitted to drop, sales would rise and surpluses would disappear because more people can afford to buy fresh milk at lower prices. Fewer will go hungry. By the same token, lower wages can make workers more attractive and increase the number of jobs. Surely, just as price supports help dairy farmers earn more income, unions may help their members earn more pay. But other workers pay the price in terms of lost job opportunities. Open markets spread benefits among many people; closed markets confine benefits to a few.

Yet the full story has not been

told. In the business of bussing, it hasn't been just the workers who have stifled competition. Just as in the case of milk, it is the government which has played a role in keeping incomes up. Thanks to the Interstate Commerce Commission, the bus companies haven't faced much rivalry. Originally set up in 1887 to regulate the railroads, the ICC was granted similar power over trucks, busses, and other modes of transportation by Congress in the 1930s.

Monopoly Privileges

In the same fashion that labor unions keep workers from competing for jobs and lowering wages, the government regulatory agency kept new bus firms from competing for passengers and cutting prices. Of course, the bus companies had to pay a price for their monopoly privileges, for they were forced to serve some areas that provided little business. But these routes had to be subsidized by other customers who paid higher rates on more popular routes, just as taxpayers subsidize dairy farmers.

When the Greyhound workers went on strike last fall, a national TV newscast vividly illustrated the plight of some customers. A number of them interviewed in a small Georgia town had lost their sole link to Atlanta. One woman depended on the bus to take her to a teaching job

40 miles away; another needed regular transportation to obtain medical treatment. A story painting several similarly dismal pictures of distress in Kentucky appeared in *The Wall Street Journal*.³

But in the Georgia case, the strike was not the real cause of deprivation. As the news report pointed out, Greyhound was about to abandon service to many rural areas as a result of deregulation. Indeed, permission to discontinue service came just after the strike began.⁴

Who is really to blame for the loss of this service? The company apparently finds that the cost of providing such service is greater than the revenues from it. If the labor union had not insisted on such high wages, perhaps the bus company could have covered its costs and maintained service. Now that the ICC is allowing new firms to enter the bus business, perhaps some new company will be able to provide service to these people.⁵

In the end, the routes that survive will be the routes that pay, not those selected by some bureaucratic process. Just as airline deregulation had provided many customers with lower fares and better service, we can anticipate the same kind of outcome for busses and their passengers.

Adam Smith wrote back in 1776: "Consumption is the sole end and purpose of all production."⁶ Almost

160 years later another famous British economist, John Maynard Keynes, wrote almost the same thing: "All production is for the purpose of ultimately satisfying a consumer."⁷ Politicized procedures that favor workers or profits subvert the process. With regulators in the driver's seat, the workers and the company may be better served. But the consumers will likely get a better product at a lower cost if we leave the pricing to the market. ☸

—FOOTNOTES—

¹"Greyhound Collides Head On With Its Union," *Business Week*, November 21, 1983, p. 47.

²"Greyhound Vows to Resume Service in 2 Weeks as Thousands Seek Jobs," *Wall Street Journal*, November 4, 1983, p. 5; "Bus Stop," *Time*, November 14, 1983, p. 89.

³Bill Richards, "Walkout at Greyhound Highlights Vulnerability of Small, Rural Towns," *Wall Street Journal*, November 15, 1983, p. 37.

⁴David Secrest, "Greyhound Can Cut Back Ga. Routes," *Atlanta Constitution*, November 11, 1983, p. 1-C.

⁵"Deregulation Will Take Bus Lines on a Rough Ride," *Business Week*, July 11, 1983, pp. 66, 68. See also, Lindley H. Clark, Jr., "Some Lessons from Airline Deregulation," *Wall Street Journal*, November 22, 1983, p. 35.

⁶Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (New York: Modern Library, Random House, 1937), p. 625.

⁷John Maynard Keynes, *The General Theory of Employment, Interest and Money* (New York: Harcourt, Brace, 1936), p. 46. For some further commentary on consumption as the purpose of economic activity, see Charles N. Stabler, "How Economists Think About World Trade," *Wall Street Journal*, November 28, 1983, p. 1.



Stewards of the Candle, Keepers of the Flame

THE incessant attrition of the Remnant, coupled with an obvious and concomitant decay of civilization, calls forth general thoughts of the consequences of morbidity and mortality, and particular concern for the concept of stewardship. All human beings realize that this earthly journey necessarily possesses a beginning and an end, and that during this pause in the inexorable gulf of time, each person acquires intellectual and spiritual things of value, if not material goods.

Some perceptive individuals reflect upon the severe constraints imposed on mankind by the regulatory state and seek to release us all from these fetters of the Leviathan; their legacy may consist of wise words or material property which they wish to dedicate to the enhancement of

the freedom philosophy and the resultant surcease from human bondage. It is to these individuals alone that I address this essay from my solitary perch as an attorney who practices law with the combined purpose of representing individuals in their quest for liberty and, in so doing, enabling me to indulge in my first love, the study of the foundations of the moral private property order.

Stewardship countenances trust. A good steward wisely employs that which has been entrusted to him so as to achieve the ends directed by the creator of the trust. The virtuous steward must never substitute his judgment or his purposes for those set forth by the trust creator. In this tract, several types of stewards merit discussion: First, those persons who create value as a heritage for the future ("trustors" or "settlers" in legal parlance) and second, those individuals charged with the

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obligation of carrying out the trustors' directives ("trustees") and those individuals or institutions receiving the bounty of the trustor ("beneficiaries").

The impetus propelling this article derives from the following all-too-common occurrence: An individual, employing his talents in a principled and creative manner during his earthly sojourn, accumulates a store of wealth; he also acquires a belief in the essential premises of the freedom philosophy¹ and wishes to bequeath part or all of his estate to assure the continued exposition of that coterie of moral precepts; he seeks out legal advice and designs a trust or a foundation or any of several other juridical devices to accomplish his goal; after his demise, an objective observer perceives that those entrusted with effecting the trustor/donor's beneficent purposes actually thwart his intentions and devote his property (the "trust *res*," in the lingo of the legal profession) to persons and causes which the would-be benefactor most likely would find both loathsome and odious!

Several compelling questions arise from this common set of circumstances: First, how does the mulcting of the trust comport with principles of justice? Second, what legal means exist to rectify such thwarted expectations? Third, how better could the trustor and his

counsel design his estate plan to avoid clear miscarriages of intention? I devote a few lines to each of these seminal inquiries, fully cognizant of the fact that each issue deserves far more than the cursory attention bestowed here.

Principles of Justice

The fundamental principle of justice is respect for free and nonaggressive choice.² One essential element therein consists in the ability of an individual to rely upon promises made in good faith. Creation of an estate plan in any one of numerous common forms entails express and implied contractual undertakings to use and guard the entrusted property as a good steward within strict moral and ideological guideposts. Consequently, *de facto* abolition of the trust by misuse of the assets for repugnant purposes not only breaches solemn covenants but also amounts to theft. In a phrase, the events described do not accord with justice.

But what of the law—does it not compel enforcement of final promises? Unfortunately, our Anglo-American jural inheritance contains state-compelled "policy" norms which circumscribe and curtail the free transfer of property by an owner at or after his death. The law, indeed, often aids the defaulting steward. The English common law—an instrument employed to es-

establish and assure vitality to the monarchy and, hence, the Levianathan—early ordained a legislative and judicial policy against “restraints on alienation” (limits placed upon the free transfer of property by and to citizens and institutions, including those who took property by inheritance or gift). Two of several examples, the judicially-enacted “rule against perpetuities” and the Parliamentary Statutes of Mortmain, illustrate this policy. The rule against perpetuities, which survives to this day in some form in most Anglo-American jurisdictions, limits the temporal existence of many trusts.³ The Statutes of Mortmain constrained the gifts of real property to the (Roman Catholic) Church;⁴ several states currently limit the amount and type of asset which may be transferred to certain charitable institutions.

In addition, most English-speaking states enacted other legislation or created additional judicial barriers which continued to retard the untrammelled discretion of the trustor in the disposition of his property. For example, most of these United States permit a surviving spouse to take a portion of an estate in direct contradiction to a will, a trust, or any other estate planning device. Again, in earlier years, children [particularly the eldest legitimate male offspring (the doctrine of primogeniture)] occupied a favored po-

sition and could elect against or challenge transfers of property under stated circumstances.

Of course, state and federal inheritance and estate taxes, and death duties (normally steeply graduated with an eye to redistribution of wealth) further hinder implementation of the trustor/testator's wishes. The most salient governmental power invading the arena of property disposition on death involves the laws of intestate succession, which provide explicit directives for the transfer of a decedent's estate upon his death without a *valid* will—and the state courts exercise the power to determine *validity* of a will or other testamentary document!⁵

Indeed, proponents of statism often argue that the case of intestate succession provides an instance of the mandatory need for the establishment of a government; the supporters of the state urge that government must exist pursuant to a Rule of Necessity and that without laws providing for the orderly transfer of property upon death *sans* directions, civil chaos would ensue. In fact, the pioneers in the Oregon Territory formed the first formal government in that region as the result of the death of Ewing Young, the wealthiest man in the area, who had the audacity to die possessed of considerable land and cattle but without a will.

I do not choose to enter the limited government vs. rational anarchy fray at this juncture;⁶ I pause only to observe that the assertion of necessity in this milieu may *not* be well taken, as property of many kinds and types could just as well return to "*ferae naturae*," in the quaint old English phrase, to an unclaimed natural state ready for use by the first entrepreneur to come along.

Not surprisingly, I adhere to the unpopular and distinct minority position that the creator or legitimate possessor of property should also possess unharried freedom to disperse his property as he sees fit,⁷ so long as the commanded use does not coerce or work a fraud or aggressive act against another person or group, and so long as the chosen disposition does not violate or obviate a prevailing and enforceable contractual right of another.

One would hope that each of us would use good sense and basic morality in the devolution of our earthly goods, as well as our ideas—that each of us as testator or trustor would act as a good and wise steward—but I find myself quite incapable of discerning just what constitutes the ultimate reasonable or moral action for anyone else. As the old saying goes "don't criticize your brother's steps unless you have walked in his shoes."

Moreover, I surmise that the pri-

vate property order cannot long survive the theoretical onslaughts of the command state if we bequeath to the government (most likely, the elite who use pressure group power, or the rabble who construct the majority) the power to divine right and wrong, good and evil. One who creates or fairly acquires value should possess the ultimate choice of the use of those things, (recalling the *caveat* concerning coercion and fraud): He should be able to consume, hoard, bequeath, give, transfer or destroy his wealth in the manner best suited to his subjective value structure *as he determines*, even if the entire world believes his actions to be cockeyed and foolish.

Does the law afford no assurance of compliance with the desires of the deceased trustor? Precious few, particularly where the trustor designs a less than traditional devise or designates an unpopular beneficent purpose—and preservation and enunciation of the precepts of liberty do not draw great favor from the standard bureaucratic judge or regulator.

Positions Change

If the gift descends to a named person or institution, judicial enforcement presents less of a problem, since the specified beneficiary possesses standing (judicially recognized ability) to sue to enforce the transfer, in addition to an obvious

interest in receipt of the legacy. Nonetheless, a transfer of an estate to ABC College or XYZ Foundation may work only a transitory effect for the good envisioned by the trustor: Institutions exhibit the perverse habit of change of principle depending upon the individuals at the helm, and ABC College or XYZ Foundation may, within a very short time, develop a contrary tendency, substituting the study of Marx for the sampling of Locke. The law occasions little solace to the disappointed under these circumstances.⁸

More invidiously, a deathbed transfer for a wise purpose may be interdicted after the passage of time by an all-knowing legal system which determines, as a policy matter, that the transaction bears an unlawful component which must be slaked by the mighty state. Thus, a donation by will to establish and maintain a school for "poor male white orphans" in the city of Philadelphia in 1831 may run afoul of a legal doctrine born 125 years later which would compel the doors of all educational institutions to be flung open to all members of both sexes and every race, no matter the original donor's intent.⁹

Since the law tends to reflect a varying mixture of the ridiculous and the sublime at any given time, no one can rest easy with a considered choice of bequest; a grantor

must recognize that future purveyors of power may very well obviate the best of plans for the worst of reasons. The result of inhibition of personal freedom in this milieu constitutes robbery, pure and simple, and a generally uncontested one at that since the trustor cannot reach out from the grave to protest and the jural structure normally quells all potential living challenges with opprobrium or a sneering twaddle about lack of standing (there exists no legal basis for the contender to object in this case because he does not display a legally-recognizable interest).

A Tale of Three Stewards

Perhaps a litany resembling the foregoing inspired a well-known tax and probate lawyer of my acquaintance to suggest (only half in jest) that the perfect estate plan occurs when one succumbs while placing his last nickel in a slot machine. Unfortunately, that little joke contains two fundamental fallacies. First, it does not answer the question of disposition of the gambler's final account if, by chance, his last nickel calls forth four lemons; such a calamity *à la* Ewing Young might result in even greater governmental intervention in our lives, all in the grand name of necessity. Second, and more pertinently for those who take responsibility and accountability seriously, it is just such a con-

sumption-oriented, live-for-the-day philosophy (solicited and impelled by the growth of monolithic government) which contributes mightily to decay of capital and reduction in the standard of civilization. Those who believe in responsibility and accountability for their actions here also recognize that their stewardship includes a duty to distribute wisely their material and spiritual legacies; consumption appetites leave precious little of value for the future.

Focus on the two obvious stewards, the trustor and the trustee, reveals some startling similarities in obligation. Each steward participates in a solemn contract; each must strive to fulfill that promise. Less apparent, but equally penetrating upon reflection, rests the mandate upon the third steward, the beneficiary of the gift.

At the outset, the trustor owes the obligation to choose wisely his beneficiary and his trustee, but his obligation neither begins nor ends there. This essay assumes, as its minor premise, that the trustor has created and accumulated something of value during this venture, something which should be passed forward at death.

What Is of Value?

First, then, the trustor must analyze what it is that he possesses which exhibits true and lasting

value. Few of us will be noteworthy in the fourth generation hence; even with the modern wealth of paper and microfiche, all but a minuscule fraction of the present day inhabitants of this earth will be remembered imperfectly if at all; how many reading these words *really* know anything about their great grandparents: Their loves, their tragedies, their beliefs? How many students attending classes in the nation's great institutions of higher learning *really* know anything concerning the benefactor for whom their particular hall of study is named?

While moth and rust take their own sweet precious time in these days of synthetics, plastics and alloys, worldly treasures do not seem to enjoy longevity in the eternality of time. What the trustor may possess in surfeit is not so much material as spiritual or intellectual: Seminal ideas conceived and insights gained from experience in living within the boundaries of fundamental principles of natural law.

While the material largess may wither and fade after a generation or two, wisdom, if properly nurtured, will live on to guide future seekers after truth. Indeed, one acquainted with truly salient ideas may wish to cloak his own life with disguise or anonymity, the better to show forth the concepts of great

worth. Thus, the trustor must accumulate things of permanent value and he must acknowledge the importance of those items and his accountability therefor, before he concentrates upon the method of dissemination and distribution.

The trustor's second chore—the choice of beneficiary—affords no easier task. The commonplace disposition of goods to the immediate family often occurs by rote and with a grudging sense of duty if not outright compulsion. Few individuals objectively analyze that which they convey and their intended recipients. The man who spends his last nickel in Reno may be doing his offspring a true favor since one school of thought observes the unpleasant tendency of second and third generation legatees to “dissipate inherited wealth unwisely.”¹⁰ The true wealth conveyed to our immediate families may well consist of rules for living and canons of beliefs; these tend to prove far more lasting than a gold watch and a shuttered bungalow.

To Preserve Liberty

Suppose that the testator/trustor, cognizant of the true value which he has created and collected, wishes to pass his wealth on with the express intention of sustaining the march of liberty. How shall he choose the instrument to accomplish his goal? One common practice involves an

outright gift to persons or institutions who will carry on the donor's good works. These recipients very well may be members of the family, or friends and trusted associates, or foundations, schools, churches and like enterprises. In any event, the trustor's task is similar: He must ascertain whether the recipient possesses the principle, the integrity and the honor to be a good steward of the candle handed forward at the grave.

The rule is simple; its execution proves exceedingly difficult. Human observation and analysis prove mighty deceptive: A gulf may separate appearance and reality. The heir or the foundation which today displays fidelity to fundamentals may tomorrow succumb to false doctrine and expedience. In the true sense, therefore, the recipient also possesses obligations as a steward to live up to the trust reposed in him. If the settlor chooses carefully and with attention to principle and natural order, he has discharged his stewardship obligation to the best of his ability; there remains to the recipient a duty to carry on the flame in righteousness.

One other common device exists to facilitate the transfer of property for a good cause: The ubiquitous trust, the theme impelling this introductory little essay. Although cloaked in discrete trappings, the trust adduces inquiries and prob-

lems similar to those discussed heretofore. The trustor normally establishes a trust¹¹ to accomplish one of two general desires: On the one hand, he may wish to convey his estate to a person or a group or class of individuals as the ultimate beneficiaries, but he determines that the beneficiaries are not capable of prudent management and thus require a trustee to protect their interests within the guidelines of the trust; on the other hand, he may wish to diffuse his estate over a long period of time after his death for certain charitable or beneficent purposes (including, perhaps, the funding of scholars or institutions to promote the freedom philosophy), to which end he charges his trustee to carry out his will in this endeavor. As with the choice of beneficiary, the trustor must select his trustee (and any successor trustees) with astute care. As with the beneficiary, the trustee becomes a steward for the cause under acceptance of the contractual direction of the creator of the trust.

The Role of the Beneficiary

Despite some obvious examples, little attention is paid to the proclivity of some direct beneficiaries to stray from the principle of true stewardship. The law imposes no real sanction against the defaulting beneficiary who squanders his inheritance—particularly in light of

the judicial disapproval of restraints on alienation. With some exceptions, most devises or bequests are transferred "in fee," an archaic notion referring to the passage of all elements of ownership in a property. Once vested with all rights in a property, the recipient may do with it as he pleases (save forceful or fraudulent use), harmoniously with the private property order. Positive law affords no means of accountability; only the natural law of consequence exacts due sanctions.

A more perplexing problem arises where a trustor dedicates his estate in trust for beneficent purposes, yet the original trustees or their successors emasculate the purposes of the instrument, ignore the mandate of the trustor, and apply the trust *res* in a manner directly contrary to the will of the trustor. As noted, the legal system offers little help: A proper recipient under the terms of the trust may challenge disbursement in a court of equity, but the chances of success of this attack ordinarily dwindle in light of general language in the document granting broad discretion to the trustees, together with a juridical propensity to slight the cause of liberty and promote the liberal doctrine of slavery.

No easy solution exists for the reflective trustor faced with the panoply of problems outlined here. Few of us are able to forecast the development of the political and legal

systems. Few of us can judge even our closest friends, family and advisors with unerring accuracy. Few of us display even a modicum of consistency to basic principle. In a sentence, our finiteness trips us up at the threshold and we find it almost impossible to regain our balance down the path. The most carefully chosen words and the most adeptly drafted sentences recorded on parchment suddenly obtain singular and divergent meanings at the hands of courts and legislatures bent on mischief.

Suggestions to Help the Lover of Liberty Prevail

Is it all dross, or can the thoughtful and persistent lover of liberty prevail? Only the future will answer that question in each and every instance, but I offer several suggestions to those who would heed the warning sounded, realizing that I, like Socrates, really know only that I know very little.

First, rely upon and repair to fundamental principles in harmony with natural law. Consistency and unrelenting order mark the universe; that same adherence to principle and method suggest the best chance of success.

Second, assess what is valuable within that which you own, and concentrate on the task of passing that value on to those who will appreciate the gift. Recall that man gener-

ally engages in a quest for remembrance, but that the most ornate and opulent splendor will not assure fulfillment of that dream. Note the power of ideas: those few individuals most revered from ancient history—Jesus, Socrates, Confucius—owned virtually nothing of material worth, yet their ideas guide us today.

Third, select your trustees and beneficiaries with the same care and caution that would attend the serious affairs of life. Seek out persons of principle, integrity and honor; nothing less will do. Act as a good steward; demand that your trustees and your beneficiaries perform likewise.

Fourth, provide for successor trustees and residuary beneficiaries with the same prudence; the mode of substitution should be carefully established and astutely monitored by those who share your ideals. Be aware that the flaws in the system usually develop in the secondary and tertiary selection process.

Fifth, craft the contractual instrument—be it will, trust, charter, or contract—with exceeding great care. Delineate your principles and your standards for administration explicitly, cognizant of the frailties of the language.

Sixth, during your lifetime, constantly reassess your purposes and your choice of means in view of changing developments in the world

and your own ever-increasing wisdom. No instrument offers such perfection that it cannot stand improvement.

Finally, when you have run the good race, rest easy in the brilliant assurance of Mr. Nock that if you have something of value to contribute, the Remnant—whom you will never know—will hear you.¹² ☉

—FOOTNOTES—

¹Obviously, a wealthy man or woman might also display adherence to myriad intellectual doctrines, and thus face the dilemma analyzed herein. It is the doctrinal voluntarist and his predicament which piques my concern.

²Ridgway K. Foley, Jr., "In Quest of Justice," 24 *Freeman*, pp. 301–310 (May 1974).

³For those concerned with legal dogma, the rule against perpetuities limits the life of certain trusts to "lives in being [the lifespan of at least one identified living person] plus 21 years."

⁴"Mortmain" literally meant "dead hand" in the Norman-French lexicon which served as the early English legal language. The kings, through controlled Parliaments, restricted the amount of realty which could be devised to the Church, noting that the Church in the Middle Ages served as the primary institutional rival to the monarchical state.

⁵Most states require competency of a testator (one making the will), clarity of the instrument, proper witnesses (normally, a witness cannot be one who takes a share under the will), and a host of other procedural minutiae. Moreover, some states treat wills as expunged or invalidated upon a subsequent marriage or divorce; some provide strange tests for competency, lack of fraud and duress and the like; and some jurisdictions have developed a whole host of technical rules which seem to delight in invalidating a holographic (handwritten) will.

Other doctrines abound; these comments serve solely as examples.

⁶For those interested in my views on the subject, see e.g., "Individual Liberty and the Rule of Law," 21 *Freeman*, pp. 357–378 (June 1971) [Reprinted at 7 *Willamette Law Journal* 396–418 (December 1971)] and "The Source of Sovereignty," 32 *Freeman*, pp. 167–175 (March 1982).

⁷The trustor should not be bound where his disposition is, of course, obtained by coercive or fraudulent means.

⁸Of course, individual devisees may demonstrate like deviation, even if the gift bears no ideological aspects; many a parent has bequeathed pittance or plenty to children or other heirs, allowing the latter to squander their inheritance in near record time.

⁹See *Commonwealth of Pa. v. Board of Directors*, 353 U.S. 230, 77 S. Ct. 806 (1957) and holding on remand, *In Re Girard College Trusteeship*, 391 Pa. 434, 138 A2d 844 (1958); Ultimately, the Pennsylvania Supreme Court upheld private administration of the school under the terms of the will. *Query*: would this holding be followed today? I think not; see a recent example of judicious meddling, *In the Matter of Johnston*, 460 NYS 2d 932 (March 21, 1983).

¹⁰"Wealth" in this vernacular ordinarily refers to money, property or investments. "Unwisely" constitutes a value judgment on the part of the observer which may well be unmerited and the product of envy.

¹¹Trusts generally fall into two categories, *inter vivos* (a "living" trust created during the settlor's lifetime) and testamentary (created by will to become effective at death unless revoked). The cursory analysis here provided applies generally not only to both *inter vivos* and testamentary trusts but also to private foundations, charitable organizations and like institutions created for the purpose of discussion and dissemination of ideas.

¹²Albert Jay Nock, "Isaiah's Job," II *Essays on Liberty*, pp. 51–61, (The Foundation for Economic Education, Inc., Irvington-on-Hudson, New York, 1954).

Two Myths of Employment Protection

IN recent years organized labor and its supporters in government have campaigned for legal restrictions upon business mobility. This campaign mirrors the frequent support that has been given to trade protection by union leaders for many years. Indeed, the common objective of measures of both types is job conservation. The simple argument seems appealing that a society merely needs to legally restrict imports, or legally or institutionally restrict or discourage plants from relocating, in order to preserve employment. Eliminating the human misery caused by unemployment is a worthy goal. However, elementary economic logic is at odds with the notion that restrictions of these types provide employment protection in any meaningful sense. Furthermore, the benefits of a free economy—free resource mobility and free trade—that are forgone upon the adoption of restrictions may be substantial.

“Capital flight” is often considered to be one of the greatest evils

attending a free economy. When a firm closes down or relocates, and it is a major employer in a community, the unemployment created, the human suffering and many other negative effects on the community are highly visible and immediate. The fears that communities will slowly decline and eventually die, that chronic pockets of unemployment will dot the economic landscape, and that American workers are being abandoned in favor of cheaper, unfairly priced foreign labor, become manifest today in proposals for restrictions on plant relocations, or on imports from foreign countries, or both.

While it is widely known that the major methods employed to reduce foreign imports are tariffs and quotas, the issue of restricting business mobility has arisen comparatively recently, and the methods of restriction are less well-known. Therefore, before reviewing the fallacies in-

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volved in attempting to conserve jobs by these means, let us consider the specifics of how capital movement is impaired. Three categories of restrictions exist: 1) restrictions found in collective bargaining agreements, 2) restrictions legislated at the state and federal level, and 3) restrictions rendered by decisions of the courts.

Restrictions on plant relocations written into labor contracts vary in their impact. Perhaps the strongest provisions are those which permit unions to participate in plant shutdown decisions. When carried to the fullest extent, the consent of the union or of a joint union-management committee may be required before a plant may be closed or relocated.

A simpler, less obtrusive provision is the requirement of advance notice. This is one of the more common provisions, as is the requirement that severance pay be granted the displaced workforce. Sometimes, unions seek to have current employees transferred to new facilities, or seek to establish jurisdiction over new or relocated plants.

Less commonly seen provisions provide for geographic limits on relocation, and for employment services and retraining. In the most strongly worded case, no plant movement is allowed without the approval of the union.

Plant closing bills requiring em-

ployer notice have been introduced in at least nine states, and have passed in two, Maine and Wisconsin. At the Federal level, bills requiring notice and special aid for workers have been introduced regularly since 1978, but have not as yet been approved.

Adverse Effects that Stem from Employment Protection

Prevailing judicial law dealing with these matters was established by the 1981 U. S. Supreme Court decision in the *First National Maintenance Corp. vs. National Labor Relations Board* case. In summary, the Court ruled that the employer had a duty to bargain in good faith over the effects of its decision to close an operation, but no duty to bargain over that decision.

That restrictions on business mobility may arise from three sources tends to complicate matters for firms contemplating a move of some sort. Should the rhetoric favoring restrictions gather more steam, it is possible that in the future every firm will find its location decisions under scrutiny, and every firm will then have to develop a policy regarding such matters, just as firms now must deal with tariffs and quotas.

Can foreign import or plant relocation restrictions really save jobs? At what cost? The one basic economic effect that both types of mea-


sure promote is a shift of resources from more efficient to less efficient uses. This central tenet implies several adverse effects that make very clear the fallacy of employment protection. These are:

1. Any benefit to employment is likely to be temporary. Tariffs and quotas designed to save jobs tend to cause other nations to institute protective measures of their own, leaving everyone worse off than before. A similar ripple effect among communities could well occur if plant closing laws were to become commonplace. Furthermore, such laws tend to create profitable opportunities for new firms, so that in the long-run the more immobile firms, at a competitive disadvantage to newcomers, may decline and ultimately fail.

2. Both kinds of restrictions tend to cause higher prices. Consumers are hurt, while workers in inefficient firms temporarily benefit. In the case of tariffs and quotas, the long-run result will be a movement out of more efficient industries and into the less efficient, but protected, ones. Plant closing laws have a similar long-run effect, in that resources remain stuck in inefficient uses, while the more efficient industries suffer retarded growth. Hence, plant closing laws could do harm to U.S. ability to compete on world markets.

3. The impetus to higher real income and employment provided by free trade and by capital mobility is lost when restrictions are imposed. The economic benefits of free trade have never been successfully refuted, although seemingly persuasive arguments for exceptions have been commonplace. The employment protection argument is only one of several categories of arguments favoring tariffs and quotas. The logic of international specialization according to comparative advantage refutes all such arguments. It is only through the practice of this principle that the most efficient allocation of resources and maximization of production will be achieved. Within a country, capital mobility is necessary to achieve a similar effect.

Let Freedom Prevail

The increasing interest in plant closing laws is a disturbing augury for those interested in a free economy. Economic well-being and freedom are closely intertwined. The benefits of free trade are well-known, but often ignored. The benefits of capital mobility are not so well-known, but ought to be. Encroachments upon freedom of enterprise such as those discussed here will in the long-run not only fail to achieve their objectives, but are contrary to the principles of economic freedom and will do harm throughout the economy. 

The Robber Barons and the Real Gilded Age



THE CIVIL WAR marks a deep cleavage in American life; the increasingly industrialized America of the latter decades of the 19th century was quite different from pre-Civil War America. The economy of the first part of the last century did of course engage in some manufacturing, but the businessman of the period was typically a merchant and a trader rather than a factory owner or mine operator. Men of ambition made money shipping lumber to China and returning with tea, opium, mandarin screens, and the like. American whalers plied their arduous trade all over the world. The Yankee clipper, sailing out of eastern ports from Baltimore to Sa-

lem, was the most beautiful thing afloat, and the swiftest vessel on the seven seas till after the Civil War.

Most Americans, during this period, lived in villages and small towns; farming was the major occupation, and rural life was a struggle for survival. Poverty was widespread, giving rise to the old New England maxim: Use it up, wear it out, make it do, or do without. Herman Melville's great novel, *Moby Dick*, tells how dirty and dangerous life was on board a whaling ship. Imagine then, if you will, what it was like trying to wrest a living out of the rocky soil of New England if life aboard a whaler was the preferred alternative!

No one would refer to the early decades of the last century as "The Era of Free Enterprise Individualism." It is the post-Civil War period

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that is usually labeled so. "Free Enterprise" and "Individualism" are two very slippery terms. In any event, the decades under evaluation here are bounded, on the one side, by the Presidency of Ulysses S. Grant, and on the other, by William McKinley; roughly from 1869 to 1901. This was America's Gilded Age, so labeled by Mark Twain in his novel of that name. *The Gilded Age* expressed Mark Twain's disillusionment over the decline in his nation from the decent, old, kindly America he remembered from his boyhood to the America of Black Friday, Credit Mobilier, Boss Tweed, Tammany, and the hustle for the fast buck.

The Changing Scene

Mark Twain, in collaboration with his neighbor, Charles Dudley Warner—called "Deadly Warning" by his friends—published *The Gilded Age* in 1873. The theme of this novel is announced in the Preface: "In a State where there is no fever of speculation, no inflamed desire for sudden wealth, where the poor are all simple-minded and contented, and the rich are all honest and generous, where society is in a condition of primitive purity, and politics is the occupation of only the capable and the patriotic, there are necessarily no materials for such a history as we have constructed." But we no longer have people of this

character, Mark Twain is telling us; corruption has eaten so deeply into the hearts and minds of people that he and Warner have ample material for the 453-page fictionalized history he and his friend have constructed.

In chapter 18 the authors venture a conjecture as to how this mutation in the American character had come about: "The eight years in America from 1860 to 1868 had uprooted institutions that were centuries old, changed the politics of a people, transformed the social life of half the country, and wrought so profoundly upon the entire national character that the influence cannot be measured short of two or three generations." The Gadarene progress was more rapid than Mark Twain had anticipated; it worked itself out close to the bitter end before he died thirty-seven years later.

Twain's satire was merely a prologue; the play followed, and the main characters are all well-known names. There was Commodore Vanderbilt (who conferred that naval distinction on himself because he ran a ferryboat between Staten Island and the Battery); and Jay Gould, who built himself a mansion just up the road from the property which now houses The Foundation for Economic Education. There was Daniel Drew, and Jim Fisk, and Andrew Carnegie; there was Huntington, Stanford, Harriman, Rocke-

feller and Morgan. I've listed here ten names; add ten more if you wish, or a thousand more. The point is that these "robber barons," as they've been called, were a mere handful of men whose deeds and misdeeds have been lovingly chronicled by three generations of journalists and muckrakers.

Conniving with Politicians

These extravagant characters have been represented as exemplars of unrestrained individualism at its worst, fiercely competitive, practitioners of undiluted *laissez faire* capitalism. They were nothing of the sort. So far were they from wanting a genuinely free market economy that they bought up senators and paid off judges in order to stifle competition. They did not want a government that would let them alone; they wanted a government they could use. Had they been able to understand the original idea of *laissez faire* they would have opposed it. They were not individualists; they did not believe in a fair field and no favor; they stacked the odds against their competitors.

The last thing Vanderbilt, Gould, Carnegie and the others wanted was open competition in a game where the best man wins. To the contrary! They connived with politicians to obtain advantages for themselves by controlling government and the law; they manipulated the public power

for private gain. And the government was eager to oblige.

This was done openly, and virtually everyone knew about it. Witty commentators referred to certain politicians as the Senator from coal, or the Senator from railroads, or the Senator from steel. Observing the situation in Pennsylvania, one critic was led to remark that Standard Oil had done everything with the legislature—except refine it! Such political practices were a far cry from the vision of James Madison, who had declared that "Justice is the end of government, and justice is the end of civil society." The Gilded Age was a throwback to the age-old practice of using political power for the economic advantage of those who hold office, and for their friends.

If you want the story of these men and their times, a good place to start is Gustavus Myers' *History of the Great American Fortunes*. First published in 1907, this book went through several editions here and in England. It was published in a large inexpensive edition in 1936 as a Modern Library Giant. I bought my secondhand copy in 1953; the original purchaser bought his in 1939 and it contains a gracious inscription by Myers himself: "May you be included in my next supplement to this tome."

Myers tells the reader that he was just a reformer when he began his

research, eager to reveal the unsavory tactics of rapacious men in business and industry in the absence of government supervision of economic life. Only later did he conclude that a radical restructuring of society—some form of socialism—was the only answer. The conclusion is a strange one. Myers demonstrates throughout his book that such powers as government exercised in this nation during the Gilded Age were misused so as to wrongfully give monetary advantage to some at the expense of others. If this government with a little power did harm, there is no reason at all to assume that a new government wielding a lot of power will do good!

I have gone through Myers' book and underlined every passage which describes a sinister alliance between politicians and these fortune hunters; there are some hundred and fifty such passages. Let me offer you a representative sample.

... peculiar special privileges, worth millions of dollars.

... as a free gift from government.

... the free use of the people's money, through the power of government.

... a notorious violator of the law, invoking the aid of the law to enrich himself still further.

... causing public money to be turned over to his private treasury.

By either the tacit permission or connivance of government.

The simple mandate of law was sufficient authorization for them to prey upon the whole world outside their charmed circles.

... while it was essential to control law-making bodies, it was imperative to have as their auxiliary the bodies that interpreted the law. [That is, the courts.]

I think you catch the flavor of Mr. Myers' book. He is a moralist; he is indignant; he preaches a hell-fire and brimstone sermon against the wicked men who took advantage of their fellow Americans by subverting the law from its proper role of administering an evenhanded justice between person and person. They bent the law into an instrument of plunder. But Myers is not a philosopher; he does not shape his material according to a coherent theory of the economic and political orders.

Gaudy tales about these few unprincipled buccaneers distract our attention away from the millions of Americans on the farm and in the workshops. These hard working people constituted the real American economy during the Gilded Age. This bustling, surging economy of ours received immigrants from Europe at a rate of about a million a year, and it absorbed them on our farms and in other places of work. The standard of living was rising all the while; wages doubled between 1870 and 1900.

It was an age of invention. During

the eighty years from 1790 to 1870, the U.S. Patent Office had granted just over 40,000 patents; during the next thirty years it granted just over 400,000. New types of farm machinery transformed agriculture. To cite one instance: not one bushel of wheat had been raised in the Dakota Territory before 1881; by 1887 its wheat crop was sixty-two million bushels. In 1870 there was nothing that could be called an American steel industry; by 1900 we were producing more than ten million tons of steel annually—more than all the rest of the world combined.

The economic opportunity in America attracted millions of foreigners to these shores during these decades. These men, women and children did not uproot themselves from Europe, leaving family and friends, then undertake an uncomfortable ocean voyage, in order to be exploited; they came here because they could, by their own efforts, forge a better life for themselves in the freest economy the world had yet known.

An Economy of Opportunity

The economy was not wholly free, else there would not have been a single robber baron. But the fact that certain sharp operators piled up large fortunes by means of legally sanctioned thievery means that there was already wealth here to be stolen. The wealth they filched

from the taxpayers was created by millions of industrious Americans laboring under conditions that approximated the free market. Compared to working conditions in Europe, we had an economy of opportunity. Thirty million immigrants told us so by coming to these shores, where they found a better and freer life for themselves and their descendents.

Let me retrace our steps to the place where I alleged that Gustavus Myers was long on indignation, but somewhat short on theory. He tells the sordid tale of a gang of private citizens in cahoots with government to operate a scam against the public. His fortune hunters are supposed to represent "free enterprise," but in reality, the robber barons are to the market economy what Jesse James and the Dalton brothers were to the hardy homesteaders who settled the western territories. In other words, they were more predators than producers.

We need to come to some understanding of the political order appropriate to a society of free people. By the same token, we need to know how the free economy operates, and the role of the businessman within a market economy.

Politically, I call myself an old-fashioned Whig. I'm a believer in equal justice under the law, and something of a Jeffersonian, so let me quote a few lines from Jeffer-

son's First Inaugural Address describing the society he strove for: "Equal and exact justice to all men; of whatever state or persuasion, religious or political; peace, commerce, and honest friendships with all nations,—entangling alliances with none . . . freedom of religion; freedom of the press; freedom of person under the protection of the habeas corpus."

Later in the same Address Jefferson praised "... a wise and frugal government, which shall restrain men from injuring one another, which shall leave them otherwise free to regulate their own pursuits of industry and improvement, and shall not take from the mouth of labor the bread it has earned."

The function of government, in the Jeffersonian scheme, is to secure the God-given rights of all persons, to deter and redress injury, and otherwise let people alone.

Limited Government

The American Constitution is more explicit in what it forbids government to do than in what it authorizes government to do; the words "no" and "not" in restraint of governmental power occur forty-five times in the first seven Articles and the Bill of Rights. Limiting the scope and power of government maximizes individual liberty and gives us a society of free people. Government, in a free society, has

no power to confer economic advantage on some at the expense of others, which eliminates "robber barons," be they individuals or groups, rich or poor. The government of a free people does not misuse its power to tax by taking wealth from those whose labor produced it and allocating it to the pressure groups who possess political influence.

Limited government under the Rule of Law maintains an even-handed justice; it keeps the peace of the community by curbing those who break the peace. It lets people alone, and it punishes any individual who refuses to let other people alone.

A free government is distinguished from other forms of government by the use it makes of the law; it employs lawful force against criminals in order that peaceful people may go about their business. This is force used in self defense. Every other political system uses legal violence against peaceful people—for any sort of reason the users of violence may conjure up. This is the aggressive use of force. The distinction is between law and tyranny, as the Greeks put it. "Let no man live uncurbed by law; nor curbed by tyranny," said the playwright Aeschylus.

Given the law order of a free society, the economic activities of men and women, as they go about the

business of earning a livelihood, is necessarily free market and voluntary.


Consumer Sovereignty and the Free Society

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, a captain of industry running a tight ship. But who's he kidding? He doesn't even have the power to set wages and prices. 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 competitors 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 what a friend of mine called, ironically, a "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. He has left the economic order, and is now part of the State. As a businessman he had no power over anyone; as a part of the State he shares, with government, the power to tax. People now have to pay for his products whether they buy them or not.

Was there "free enterprise" during the Gilded Age? Yes, there was—but not much of it on the part of the "robber barons" who were in cahoots with government. Was there "individualism" during the period? Well, there was *individuality*, but the kind of individualism which means equal freedom for every person to pursue his private goals was not a guiding policy.

But who are we, as we go stumbling down the road to serfdom, to cast the first stone? 

Ludwig von Mises

IDEAS ON



LIBERTY

THE very principle of capitalist entrepreneurship is to provide for the common man. In his capacity as consumer the common man is the sovereign whose buying or abstention from buying decides the fate of entrepreneurial activities. There is in the market economy no other means of acquiring and preserving wealth than by supplying the masses in the best and cheapest way with all the goods they ask for.

Orwell's 1984—and Where We Stand

HALFWAY through Orwell's *1984*, we learn that Eastasia, Eurasia, and Oceania—the three superstates—are nearly identical in ideology and social structure. All three are brutally totalitarian; all three have economies based on continuous warfare with the others in ever-shifting alliances; and all three are characterized by a rigid social structure held together by terrorism exercised in the name of love for a never-seen godlike figure, who—in reality—doesn't exist.

We learn all of this from a secret manual which Winston Smith, Orwell's protagonist, is surreptitiously reading in his hideout.

Why and how did these states come into existence? And why do

they have similar social arrangements? We cannot answer these questions with any assurance, but I'd like to offer a surmise.

Presumably, the manuscript does provide answers. We are led to believe that that is the case. But Smith's reading is interrupted by the Thought Police, and consequently our reading over his shoulder is arrested when he is. Nevertheless, Orwell leaves us with enough clues so that—with the use of imagination and existential social theory—we can offer some plausible answers. But first we must answer another question. What is there about the human animal that would allow such self-inflicted horror?

If Orwell requires us to use some imagination in answering questions about the origin and similarities of

the three states, he provides us a relatively clear view of human nature, as follows: Man's nature is best understood in terms of a contradiction; he is infinity encased within finity; his symbol-using mind is not in phase with his material body. Many philosophers have pointed out that man is the only animal who knows he is going to die. It is his knowledge of this terrible fact which is lodged at the core of man's psyche—a fact which man desperately wants to avoid or deny. One expedient man employs to deny death is to endow his society or nation with sacredness. Unable, in this secular age, to ascend to heaven, man brings "heaven" to earth.

Nationalism and/or socialism today is a religion just as surely as is Christianity. Both religions provide meaning and offer survival by associating the individual with something far greater than self. When sacredness is imputed to society, its members form a priesthood of sorts and serve as its votaries. The index of sacredness: How much does one contribute to the welfare of the system? The greater the contribution, the greater the degree of sacredness we accord the individual.

In Oceania, Big Brother is God; the Inner-Party is the upper church hierarchy; and the Outer-Party, the lower one. This church of the poison mind is omnipotent, omniscient, and infallible. Everything and every-


body in Oceania are controlled by Big Brother and his church; even time is controlled. Oppose them, and you cease to exist. Correct that: you never existed. Join them and you will never cease to exist. All of this is done to deny death, by denying the self. And the process is at work in all three states. For example, in Eastasia the official ideology is termed the Obliteration of the Self.

Tocqueville's Warning of "Democracy in America"

Now we are ready to answer our questions about the origin of 1984. I'm guessing it all started with democracy. More than 150 years ago a Frenchman, Alexis de Tocqueville, visited the United States, and his account of the visit, *Democracy in America*, has become a classic in sociological literature, for good reason. Tocqueville detected the fatal flaw in our social system. Democracy, he said, is synonymous with social equality, and social equality engenders self-centeredness. This is so because in a society where class distinctions are weak, "status anxieties" arise, and in the competition to get ahead, people are only too willing to climb over their countrymen. Tocqueville saw envy and egoism as two especially pernicious attitudes. And he was appalled at the sight of people using government to advance their various self-interests.

Tocqueville's worst fears were realized in the late 20th Century. Americans made a fetish out of their "individualism," and profound social unrest occurred. Ironically, politicians thought the cure for democracy was more democracy. A few years before the Second American Revolution, an American president chastised the people for their "loss of purpose" and their "self-centeredness"—never realizing that his equalitarian social policies were pouring fuel on the flames of unrest.

This "equality" explanation for the origin of the world-wide totalitarianism of 1984 is in accord with Orwell's analysis of how the three states maintain their existence; they are maintained by preserving the hierarchical structure of society.

Equality is averted at all costs, and war, by directing resources toward guns instead of butter, is the primary instrument by which this is accomplished. In short, scarcity is a necessary condition to maintain the hierarchical structure of the states. Why? Orwell writes that "It is the deliberate policy to keep even the favorite groups somewhat near the brink of hardship because a general state of scarcity increases the importance of small privileges and thus magnifies the distinction between one group and another." Also, the party could blame the scarcity on the enemy. Thus, scarcity maintains the sacredness of Oceania, making for war abroad, but peace at home. Thus, in Oceania, War is Peace, truly. 

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Ivan Thorn
William K. Kilpatrick

The Drift of Modern Psychology

Ivan Thorn, a journalist from East Patchogue, New York, has interviewed Professor Kilpatrick concerning the nature of modern psychology and its effect on society.

William Kirk Kilpatrick is an associate professor of educational psychology at Boston College, and the author of Identity and Intimacy, one of the first books to criticize the narcissistic drift of psychology. His most recent book, Psychological Seduction: The Failure of Modern Psychology (Thomas Nelson Publishers), has stirred controversy over the infiltration of psychology into religion.

* * *

1. If your book is about the infiltration of psychology into religion, why the title *Psychological Seduction*? Well, to seduce means to lead away from duty or proper conduct. And I think this has been the result of the American flirtation with psychology. The effect of popu-

lar psychology is to make us think we only have a duty to ourselves. Of course, for a seduction to be successful, the seducer must appear attractive and he must promise a lot. Psychology fits the bill on both counts.

2. The fact that you have subtitled your book "The Failure of Modern Psychology" suggests that psychology has failed to live up to its promises. When professionals really know what they are doing you expect that sooner or later the results will show. Now, there has been an enormous explosion of helping professionals in recent years—400 per cent between 1954 and 1980 and during that same approximate period the membership of the American Academy of Child Psychiatry increased 2,000 per cent. The American Association of Sex Educators and Counselors grew from a charter membership of 250 in 1967 to 48,000 by 1976. So we would

expect to see some improvement in indices of social health. But this has not been the case. The divorce rate continues to climb, as do the rates of suicide, drug abuse . . . and violent crimes. In many ways the situation seems to be deteriorating. As one British sociologist put it, "If, whenever the fire brigade arrives the flames become fiercer, you have to wonder what it is they are pouring on the fire."

3. But aren't there many other factors contributing to these social ills? It would be overly simplistic to pin all the blame on psychology, that's true. On the other hand the psychological profession is in no position to argue, "Our theory is all right, it just hasn't been given a chance," because much of the theory is so obviously antisocial. You can't build a family, much less a society, on a principle of self-actualization. And you can't glorify the autonomous individual and then turn around and expect people to live and work in harmony.

4. What's wrong with self-actualization? Well, in the first place, it's a very fuzzy concept. It doesn't have the concreteness of the traditional standards by which people once tried to guide their lives—"Honor thy father and thy mother," "Thou shalt not commit adultery," "Feed the hungry," "Husbands, honor your

wives," and so on. In the second place, actualizations often come in conflict. A father who spends all his time actualizing his career potential may be doing positive harm to his children's chances for developing their potential. To simply say "go actualize yourself" doesn't give us a clue as to what we should do in situations like that, unless it means always put yourself first. Unfortunately, when you read between the lines you see that this is exactly what the popular psychology expert does mean.

5. How about the emphasis on self-actualization—is it important to feel good about ourselves? That depends. If you've just done something rotten then you should not feel good about yourself. Here again, "Feeling good about myself" can be used to justify all sorts of behavior. We're all familiar with the cliché "I can't be good to others unless I'm good to myself," but that's the sort of rationale that a man uses when he's contemplating adultery. "This affair," he says to himself, "will make me feel better about myself. And if I feel better about myself then I'll be a better husband." But in reality, as we know, it rarely works that way.

6. Are you condemning all psychology? No, it's perfectly legitimate to study and describe human

behavior. The problem is that many psychologists are not very good observers of human nature. They tend to leave out many crucial facts. Freud, for example, was the last major theorist with enough perception to notice that there is something drastically wrong with human nature. But too many contemporary psychologists are in the business of prescription rather than description. They make up solutions before they really understand the problems. And, by the way, I don't mean to impugn the idealism or good intentions of psychologists. Many are good people who do good work and genuinely do help people. My criticisms are directed more against the way in which psychology has evolved into a philosophy of life that has filtered into every area of our culture. And I think this philosophy creates more problems than individual therapists can possibly handle. We can draw an analogy here to the welfare system. Although there are many individual social workers and welfare workers who give help to people in distress, we are beginning to wonder if the welfare philosophy itself does not create many of the problems that the welfare system is designed to cure.

7. Can you elaborate a bit? Yes. A psychological society tends to be a society of great expectations and a society of great expectations is often

a society of great frustrations. A man who has been conditioned to believe he has unlimited potentials is sooner or later in for a big let down. It's ironic that the most psychologically sophisticated people history has produced should be so prone to depression.

8. On the other hand, psychologists have developed drugs that may cure depression and other mental illness. Yes, although "cure" is a bit strong. Up till now these drugs have been helpful in controlling mental illness but I don't think we can say they cure it. And, of course, they can have nasty side effects. But even supposing we could, by the use of drugs, cure people of neurotic unhappiness, we would still have the problem of what Freud called "normal unhappiness." And here again it seems to me that psychology intensifies the problem because the psychological prescription for happiness is all wrong.

9. How? We are led to believe that happiness lies within, that it can be found by greater self-awareness, or by getting closer to ourselves or some similar formula. This flies in the face of traditional wisdom which holds that happiness is to be found outside ourselves in relationship with other people and with God. I think everyday observation demands that we give the nod to tra-

ditional wisdom in this case. For example, when we say of someone that he was beside himself with laughter or that he was immersed in conversation we recognize that the best times are the times when we forget ourselves. The word *ecstasy*, as you probably know, comes from a Greek word which means to stand outside oneself.

10. You have a chapter entitled "The Dismal Science—1984 and Beyond." What do you mean by that? That if we're not careful we're going to end up with the same type of dismal society portrayed in Orwell's book. Only in our case it's more likely to be ushered in by smiling members of the helping profession than by jackbooted storm troopers. Orwell realized that one of the best ways of manipulating people is by manipulating the language, and the behavioral scientists are past masters at doing this. The way we think is, of course, determined to a large extent by the words available to us, so if certain words fall out of use so do certain concepts. For example, we are inundated with words such as "needs," "naturals," and "sexuals" but we don't hear much any more from "virtue," "valor," or "purity." Then, too, we don't hear much about raising families today but we hear a great deal about parenting—and that word carries the implication that having

a family is no different from any other kind of career. And not necessarily the type of career that requires a full measure of devotion—mothers and fathers are now referred to by psychologists as "caretakers." It's alarming to me that many of our behavioral scientists seem intent on doing the same sort of thing totalitarianism societies do—to wipe out all special ties of emotion or allegiance such as might exist between husband and wife or parent and child. And this extreme emphasis on the autonomous individual freed from family and freed from loyalties leads straight to the police state because extreme individualism is not at all incompatible with totalitarianism. It is families, and churches, and neighborhoods, and communities that the totalitarian state fears—not aggregates of isolated individuals.

11. You spoke earlier of psychology filtering into every area of our culture—can you give an example? The most interesting example for me is the influence psychology has had on religion, particularly Christianity. The ironic thing about it is that most popular psychology flatly contradicts the Christian message, and yet many priests and pastors seem hell-bent (If I may use that term) on blending the two.

12. If psychology and Christianity were incompatible, wouldn't church leaders be able to see that? They should but they often don't for two reasons. The first is that they are interested in helping people and psychology seems like a good way of helping people. The second reason is that psychology is a sort of counterfeit of Christianity. It looks like Christianity, sounds like Christianity and evokes Christian sentiments. Both Christianity and psychology say that we should love ourselves, both talk about the importance of our not judging others, and both say that in certain important ways we should become like little children. As a result, many Christians have let their faith become confused with psychological ideas. But this blending has all happened at the expense of Christianity. It's done enormous harm to the churches.

13. How so? Well, it's as though the American government were to hire the KGB as consultants on how to improve the American system. The philosophy of the KGB doesn't lend itself to that purpose. In a similar way the philosophy of popular psychology acts to undercut the Christian position. The prime example is the emphasis on self-acceptance. By and large, psychology says we should accept ourselves as we are. "We're O.K. the way we are and we

only need to learn how to be ourselves." Christianity, on the other hand, says that "There is something wrong with us as we are, that we need a transformation before we start patting ourselves on the back." Now if psychology is right about this it reduces the good news of the gospels to the status of *nice* news—nice because there was never anything wrong with us. And all this business about needing a savior is rendered superfluous.

14. Can you give another example of this opposition? Well, let me carry the logic of my previous statement a bit further. Psychology doesn't have much use for the ideas of sin. But sin is integral to Christianity. If we are not sincerely in need of a savior then Christianity loses its point. Psychology, however, *has* been very successful in its campaign to get us to accept ourselves. The result has been a lowering of the consciousness of sin. In the Catholic Church, for example, there has been an enormous falling off of the practice of confession and this is not because Catholics have suddenly adopted the Protestant idea of confessing sins straight to God but because they know of no sins to confess.

15. Is this mainly a Catholic phenomenon? No, among some Protestant evangelicals there is a

tendency to substitute the psychology of positive thinking for genuine Christian faith. In addition, there is an enormous susceptibility to the philosophy of self-esteem. One very prominent media evangelist has taken to calling self-esteem "the highest value" and he now describes sin as "negative self-esteem." He calls for a "new reformation" based on "self-esteem." In the "emerging reformation," he says, "psychology and theology will work side-by-side as strong allies." No one who reads this man can doubt his good intentions and his bright hopes. But anyone who can read the recent past and see the result of such alliances will not be so optimistic.

16. Couldn't it be argued that this makes religion more relevant?

It's been said that he who marries the spirit of the times is soon a widower. Those churches which have tried hardest to be relevant have actually lost the most members. When you try to fit Christianity into a procrustean bed of psychology you end up cutting off all the unique and compelling parts of it. I've seen religious study texts for young Christians that go on and on about whether St. Paul had self-esteem or whether Christ had good decision-making skills. When you start reducing religion to the level of that kind of psychological jargon you lose sight of the fact that there are parts

of the faith so awesome and unfathomable that they lie far beyond the reach of the social sciences.

17. Does that mean psychology is incompatible with all religion?

No, it blends in very nicely with Eastern religions. Most humanistic psychologists, for example, end up espousing some form of Buddhism or Hinduism. There is a Hindu prayer which goes "I bow to the God within." That seems to be the only type of God psychology is comfortable with.

18. Is your book, then, addressed only to Christians?

No, my criticism of psychology is not just that it goes against the grain of common sense. In comparing Christianity with psychology, I'm not making an appeal to faith so much as an appeal to reason. I'm simply saying that Christianity is more realistic about human nature than psychology is. It's willing to paint us as we are, warts and all.

19. Could you give an example of this greater realism?

Yes, take the area of moral education. At present most American and Canadian schools are dominated by psychological models. The general techniques here are to present ethical dilemmas, discuss them in a neutral manner, and then have the student clarify his own values. Now our an-

cestors, Christian and non-Christian alike, would have objected on two counts to this procedure. They would have observed that a moral crisis is more like a physical struggle than a mental problem. The reaction to it has to be in the "muscles" as well as the mind. In other words, virtue needs to be practiced just as tennis needs to be practiced. This is why the traditional approach to moral education placed such an emphasis on character training. On the second count they would have objected to the modern scheme on the grounds that it provides no motivation for acting morally. Most of us recognize that the difficult part of morality is not the knowing of what is right but actually doing it. What we need are models to follow—models of virtue and courage and honor and so forth. For the most part these were provided in stories: The Iliad and The Odyssey for the Greeks, Sagas for Irish and Icelanders, stories from the Bible for Christians and Jews. It's quite obvious that young people are still looking for worthy heroes to emulate. The psychological society simply refuses to give them any.

20. Why do you place such a great emphasis on stories? Because we all have a storytelling instinct and we all have an appetite for stories, just as we do for food and drink. It's a need that has been

so sorely neglected by psychologists. In fact, the psychological society tends to work against the elements that make for the good story: love, loyalty, heroes, and good and evil. This is why so much of our modern literature and film falls flat. Dorothy Sayers once said that "you can't have drama without dogma." That is, you need to have prohibitions that are taken seriously. I recently watched a made-for-television film in which a priest had an affair with a married woman. When she finds out about him she is shocked. And when he finds out she is married, he's shocked. And we, the audience, are supposed to be shocked as well. But, of course, we're not, because there is nothing in modern society to suggest in the first place that priestly vows or marriage vows should be taken seriously.

21. Are there other needs which psychology neglects? Yes, we all suffer and we all have a need to find meaning in our suffering. We need to feel that our suffering is not wasted. Psychology doesn't have anything to offer on that count. Suffering is made to seem like a mistake that can be avoided by rational living or else it's trivialized by being reduced to the level of a clinical symptom.

Another need that psychology neglects is what C. S. Lewis called the inconsolable longing. We all seem to

have a certain desire or need that never is satisfied. No matter how much we have there is still a part of us that feels unsatisfied and incomplete. Aldous Huxley said "Sooner or later one asks even of Shakespeare, even of Beethoven, 'Is that all?'" I don't think psychology has any adequate explanation for this longing.

22. In your book you make a distinction between the therapeutic criterion of belief and the religious criterion; would you elaborate? The basic therapeutic criterion for judging a belief is to ask: "Will it meet my needs?" or "Will it make me feel good?" The religious criterion is "Is it true?" The interesting thing is that many religious people are now adapting the therapeutic criterion—which is, of course, a completely subjective one. I once talked to a Harvard Divinity School professor who favored the "Gnostic Gospels" over the Gospels of Matthew, Mark, Luke and John because "the masculine gospels didn't meet the needs of women." It did seem not to matter to her whether or not the Four Gospels were true, nor did she seem to care if the Gnostic Gospels were true. She was only interested in meeting needs.

23. Where did you come by the idea for your book? The school of

hard knocks. For a number of years I drifted away from Christianity and for all intents and purposes psychology became my religion. I had a great deal of faith in it but it turned out not to be a very satisfactory faith. It simply did not fit the facts of my life or those of others I knew. I should add that my initial interest in psychology came about at the prompting of priests and ministers. In retrospect, it was a classic case of wolves in sheep's clothing.

24. Do you see this as a deliberate infiltration—a conscious attempt to undermine Christianity? No. As I say, most of the undermining is being done by Christians themselves and usually with the best of intentions. I would call it a case of trying to serve two masters. When you try to do that, one of them doesn't get served very well. A good example is a religious study text for Catholics which features a 3-page extract on marriage from a book by psychiatrist Carl Rogers but only devotes two sentences to Christ's teachings on the subject. The inference is obvious; the psychological message is the one to listen to. The same applies to a priest who declared children should not be taught the Ten Commandments—it was bad psychology, he said.

25. Many clergy in all denominations seem to be convinced that

psychology in general, and the idea of self-acceptance specifically, can help Christians with their faith. It's been my observation that Christian priests who are heavily swayed by psychology tend to use it as the criterion by which they judge Christianity rather than the other way around—which I think is improper. In other words, for them the psychology comes first and the Christianity comes second. The other thing that I think happens is this, that there is so much emphasis in psychology in having harmony and wholeness and superficial peace of mind and, of course, being free of guilt that those who are married to psychology will do just about anything to help people get rid of their guilt. The human problem of course is that there is always a discrepancy between our belief, our ideals and our behavior. Now the traditional Christian or religious response has been to keep the beliefs and to try to change the behavior: realizing that we're only human and that we fall down and that we need the grace of God. The psychological idea seems to be that instead of changing the behavior you change the beliefs—beliefs being considerably easier to change than behavior. This is called improving your self-concepts, in other words, if there are particular things which you would like to do but they seem wrong to you for religious reasons or whatever, then the

smart thing to do is to readjust your thinking. And in that way you won't have to worry so much about readjusting your behavior which is a more difficult task. So I think what happens is that the emphasis on self-esteem, on liking ourselves, becomes predominant here so that self-esteem is allowed to cover a multitude of sins. I think in that way we can really become worse through self-acceptance.

26. Do you have other instances of the Christian message being judged against psychological criterion? Yes, I've heard of situations where parish priests had forbidden certain catechisms to be used in their parishes by the teachers because these catechisms were not psychologically relevant. I know of one case where a priest actually tore up one of these catechisms in front of a group of teachers to emphasize his point. This was the catechism he favored, by the way, but it carried a picture of the crucifixion. I think that's interesting because what it suggests, of course, is that the whole idea of the crucifixion flies in the face of the psychological idea that we're O.K. and that we ought to feel good about ourselves. When you have a conflict like this, of course, something has to go and what goes is the picture of the crucifixion and that reminder that not all is well with human nature.

27. Do you have any final observations? Yes, since psychology can offer no consolation in the face of suffering and no hope of an afterlife, it places a very great emphasis on being a winner in life. But the fact is, most of us are losers by psychology's standards. How many of us attain to that level of success and mental health portrayed in the self-help books? The standards of success are not only very narrow, they have a narrowing effect on us.

28. I think it has a corrosive effect on our personality—this

constant striving after mental health, this ambition to be a winner at all costs. Yes, it's often remarked that Catholics are about 10 years behind the times. Most of the four ideas I've criticized are now being abandoned by serious psychologists as selfish and socially destructive. Yet many Catholic educators still cling to them, and in particular to the more shallow and naive types of psychology. The irony is that they're climbing on board ship just at the moment the psychologists themselves are abandoning it. It's an unnavigable ship and a leaky one. ☉

Emerson in Suburbia

To most of my students in suburbia I assigned both "Self-Reliance" and "Heroism," the essays in which Emerson makes his strongest appeals for integrity of thought and conscience. One boy, a thoughtful one and a student leader, made an objection to Emerson that immediately had the rest of the class echoing with approval. It was to Emerson's statement, "Society everywhere is in conspiracy against the manhood of every one of its members." The boy asked, "What was the matter with Emerson? Was he angry at society?" He implied that only dyspepsia could account for such an attitude. Turning to the class generally I asked, "Haven't you ever felt social pressure?" Of course, they admitted that they had. But they did not feel that this was pressure against their own integrity. Rather, they grudgingly said that social pressure is something to be grateful for. "It helps us when we get out of line."

"Heroism" made even less sense to them than did "Self-Reliance." The students commented on it with restrained contempt, "The hero," said Emerson, "is a mind of such balance that no disturbances can shake his will, but pleasantly and, as it were, merrily he advances to his own music, alike in frightful alarms and in the tipsy mirth of universal dissoluteness." One of the more precocious boys asked, as we considered this, whether or not Emerson was paranoid.

IDEAS ON



LIBERTY



An Experience on the Mount of Olives



SHAKESPEARE once said, "We know what we are, but know not what we may be." This statement applies especially to nations.

One night I stood on the top of the Mount of Olives with one of the world's great scholars who was in Jerusalem translating the Dead Sea Scrolls of the Old Testament. He was one of only three persons in the world asked by Israel to translate these scrolls. Only a short distance away was the little village of Bethany and on beyond in the distance was the city of Jericho, the oldest city known to man. To the right was the Dead Sea, and the soft light of

an October moon was falling gently across its calm waters.

We turned and looked in the other direction down the barren rocky slope of the Mount of Olives. On the left at the bottom were the dark, old olive trees of the Garden of Gethsemane. Just across a little valley a few blocks in width was Jerusalem on the opposite hill. In that historic spot that evening it seemed to me I could look down through the centuries. There was the place where Solomon—who "exceeded all the kings of the earth in riches and in wisdom"—had built his temple. There was the place where many of the great figures of Jewish and Christian history—Abraham and Isaac and David and Peter and John and Matthew—had walked.

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There was the birthplace of both the Jewish and Christian religions. There was the place where many of the ideals of Western civilization had been born. There the authorities of the great Roman empire had sent its armies to those distant frontiers. Rome had the greatest armies in its history. With their skill in law and government, with their distinguished judges and generals, the citizens of Rome could say with pride, "We know what we are—the greatest nation of our time." But they did not know that the Roman empire would gradually disintegrate and fall.


As I looked down the centuries that night, I also saw a very great nation—Egypt—once the mother of the arts and sciences, but now with her people in poverty. I saw Athens, where Plato taught and Pericles gave his nation the Golden Age. In her pride, Athens may well have believed that her culture would determine the future of architecture, science, mathematics, and medicine for centuries, and it did. But Athens did not know that she too would fall and never again regain her former power. In these great centers of civilization there was wisdom. There was genius. There was power. They knew what they were, but they did not know what they were to be.

That evening I saw other great empires through the centuries—Great Britain, Spain, Portugal,

France, Austria-Hungary, Germany, Belgium, Turkey, the Netherlands. They knew what they were—powerful empires of their time. But they did not know that one night in August 1914, the somber shadow of war would fall across the world, only to be followed by a second world war, engulfing almost all of mankind and ending only when the terrifying clouds had left behind their dead at Hiroshima. These great empires knew what they were, but they did not know that all of them would fall by the end of the Second World War.

We know what we are—a nation at the peak of its greatest power, and yet unwilling to live within its income. This has been true for many years. A nation with great industries and a highly skilled labor force, but with a large deficit in its international trade. A nation whose people have one of the highest standards of living in history, but where the influence of the family has lessened and where students unable to read or write have graduated from high schools.

We know how great our achievements have been, but will we now meet the hard problems confronting us?

We can succeed if we bring to our problems the character, wisdom and courage that made us a great nation. 

MARXSPEAK— MARXTHINK

A spectre is haunting Europe—the spectre of Communism.¹

The proletarians have nothing to lose but their chains. They have a world to win. Working men of all countries, unite!²

So read the opening and closing lines of *The Communist Manifesto* by Karl Marx and Friedrich Engels—prophetic lines in view of half of Europe being today under direct Communist rule as is much of the globe from Havana to Hanoi.

The triumph of Marx, however, transcends lands and peoples living under Marxist rulers. For the fact is that many Marxist dictums and

ideas have insinuated their way into Western thought and institutions. Marxspeak-Marxthink is, I submit, claptrap; but as Paul Joseph Goebbels, Hitler's propaganda chief, reminded us, a lie told often enough sooner or later begins to sink in. History shows Marxspeak-Marxthink is seductive. Modern collective bargaining, for example, frequently betrays an adversarial relationship of "us" vs. "they," of "labor" vs. "management" or even "labor" vs. "capital." Or as Marx and Engels portrayed the antagonists:

Our epoch, the epoch of the bourgeoisie, possesses . . . this distinctive feature: it has simplified the class antagonisms. Society as a whole is more and more splitting up into two great hostile camps, into two great classes directly facing each other: Bourgeoisie and Proletariat.³

Yet Marx's dialectic, while strong

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politically, is weak logically, with the weakness stemming from Marx and Engels themselves, from their admissions and inner contradictions, especially in the light of the historical record, open to all, of Capitalism vs. Communism and Socialism.

Cutting the Class System

Take, for example, their admission on the cutting-down of the class system from the *Manifesto* (1848, quotations from the authorized 1888 English edition):

Modern industry has established the world market, for which the discovery of America paved the way. This market has given an immense development to commerce, to navigation, to communication by land. This development has, in its turn, reacted on the extension of industry; and in proportion as industry, commerce, navigation, railways extended, in the same proportion the bourgeoisie developed, increased its capital, and pushed into the background every class handed down from the Middle Ages.⁴

Or this related admission on class-dissolving capitalism, same source:

The bourgeoisie [read capitalism], by the rapid improvement of all instruments of production, by the immensely facilitated means of communication, draws all, even the most barbarian, nations into civilization. The cheap prices of its commodities are the heavy artillery with which it batters down all Chinese walls, with which it forces the

barbarians' intensely obstinate hatred of foreigners to capitulate. It compels all nations, on pain of extinction, to adopt the bourgeois mode of production; it compels them to introduce what it calls civilization into their midst, i.e., to become bourgeois themselves. In one word, it creates a world after its own image.⁵

Capitalism's Productivity

And another admission—this one on Capitalism's enormous productivity and wage-raising ability—from the *Manifesto*:

[Capitalism] has been the first to show what man's activity can bring about. It has accomplished wonders far surpassing Egyptian pyramids, Roman aqueducts, and Gothic cathedrals; it has conducted expeditions that put in the shade all former Exoduses of nations and crusades . . . [Capitalism], during its rule of scarce one hundred years, has created more massive and more colossal productive forces than have all preceding generations together. Subjection of Nature's forces to man, machinery, application of chemistry to industry and agriculture, steam-navigation, railways, electric telegraphs, clearing of whole continents for cultivation, canalization of rivers, whole populations conjured out of the ground—what earlier century had even a presentiment that such productive forces slumbered in the lap of social labor?⁶

But with these admissions come many an inner contradiction. Note, for example, how naive Marx and Engels were about division of labor in their *German Ideology*, first pub-

lished in part in 1847. Here they saw specialization, i.e., division of labor, which Adam Smith thought was at the heart of productivity, as a bourgeois trap. They wrote:

For as soon as labor is distributed, each man has a particular, exclusive sphere of activity, which is forced upon him and from which he cannot escape. He is a hunter, a fisherman, a shepherd, or a critical critic, and must remain so if he does not want to lose his means of livelihood; while in communist society, where nobody has one exclusive sphere of activity but each can become accomplished in any branch he wishes, society regulates the general production and thus makes it possible for me to do one thing to-day and another to-morrow, to hunt in the morning, fish in the afternoon, rear cattle in the evening, criticize after dinner, just as I have a mind, without ever becoming hunter, fisherman, shepherd or critic.⁷

Capital: Friend or Foe?

Or consider this excerpt from Marx's *Capital* (in which capital—i.e., tools—is likened to the worker's foe while it is in fact the worker's friend, boosting productivity and hence wages and living standards, including shorter work-days and work-weeks):

If machinery be the most powerful means for increasing the productiveness of labor—i.e., for shortening the working time required in the production of a commodity, it becomes in the hands of capital the most powerful means, in those

industries first invaded by it, for lengthening the working day beyond all bounds set by human nature.⁸

Or observe the following quotation on how labor and capital—Marx and Engels loved to deal in monoliths, never in individual human action—necessarily split apart, supposedly. No proof is given, only bald assertion:

Along with the constantly diminishing number of the magnates of capital, who usurp and monopolize all advantages . . . grows the mass of misery, oppression, slavery, degradation, exploitation; but with this too grows the revolt of the working class, a class always increasing in numbers, and disciplined, united, organized by the very mechanism of the process of capitalist production itself. The monopoly of capital becomes a fetter upon the mode of production, which has sprung up and flourished along with, and under it. Centralization of the means of production and socialization of labor at last reach a point where they become incompatible with their capitalist integument. This integument is burst asunder. The knell of capitalist private property sounds. The expropriators are expropriated.⁹

The Record vs. the Prediction

Yet the record of Capitalism, more than a century after publication of Volume I of *Capital* (1867), shows no innate tendency toward misery, monopoly, private centralization, labor socialization and bursting asunder. Nor do the work-

ers appear to come under, according to the *Manifesto*, "naked, shameless, direct, brutal exploitation."¹⁰ Nor are they "slaves"¹¹ and "oppressed"¹² by the capitalists.

Indeed, capitalist wages hardly conform to the formula described in the *Manifesto*:

The average price of wage labor is the minimum wage, i.e., that quantum of the means of subsistence which is absolutely requisite to keep the laborer in bare existence as a laborer. What, therefore, the wage-laborer appropriates by means of his labor, merely suffices to prolong and reproduce a bare existence.¹³

Abolition of Private Property

Nor does the idea of doing away with private property seem to appeal to workers, for the *Manifesto* baldly proclaimed that "the theory of the Communists may be summed up in the single sentence: Abolition of private property."¹⁴ Continued Marx and Engels:

You are horrified at our intending to do away with private property. But in your existing society, private property is already done away with for nine-tenths of the population; its existence for the few is solely due to its non-existence in the hands of those nine-tenths. You reproach us, therefore, with intending to do away with a form of property the necessary condition for whose existence is the nonexistence of any property for the immense majority of society.¹⁵

Abolition of private property has

implications for marriage, home and children. To wit:

The bourgeois clap-trap about the family and education, about the hallowed correlation of parent and child, becomes all the more disgusting, the more, by the action of Modern Industry, all family ties among the proletarians are torn asunder, and their children transformed into simple articles of commerce and instruments of labor . . . Our bourgeois, not content with having the wives and daughters of their proletarians at their disposal, not to speak of common prostitutes, take the greatest pleasure in seducing each other's wives. Bourgeois marriage is in reality a system of wives in common and thus, at the most, what the Communists might possibly be reproached with, is that they desire to introduce, in substitution for a hypocritically concealed, an openly legalized community of women. For the rest, it is self-evident that the abolition of the present system of production must bring with it the abolition of the community of women springing from that system, i.e., of prostitution both public and private.¹⁶

Peace, Prosperity, Freedom

Well, with the abolition of private property and the wage system, what takes its place? Why nothing but peace, individual prosperity and universal freedom. On peace, the *Manifesto* proclaimed:

In proportion as the exploitation of one individual by another is put an end to, the exploitation of one nation by another will also be put an end to. In proportion

as the antagonism between classes within the nation vanishes, the hostility of one nation to another will come to an end.¹⁷

On individual prosperity, Marx and Engels held:

In bourgeois society, living labor is but a means to increase accumulated labor [i.e. capital]. In Communist society, accumulated labor is but a means to widen, to enrich, to promote the existence of the laborer . . . Communism deprives no man of the power to appropriate the products of society; all that it does is to deprive him of the power to subjugate the labor of others by means of such appropriation.¹⁸

And on freedom, Engels wrote in *Anti-Duhring* (1877):

As soon as there is no longer any class of society to be held in subjection, there is nothing more to be repressed which would make a State necessary. The State is not abolished, it withers away. The government of persons is replaced by an administration of things.¹⁹

Each for All

This pleasant thought, this innocuous "classless society," this mild "administration of things," appeared earlier in the *Manifesto* as a thought when Marx and Engels said that "public power will lose its political character."²⁰ They added:

In place of the old bourgeois society, with its classes and class antagonisms, we shall have an association, in which the free development of each is the condition for the free development of all.²¹

But equal pay in the Communist paradise cannot be immediately instituted. Why? Admitted Marx and Engels:

. . . One man is superior to another physically or mentally and so supplies more labor in the same time, or can labor for a longer time; and labor, to serve as a measure, must be defined by its duration or intensity, otherwise it ceases to be a standard of measurement. This equal right is an unequal right for unequal labor . . . These defects are inevitable in the first phase of communist society as it is when it has just emerged after prolonged birth pangs from capitalist society . . .

In a higher phase of communist society, after the enslaving subordination of individuals under division of labor, and therewith also the antithesis between mental and physical labor, has vanished; after labor, from a mere means of life, has itself become the prime necessity of life; after the productive forces have also increased with the all-round development of the individual, and all the springs of co-operative wealth flow more abundantly—only then can the narrow horizon of bourgeois right be fully left behind and society inscribe on its banners: from each according to his ability, to each according to his needs!²²

Revolutionary Dictatorship

Marx and Engels made an even stronger admission about the Worker's Paradise. A one-party dictatorship was a necessary if temporary junction between Capitalism and Communism. They wrote:

Between capitalist and communist society lies a period of revolutionary transformation from one to the other. There corresponds also to this a political transition period during which the State can be nothing else than a revolutionary dictatorship of the proletariat.²³

These two almost offhand sentences became end-justifies-the-means commandments for the Bolsheviks, for Nikolai Lenin and Joseph Stalin and their successors. Heinous crimes become affairs of state. Western Civilization is threatened as never before.

Yet, apart from all this grotesque logic and doublespeak, what is really scary about Marxism is the degree to which capitalist nations seem oblivious to the *Manifesto's* call not only for "the forcible overthrow of all existing social conditions"²⁴ but for first winning "the battle of democracy."²⁵

Beware the Contradictions Between the Means and the Ends

All the more reason, then, to be wary of Marxspeak-Marxthink. Said Marx and Engels:

Of course, in the beginning, this cannot be effected except by means of despotic inroads on the rights of property, and on conditions of bourgeois production; by means of measures, therefore, which appear economically insufficient and untenable, but which, in the course of the movement, outstrip themselves, necessitate further inroads upon the old

social order, and are unavoidable as a means of entirely revolutionizing the mode of production.

These measures will of course be different in different countries. Nevertheless, in the most advanced countries, the following will be pretty generally applicable:

1. Abolition of property in land and application of all rents of land to public purposes.

2. A heavy progressive or graduated income tax.

3. Abolition of all right of inheritance.

4. Confiscation of the property of all emigrants and rebels.

5. Centralization of credit in the hands of the State, by means of a national bank with State capital and an exclusive monopoly.

6. Centralization of the means of communication and transport in the hands of the State.

7. Extension of factories and instruments of production owned by the State; the bringing into cultivation of wastelands, and the improvement of the soil generally in accordance with a common plan.


8. Equal liability of all to labor. Establishment of industrial armies, especially for agriculture.

9. Combination of agriculture with manufacturing industries; gradual abolition of the distinction between town and country, by a more equable distribution of the population over the country.

10. Free education for all children in public schools. Abolition of children's factory labor in its present form. Combination of education with industrial production, etc., etc.²⁶

The Bitter Consequences

Marx's last years were pathetic. Sickly, poor, ignored, hated (especially by those on the Left), alone, cynical, restless, sleepless, torn by doubt, friendless (save for Engels), he died at the age of 65 in London on March 14, 1883. Three days later he was buried alongside the grave of his wife in Highgate Cemetery. Eight people gathered at the gravesite for the brief service. Engels spoke, pompously but prophetically:

The greatest living thinker will think no more. Soon the world will feel the void left by the passing of this Titan . . . His name and his work will live for centuries to come.²⁷ 

—FOOTNOTES—

¹Karl Marx and Friedrich Engels, *The Communist Manifesto* (New York: Penguin Books, Inc., 1967), p. 78.

²*Ibid.*, pp. 120–121.

³*Ibid.*, p. 80.

⁴*Ibid.*, p. 81.

⁵*Ibid.*, p. 84.

⁶*Ibid.*, pp. 83–85.

⁷Karl Marx and Friedrich Engels, *The German Ideology* (New York: International Publishers, Inc., 1939), pp. 22–23.

⁸Karl Marx, *Capital*, Vol. I (Chicago: Charles H. Kerr & Co., 1906), p. 97.

⁹*Ibid.*, pp. 836–837.

¹⁰*Op. cit.*, p. 82.

¹¹*Ibid.*, p. 88.

¹²*Ibid.*, p. 80.

¹³*Ibid.*, p. 97.

¹⁴*Ibid.*, p. 96.

¹⁵*Ibid.*, p. 98.

¹⁶*Ibid.*, p. 101.

¹⁷*Ibid.*, p. 102.

¹⁸*Ibid.*, pp. 97–99.

¹⁹Friedrich Engels, *Anti-Duhring*, 3rd ed. (Moscow: Foreign Languages Publishing House, 1962), p. 385.

²⁰*Op. cit.*, p. 105.

²¹*Idem.*

²²Karl Marx and Friedrich Engels, *A Critique of the Gotha Programme* (New York: International Publishers, Inc., 1938), pp. 13–14.

²³*Ibid.*, pp. 44–45.

²⁴*Op. cit.*, p. 120.

²⁵*Ibid.*, p. 104.

²⁶*Ibid.*, pp. 104–105.

²⁷Quoted by Leopold Schwartzschild, *The Red Prussian* (New York: Charles Scribner's Sons, 1947), p. 407.

Samuel B. Pettengill

IDEAS ON



LIBERTY

No, my friends, Karl Marx did not have the answer—he lifted no burdens from human backs. The answer is not in the class struggle. The answer is in competitive free enterprise. The answer is in the cooperation of inventor and investor; in the cooperation of the manager and the worker with his know-how. The answer is to substitute slaves of iron and steel for the strength of human backs. The answer is constitutional liberty, which sets men free and says that what any man honestly makes is his “to have and to hold.”

The Market and Scarce Resources

ONE of the most recurring canards levelled against the market is that it promotes the ravaging of our natural resources by profit-hungry businessmen, fails to urge conservation in the face of scarcity, creates pollution, and otherwise disfigures the natural environment. Nothing could be further from the truth. As a resource becomes scarcer and scarcer, its price rises in lockstep, thus assuring that wary consumers will conserve. Furthermore, the higher the price the more incentive a businessman has to try to produce more, and produce he will. Finally, alternatives to the resource, once too expensive, are now cheap by comparison. And, as Julian Simon points out in *The Ultimate Resource*, the human mind can always find an alternative which satisfies the same basic need as does a given resource.

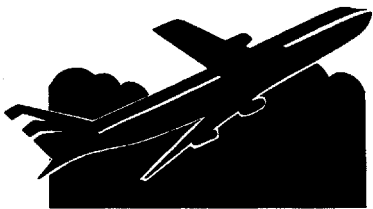
When the resource is used in industry, not only is conservation promoted, but only those producers who can use the resource most efficiently will obtain it. Even after paying the price that scarcity has determined, they must still be able to turn a profit—no mean feat.

As for pollution and disfiguration

of the natural environment, these are costs of the production process. But provided third-party effects are adequately remedied, they will be tolerated only so long as the consumer believes that the cost of pollution is worth bearing in light of the products he is to receive. The moment people generally believe that what is being produced is not worth the costs to the environment, they will cease paying the premium that those goods must of necessity include in their price to compensate the third parties whose properties are directly damaged by the production process.

Best of all, the pricing system works automatically, responding to even slight diminutions in the supply and to even slight changes in consumer preferences. The alternative to the market method of dealing with scarce natural resources is a system of allocation and rationing together with protective regulations which can never hope to match the discrimination and immediacy of the pricing system. ®

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The Effects of Airline Regulation

FIVE YEARS after the Airline Deregulation Act was passed, some are calling for re-regulation of the airline industry. Opponents of deregulation are blaming the financial demise and difficulties of the old trunk airlines on deregulation. Proponents, on the other hand, contend that regulation would continue to encourage inefficiency and would result in even higher fares if deregulation did not take place. Are the powers of the free market inadequate to provide satisfactory air travel service? Or is government intervention necessary?

There are two prevalent views in contemporary economic thought explaining the driving force behind the regulation of industries. The first view, called the public-interest theory of regulation, assumes that regulation is established primarily for the benefit of society or some large subclass of society at the ex-

pense of regulated firms. In this case, the government is the mechanism by which individuals in the economy express their demands to cure market failures such as public goods, monopolies, and spillover problems. Holding to this view, one could argue that the airline industry was regulated for reasons such as national defense or curtailment of monopoly powers. Therefore, the public benefited from regulation.

The second view of regulation, called the private-interest theory, holds that regulation is sought to enhance the wealth of some at the expense of the other members of society. Stigler assumes "regulation is acquired by the industry and is designed and operated primarily for its benefit."¹ In this case, the government is the mechanism by which groups of like-minded people transfer wealth from society to their own particular interest group.² Holding to this view, one would argue that the airline firms and aircraft manufacturers benefited from regulation.

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The Beginnings of the Airline Industry

A review of the airline industry's history reveals that without the support provided through regulation, the industry would not have begun or become established as early as it did. The private-interest theory predicted that airline firms lobbied to obtain the benefit of regulation for their industry. The airline industry did, in fact, obtain direct subsidies, control of entry, and price fixing.

The first airline service in the United States began in 1914 and lasted four months.³ Passenger airlines were seldom successful because of the high cost of service and existing satisfaction with ground transportation. At that time in history, private firms could not provide airline service profitably, so the government was called in to provide the needed support. The resulting history is an example of what can happen when the government interferes with free-market operations.

The first main piece of legislation enacted with regard to the airline industry is the Kelly Act (Air Mail Act of 1925). It led to a substantial increase in commercial air transportation in the United States. In essence, the Post Office provided the income necessary to operate private air carriers through airmail contracts that were previously carried out by the Army. This Act was in-

tended to develop and stabilize the industry rather than regulate questionable practices. That is, regulation was akin to a direct cash subsidy. Under the Kelly Act, eight routes were advertised through which carriers could receive up to 80 percent of postal revenue.⁴

Problems stemming from the Kelly Act led to the enactment of the McNary-Waters Act of 1930. As an amendment to the Kelly Act, it allowed the Postmaster General to extend or consolidate routes as he found necessary to promote public interest. Even though competitive bidding was still utilized to obtain mail carrier routes, strict standards had to be met in order to qualify. This made entry into the industry more difficult.

In 1930, Postmaster General Brown called a meeting in which he coordinated old routes and established new transcontinental routes. The carriers themselves were given the opportunity to decide who should service the various routes. As a result, by 1933, United, American, Trans World, and Eastern airlines collected approximately 94 percent of the \$19.4 million paid to airlines for airmail service.⁵

In 1934, a Special Senate Committee of Air Mail and Ocean Contracts alleged the existence of cartels. Consequently, President Roosevelt canceled the airmail contracts and nullified the Kelly Act.

The job of carrying mail was turned over to the U.S. Army Air Corps, which was untrained and ill-equipped for the task. During this time, passenger and express revenues enabled private airlines to continue operating even though losses were incurred. After two months of poor service and several army pilot deaths, Roosevelt opened competitive bidding to private airlines for temporary contracts until Congress enacted new legislation. The award of routes at this time was important in the development of the U.S. airline system because much of the structure remained until deregulation.⁶ New firms entered on the shorter routes, but the longer routes were kept by the large airlines already established.

The impact of the Great Depression caused industries to seek Federal aid and protection from "excessive competition." The Civil Aeronautics Act of 1938 developed in such an environment to help the airline industry along to its full potential that seemingly could not be attained through the free-market system. It transferred regulatory authority from the Post Office to the Civil Aeronautics Board (CAB). This act remained the basic statute for controlling airlines until they were deregulated.

The Civil Aeronautics Act required that all air carriers possess a certificate of public convenience and

necessity in order to operate. The "grandfather clause" automatically issued certificates to all carriers operating between May 14 and August 22, 1938. In essence, this gave approval to the airline structure which Postmaster General Brown set up and President Roosevelt attempted to destroy because of alleged collusion. Once again, United, American, Trans World, and Eastern were the major airlines. In addition, there were twelve other airlines.

Certificates were awarded for specific routes. Transfers or abandonments of certificates could occur only if the CAB approved. The Board also had the right to: set exact fares, require information, classify carriers and make rules and regulations for those classes, fix subsidies and service mail rates, and approve and disapprove mergers.⁷

The Kelly Act of 1925 and the Civil Aeronautics Act of 1938 were the primary channels through which the carriers utilized the government to provide cartel services during their early years of existence. Further support that the airline industry used the CAB to limit competition is discerned in their reaction to proposals for increasing competition. In the 1940s, "feeder" airlines were proposed to cover short distance, low density routes. It was only after much persuasion and political influence that such a proposal was accepted by the CAB.

The Deregulatory Period

The effectiveness of the cartel services diminished over time. Although price competition was not permitted by the CAB, non-price competition on many routes caused the profit stream to be normalized. Airlines became too large both in terms of labor and capital expenditures. In the late 1960s, publicized studies and criticism against the CAB began emerging. This series of events eventually led to the signing of the Airline Deregulation Act in October 1978.

The criticism of the CAB policies was avoided until the late 1960s primarily because costs were kept down as airlines switched from propeller planes to jets, which were faster and cheaper to operate. In the 1970s, soaring fuel costs, as well as other inflationary factors, caused those benefits to erode. Airlines were granted fare increases to offset higher operating costs. In the meantime, consumer groups began alleging CAB shortcomings including its favoritism toward the industry.⁸

Critics pointed out that the cross-subsidization pricing policy used by the CAB created a false distribution of costs. Fares on high-density and long-distance routes were set above costs to subsidize service to smaller cities with fewer travelers. The CAB justified its actions with the public-interest argument that a wide network of routes was more in the na-

tional interest than exact pricing. The CAB contended that the smaller cities would not have received air service if cross-subsidization did not take place.⁹

Critics also claimed that the CAB pricing policy was self-defeating in the long run. When a few airlines were granted the right to service an over-priced route, they competed by improving services because they could not reduce prices. This caused inefficiency and higher quality service than would otherwise have been demanded: more flight attendants per passenger, better meals served more often, and more frequent flights with smaller load factors.¹⁰

Overcapitalization

Overcapitalization became a problem because the profits an airline was allowed depended on its capital investment.¹¹ Profits could be increased by increasing investments. Because airlines were competing by increasing flight frequency, a vicious cycle resulted.

Comments and reports against the CAB became more prevalent in 1973. In a speech to the Financial Analysts Federation, Lewis A. Engman, chairman of the Federal Trade Commission, said,

If you have any doubt that one consequence of the CAB's control over rates and routes is higher prices, you need only look at what happened some years ago in

California when Pacific Southwest Airlines, an intrastate carrier not subject to CAB regulation or entry restrictions entered the San Francisco/Los Angeles market with rates less than half those being charged by the interstate CAB certified carriers TWA, Western, and United.¹²

Engman went on to explain that because of Pacific Southwest Airlines, the CAB was forced to grant the certified carriers a decrease in fares. For that reason, it cost 50 percent less to go from Los Angeles to San Francisco than from New York to Washington even though it was approximately the same number of miles.¹³ Fares were 30 percent less for the unregulated intrastate airlines in Florida.¹⁴ Such evidence indicates the airlines could operate at a lower cost in a more competitive environment without regulatory restraints.

When one considers himself in a favorable position, there is no need to be defensive until that position is threatened. The identity of the opponents of President Ford's 1975 legislative proposal to deregulate the industry suggests who might have been the beneficiaries of the existing regulation.

Labor Reaction to Deregulation

The threat of deregulation drew heavy opposition from industry union members who feared losing jobs. The competitive pressures on

the main routes caused labor to benefit as a result of regulation. As in Moore's findings for the trucking industry, regulation increased wages.¹⁵ When an operating ratio is used to set rates, the regulatory agency allows rates to increase as the cost of operating rises. Unions are strengthened because management is more willing to grant wage increases knowing that the regulatory agency will compensate for the wage increase with a fare increase. Since the CAB utilized an operating ratio with the airline industry, it is likely that the laborers in the highly unionized airline industry gained as a result of regulation, thus explaining union opposition to deregulation.

Continental Airline's recent bankruptcy based on labor contracts is further evidence that labor benefited from regulation. Labor costs in most airline firms make up one-third of the total operating costs. Today, the management of the old trunk lines are citing high labor costs as a large part of the problem. Consequently, airline firms are instituting pay cuts of up to 20 percent.¹⁶ Newly organized firms that do not have high labor costs are able to operate at a lower cost and charge lower fares.

Consumer Reactions

Consumer opinion supporting deregulation rose as studies such as

one by the General Accounting Office were released indicating that the airline industry could have saved nearly \$2 billion annually if the Government did not control fares.¹⁷ Consumers did indeed benefit as fares decreased after deregulation occurred. However, a segment of consumers that reacted negatively to deregulation are those who live in small cities. These consumers feared losing airline service as deregulation progressed.

The Reaction of Airline Firms and Manufacturers

The idea of deregulation also drew heavy opposition from a majority of the airline firms and manufacturers. Airline officials initially testified that deregulation would cause insolvency within a matter of months for three major airlines—Eastern, Pan American, and Trans World.¹⁸ They argued that deregulation would lead to less competition because some weaker firms would go bankrupt. A spokesman for the airline industry said they wanted more flexibility to change prices but not freedom to change routes.¹⁹

In September of 1976, United broke the existing industry anti-deregulation mood by blaming the CAB for its instability and expressing that it did not fear deregulation.²⁰ By June of 1977, Airwest and Continental joined United in supporting deregulation.²¹ Why this

change in support occurred is uncertain. However, it can be said that the existing airlines stood to lose just as much by deregulation as they would by continued regulation. With deregulation, they would lose their limited entry status. New firms would come in until economic profits reached zero. As a result, it is likely that some existing firms would be forced to exit the industry. On the other hand, the existing airlines would lose from continued regulation because profits were eroded by overcapitalization and wage increases obtained by unions.

Airplane manufacturers benefited from the overcapitalization non-price competition created in the regulated environment.

Airlines bought more planes when they increased the number of times they flew each route thus providing more business for manufacturers. Airline manufacturers also benefited from deregulation because the increased non-price competition brought on a need for additional aircraft.

Conclusions

Competition was not effectively stifled by the CAB. Although price competition was prohibited, non-price competition emerged in forms such as increased flights, better quality meals, and smaller load factors. Thus, plane manufacturers and some consumer groups benefited

from regulation. However, because the profit an airline was permitted to make was based on an operating ratio, labor benefited from the ability to unionize more easily and secure greater wage increases. Thus, non-price competition and the existence of an operating ratio served to route the benefits of regulation away from the airline firms and toward labor and manufacturers.

With the loss of government protection, the airline industry is now passing through a transitional phase. Some existing firms have left the industry and some new firms have entered, as one would expect. Each firm must find and develop its own niche in the free market to survive. I must agree with Edwin J. Colodny, President of US Air, that "re-regulation would be a step backward . . . This is not a time to attempt to unscramble the eggs." ☉

—FOOTNOTES—

¹George J. Stigler, "The Theory of Economic Regulation," *Bell Journal of Economics and Management Science* (1971), p. 3.

²For an in-depth explanation of how the political system is employed by members of society to obtain their desires, see George J. Stigler, "The Theory of Economic Regulation," *Bell Journal of Economics and Management Science* (1971).

³George W. Douglas and James C. Miller III, *Economic Regulation of Domestic Air Transport* (Washington, D.C.: The Brookings Institution, 1974), p. 187.

⁴This method involved many difficulties, one of which required the Post Office to complete the laborious task of counting each piece of

mail. An amendment of the Kelly Act in 1926 changed the allocation of compensation to a pound basis: \$3.00 per pound for the first 1,000 miles and \$0.30 per pound for each additional 100 miles. Under this arrangement, it was possible for carrier compensation to exceed postal revenues. In February of 1927, the Postmaster General abandoned charging airmail zone rates and adopted a 10-cent rate per ½ ounce.

⁵Ivor P. Morgan, "Government and the Industry's Early Development," in *Airline Deregulation*, ed. John R. Meyer and Clinton V. Oster, Jr. (Boston: Auburn House Publishing Co., 1981), p. 17.

⁶*Ibid.*

⁷Richard E. Caves, *Air Transportation and Its Regulators* (Cambridge, Mass.: Harvard University Press, 1962), pp. 127–133.

⁸Robert Lindsey, "Airline Deregulation is Weighted," *New York Times*, February 7, 1975, p. 39.

⁹Roger G. Noll, *Reforming Regulation*, (Washington, D.C.: The Brookings Institution, 1971), pp. 17–18.

¹⁰*Ibid.*

¹¹*Ibid.*

¹²Lewis A. Engman, "Regulating Industry," *Washington Post*, October 15, 1974.

¹³*Ibid.*

¹⁴Lindsey, p. 39.

¹⁵Thomas Gale Moore, "The Beneficiaries of Trucking Regulation," *The Journal of Law and Economics*, XXI (1979), pp. 327–343.

¹⁶Mark Clifford, "A Struggle for Survival," *Financial World*, November 15, 1983, pp. 13–18.

¹⁷Ernest Holsendolph, "Federal Controls on Airlines Seen Increasing Fares," *New York Times*, February 24, 1977, p. 1.

¹⁸"Ex-C.A.B. Chief Assails Deregulation of Airlines," *New York Times*, August 6, 1975, p. 50.

¹⁹Holsendolph, p. 1.

²⁰Steven Rattner, "United Airlines Took Million Overbookings in Year," *New York Times*, September 8, 1976, p. 52.

²¹Morgan, p. 49.

²²Edwin I. Colodny, "Airline Deregulation: Friend or Foe?" *USAIR*, January 1984, p. 6.

The Doomsday Myth

WHEN the OPEC nations imposed their oil embargo as punishment for the Western "tilt" toward Israel in the Arab-Israeli War of 1973, it set off a decade of panic about future energy resources. As the OPEC monopoly price rose dizzily toward \$36 a barrel (the international price had stood at \$2.16 in 1970), the United States made all the wrong moves. Government-imposed quotas kept the oil companies from moving available supplies around to where they would do the most good. And the attempt to control the domestic price level put a premium on wasteful consumption at a time when incentives to new drilling were declining.

Fortunately Americans, in the last year of Jimmy Carter's presidency and during Ronald Reagan's political "honeymoon" month of January 1981, finally woke up to the fact that "letting the government do it" was not the way to get new oil. With fear and trepidation Congress let the price of domestic crude run

free. When the per barrel price jumped from a controlled \$29 to \$36, the gloom-and-doom boys said "We told you so." But as the number of working oil rigs doubled under Reagan, the situation was quickly reversed. A world oil glut developed as wells in Mexico, Canada and the North Sea started producing. OPEC woke up to discover its monopoly had been dissipated. Even with warring Iran and Iraq eliminated as big producers, the other OPEC nations could not stay the glut.

So the big crisis passed into history. In telling the story of how the market, through the instrument of price, gave Arab sheiks their first lesson in the economics of freedom, Charles Maurice and Charles W. Smithson, two authors who call themselves "simple country economists," decided to test the validity of their principles by an appeal to history. The results of their researches are presented in a fascinating book called *The Doomsday Myth: 10,000 Years of Economic Crises* (Hoover

Institution Press, Stanford, California 94305, 162 pages; \$16.95 cloth, \$8.95 paperback), with an excellent foreword by Phil Gramm, the Texas Democrat-turned-Republican who has carried the ball for the tax-cutting supply siders in the House of Representatives and is now a candidate for the U.S. Senate on what amounts to a free trade ticket.

Earlier Crises Resolved

Maurice and Smithson skip around a bit in their recital of other economic crises that disappeared when governments decided to let the market work. Their first example is what happened to the food crisis that Thomas Malthus said must last forever and a day if the masses, pressing on the available land, did not practice the continence that was then the one church-approved method of birth control.

Malthus neglected to feed the discovery of the new wheatlands of North and South America into the computer of his mind when he was formulating his dismal equations. He also missed the import of soil analysis, the development of chemical fertilizers, and the wonders of plant and animal breeding. During the time bought by the new sources of agricultural plenty the peoples of the industrialized nations learned how to limit their birth rates. China, India and Africa have not yet learned how to get around Malthus,

but there are willing teachers in the West who could tell them how to do it.

From Malthus the authors jump back to the twentieth century to consider the big rubber crisis of the early days of World War II. In 1940 all but two percent of U.S. rubber consumption came from natural rubber supplies in the Far East. When the Japanese moved south to conquer the East Indies, this seemingly spelled doom for our war effort. No one could visualize an army moving on anything else than rubber tires.

It so happened, however, that our chemists, with their "neoprenes," their "bunas," and their "butyles," had already unlocked the secrets of synthetic rubber. The war shortages compelled a quick investment in new synthetic rubber plants—and within two years there was enough rubber to go around even for civilian automobile tire replacements. The British, who had neglected synthetic rubber chemistry when they put their trust in the so-called Stevenson Plan for upholding a monopoly in tree-grown rubber, were glad to forget their own cartel pretensions by importing their needed World War II rubber from America.

The timber crisis which so frightened President Theodore Roosevelt and his chief forester Gifford Pinchot in the early years of the century vanished when the railroads,

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 \$6.00 from The Foundation for Economic Education, Irvington-on-Hudson, New York 10533.

unwilling to pay the high prices demanded for crossties, began to study means of wood preservation. As they extended the use of their crossties by chemical treatment and by better lumber species selection they also ceased to build bridges, piling, railroad cars, fences, tunnels, wharves and station platforms out of wood. As for the housing industry, bricks, stone and concrete began to replace timber. The American wood crisis gradually faded out, following the pattern of what happened to timber crises in seventeenth and eighteenth century Europe. Britain defeated the high price of wood, both domestic and imported, by creating a brick industry and by turning to coal for fuel.

We are reminded by Maurice and Smithson that the high price of charcoal constituted an early energy crisis that was not overcome until a

coal burning furnace had been developed that could be used in producing wrought iron. When that miracle had been accomplished, the age of coal really began. It fouled up much of England with its grime and fumes, even spoiling the taste of beer for a time, but it sparked the industrial revolution for a couple of centuries before giving way to oil.

As for oil itself, it came as the answer to an early illumination crisis when the over-hunted sperm whale became scarce even in the far reaches of the Pacific Ocean. Maurice and Smithson make the point that the techniques for drilling water wells were available to Edwin Drake, the retired railroad conductor, when he hired William Smith, an experienced well driller, to go after the source of "rock oil" seepages in northwestern Pennsylvania.

The oil stank until Benjamin Siliman of Yale and others learned how to refine it, but it was cheaper than whale oil. When the Rockefellers got into refining, America's first oil crisis was overcome. Oil quickly became so plentiful that Standard Oil yearned to monopolize oil transportation in order to sustain the price. But new gushers, such as Spindletop in Texas, ended all hopes for a monopoly even before the Supreme Court broke up Standard Oil. OPEC should have studied this history before trying its big price gouge. ☉

BROKEN EARTH: THE RURAL CHINESE

by Steven W. Mosher

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Reviewed by Bettina Bien Greaves

STEVEN MOSHER was one of the first few Americans to be admitted to China after January 1, 1979, when diplomatic relations were resumed between her and the United States. As a "cultural anthropologist" and specialist on China associated with Stanford University, he planned to study how the people of China lived. He had mastered conversational Cantonese and was hoping to have the chance to live among the people.

Foreigners have always encountered almost insurmountable barriers to mingling with, and getting to know, the Chinese people. In the first place, as Mosher notes, Chinese is "one of the world's most difficult languages." Also, westerners, being so conspicuous, can easily be quarantined behind a "cordon sanitaire" of tour guides, interpreters and travel restrictions. These barriers have increased since the Communists came to power on mainland China, for the people themselves, after suffering oppression for many

years under arbitrary and unpredictable government programs, are hesitant to associate with outsiders lest they come to the attention of the authorities.

Long before Mosher went to China, he had set aside "the myth of monolithic Chinese communism." Nevertheless, for many months, "one Party claim still seemed to me to hold true," Mosher wrote, "namely that the establishment of the 'New China' had benefited the Chinese peasant. I did not know it at the time, but I was still a captive of the paramount myth of the Chinese revolution." And some of the persons who contacted him early in his stay reinforced his convictions, purposely misleading him by portraying China's situation as rosy. Only gradually did he come to realize that there were no grounds for his belief in the postrevolutionary improvement of the peasants' condition. Only as he came to recognize that the peasants had been better off before World War II than at any time since, that their conditions had deteriorated sharply under the Communist regime, could he begin to ask questions that led him to the truth.

Complicated government regulations and red tape made difficult Mosher's task in getting located. Yet he was fortunate in receiving permission to spend his year outside the urban centers where he could

live, talk and socialize with Chinese peasants, getting to know many of them quite well.

As Mosher's visit lengthened he found many of his village neighbors to be sociable and friendly, willing to talk and to help him with his research. They were usually loyal to old Chinese traditions, family and community, as well as hardworking and industrious when tilling their small private plots. Although most were outwardly submissive toward local government representatives, the cadres, and cowed by the ever-present threat of government persecution, they were unenthusiastic workers on commune projects and often quite ingenious in sabotaging public projects of which they disapproved.

The violence and atrocities inflicted in the name of the Communist regime's various crash campaigns left their marks on many victims. During the "Cultural Revolution," Mao had called on the Chinese youth "not only to demolish all the old ideology and culture . . . but also to create and cultivate among the masses an entirely new, proletarian ideology and culture." No one suspected of being an employer, a landowner, an intellectual or of possessing "cultural contraband," i.e., "anything that could be connected with the past or with the West" was safe from persecution. At any time he might be forced "to

stand with bowed head and humble demeanor before a hostile crowd of people . . . who denounce him for his supposed crimes and demand a full confession." Anyone who spoke out in defense of the accused could also expect to be denounced.

Few victims could long resist such abuse; many committed suicide; millions died or were killed. Those persecuted in this way were among China's most exceptional persons, the most intelligent, industrious and energetic. The few who survived were usually broken emotionally. Their ambition gone, they were anxious only to avoid anything that would make them stand out from the crowd.

Mosher's description of life in China reads like Orwell's *1984*—rigid work schedules, rationing and food shortages, close supervision by local government cadres of many facets of daily life even in the villages and hamlets, strict birth control, compulsory abortions and occasional infanticide to control population growth, and even the re-writing of history. In the words of one of Mosher's Chinese acquaintances: "Everyone knows that the Cultural Revolution was wrong, that the Great Leap Forward was wrong. For half of our history since the liberation—fifteen years out of thirty—we have followed an incorrect line. This is a fact. The Party wants us to forget the past, so I have

to rewrite all of these old reports. But how can we possibly forget? We should learn from these mistakes, not just pretend that they never happened."

In 1979-1980, when Mosher was in China, the government under Deng Xiaoping was just starting to try to bring about changes. It was introducing a new program to "modernize" (1) industry, (2) science and technology, (3) agriculture and (4) the military. The people were permitted, for a time, to mount on the Xidam Democratic Wall posters and messages dealing with current social problems. The intellectuals, though better off than at any time since the 1950s, remained wary, however, for they knew how capricious their government could be. Some small private enterprises were being permitted and more specialization and individual responsibility were being fostered among farmers. However, the bloated bureaucracy remained, and still remains, as well as a great deal of oppression.

As Mosher realized, China is certainly not a monolithic society. Conditions and ideas vary from community to community. There is undoubtedly resentment and some latent opposition to government policies, especially against the compulsory family planning and enforced abortions, which fly in the face of Chinese tradition. However, most of the Chinese have little time or en-

ergy under present conditions to devote to ideas. Moreover, the outlet for criticism of the government, the Xidam Democratic Wall, has been closed down and there is no effective way for dissident persons to communicate with one another. Government operates the communications media and censorship still prevails.

On the one hand, the government seeks to encourage technology but on the other it discourages open debate and discussion. Deng Xiaoping does not realize that advanced technology comes hand in hand with a system of government that respects individual freedom and protects private property. A government that attempts to control its people from the top leaves little opportunity for innovators to invent, communicate and experiment.

The officials in the Chinese regime should take a leaf from the writings of the late Ludwig von Mises who explained that the thinkers, philosophers and economists are no less important in the development of technology and the higher standard of living technology makes possible than are the technicians and inventors themselves:

The great change that within a few decades made England the world's wealthiest and most powerful nation was prepared for by a small group of philosophers and economists. . . . these authors expounded the doctrine of free trade and laissez faire. They paved the way for a

policy that no longer obstructed the businessman's effort to improve and to expand his operations ("Capital Supply and American Prosperity," 1952).

Steven Mosher has written a revealing book about life in communist China and how the people cope with an overbearing government. His is a very sympathetic portrayal of the country people, who are doing the best they can under difficult conditions. In describing how the people live, however, he reveals a great deal about China's totalitarian regime. Apparently this was the reason that Mosher was denounced by the Chinese government as a "foreign spy" and forced to leave the country. Stanford University also severed its association with him. Mosher is now writing another book about China—one that should tell us still more about life "behind the bamboo curtain." ●

WE MUST DEFEND AMERICA

by Lt. Gen. Daniel O. Graham
(High Frontier, 1010 Vermont Ave., Suite
100, Washington, D.C. 20005), 1983
114 pages • \$2.95 paperback

Reviewed by Joseph S. Fulda

NUCLEAR weaponry presents several vexing problems to libertarians concerned that the use of force in self-defense must be in a morally per-

missible fashion. Philip Lawler has delineated the issues in the Fall 1983 *Intercollegiate Review*: "A just war must conform to two sets of conditions: those that define the circumstances under which a war may be waged (*ius ad bellum*), and those that define the permissible standards for the conduct of war (*ius in bello*)." Offensive nuclear weaponry is problematic especially as regards the second criterion.

Along comes Lt. Gen. Daniel O. Graham with a well-written and stirring book born of his experience as project director of the private and independent High Frontier project which addresses just these problems.

In his book, General Graham outlines a nonpacifist strategy for survival in the nuclear age which concentrates on defensive weaponry, rather than offensive weaponry. Using technology already available twenty-five years ago, Graham believes and convincingly argues that an anti-missile satellite system which uses the so-called kinetic energy kill rather than the more sophisticated "beam weaponry" much discussed nowadays could easily, inexpensively, and rapidly be deployed without any of the moral problems that offensive nuclear weaponry and the associated philosophy of mutual assured destruction of whole populations entail.

But General Graham goes beyond his exciting, but nontechnical suggestions for a military defense against the nuclear threat. He also calls upon America to develop the high frontier of space for commercial purposes. The advantages of space manufacture are numerous and Graham explains them clearly: near-perfect vacuum, lack of gravity, sterility, unlimited heat absorption (the temperature in space is four degrees above absolute zero), and easily accessible solar power. Graham calls upon government to exercise its night watchman function in space, so that private enterprise can produce goods there more

cheaply and efficiently than would be possible on Earth. Unfortunately, he writes, "government has yet to provide the security required in space for private investment." One of the obstacles is, hardly surprisingly, the United Nations with its redistributionist philosophies.

The book is remarkable for its use of historical metaphor, its clarity and brevity, and its adherence to a libertarian defense and economic space policy. Its only flaw is that because it was apparently written in haste, some illustrations are missing and the proofreading is inadequate. It is most highly recommended. (E)

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VOL. 34, NO. 9 • SEPTEMBER 1984

Legalized Immorality— A Page on Freedom, No. 11	Clarence Manion	515
Government cannot make men good.		
Regulation of Telecommunications	Clint Bolick	516
Shall the market or the state regulate the industry?		
Two Freedoms	Charles Turnbull	526
The underlying freedoms of mind and spirit.		
Women in Economic History	Harry Lee Smith	529
Their contributions to civilization.		
Getting Governments Out of Debt	Kenneth McDonald	535
Using the market to lighten taxes.		
The Meanings of Freedom	John Hospers	539
With emphasis on freedom-from and freedom-to.		
The Consummate Role Player	Ridgway K. Foley, Jr.	549
He does his job, and does it well.		
The Fruits of Independence	Clarence B. Carson	552
For limited government, personal freedom, free trade, and the voluntary way.		
The Broken Dream	Joseph S. Fulda	566
Why the United Nations has failed.		
Socialism Is Legal Plunder	Dean Russell	569
Bastiat foresaw the fruits of intervention.		
The Religion of Statolatry	Victor Aguilar	573
Testimony to the audacity of would-be rulers.		
Book Reviews:		574
"The Rise of the Right" by William A. Rusher		

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



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A MONTHLY JOURNAL OF IDEAS ON LIBERTY

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Legalized Immorality

It must be remembered that 95 per cent of the peace, order, and welfare existing in human society is always produced by the conscientious practice of man-to-man justice and person-to-person charity. When any part of this important domain of personal virtue is transferred to government, that part is automatically released from the restraints of morality and put into the area of conscienceless coercion. The field of personal responsibility is thus reduced at the same time and to the same extent that the boundaries of irresponsibility are enlarged.

Government cannot manage these fields of human welfare with the justice, economy, and effectiveness that are possible when these same fields are the direct responsibility of morally sensitive human beings. This loss of justice, economy, and effectiveness is increased in the proportion that such governmental management is centralized.

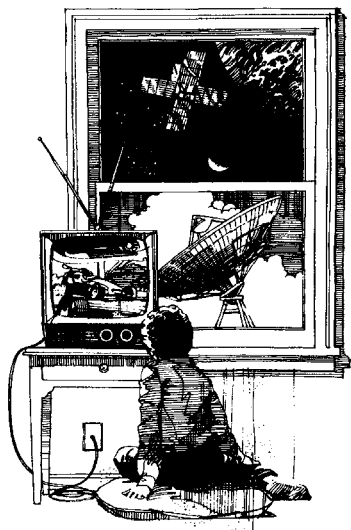
Government cannot make men good; neither can it make them pros-

perous and happy. The evils in society are directly traceable to the vices of individual human beings. At its best government may simply attack the secondary manifestations of these vices. Their primary manifestations are found in the pride, covetousness, lust, envy, sloth, and plain incompetency of individual people. When government goes far beyond this simple duty and deploys its forces along a broad, complicated front, under a unified command, it invariably propagates the very evils that it is designed to reduce.

In the sweet name of "human welfare" such a government begins to do things that would be gravely offensive if done by individual citizens. The government is urged to follow this course by people who consciously or subconsciously seek an impersonal outlet for the "primaries" of human weakness. An outlet in other words which will enable them to escape the moral responsibility that would be involved in their personal commission of these sins. ☉

—Clarence Manion

Regulation of Telecommunications



AMERICA has produced many revolutions in its first 208 years, but perhaps none since its founding embodies such enormous potential for shaping our global destiny as the telecommunications revolution.

Cable television and related technologies have thrust us to the threshold of an information age, brimming with potential for increased freedom. From our individual homes we can direct more of our own affairs, utilizing vastly more sophisticated yet personalized information exchange mechanisms that make possible voluntary contact

with anyone with whom we wish to communicate.

That this amazing 20th century revolution could occur at all is a tribute to the American Revolution of 1776, whose leaders charted a unique commitment to a "free marketplace of ideas," enshrined in the First Amendment to the Constitution. This commitment fostered a society characterized by an unprecedented open and robust exchange of views, as well as an unquenchable thirst for new technologies to facilitate that exchange.

The telecommunications revolution is the product of free, creative minds and an unfettered communications marketplace. But as we enter the era in which electronic

Clint Bolick is an attorney specializing in constitutional law with Mountain States Legal Foundation, a Denver-based public interest law firm which advocates the private enterprise system in the courts.

media will displace print as the dominant vehicle for communications, we face the same decision that confronted the founders of the American experiment: we must choose between the market and the state to regulate the commerce of ideas. Our decision, like that of the founders, will determine whether the technologies of our day will usher in an era of human freedom—or will operate to subvert that freedom.

The Telecommunications Revolution

What is this revolution that is taking place around us? What are the opportunities that it presents?

Some of the new technologies are already here, dramatically expanding the horizons of information exchange. At the forefront is cable television, which utilizes coaxial cables to bring subscribers a wide variety of programming alternatives. Typical cable systems expand viewer choices exponentially, offering local origination and satellite transmission as well as distant broadcast programming. Virtually infinite channel capacity can accommodate the most specialized entertainment, news, educational, community affairs, cultural, political and commercial programming. Already there are 35 million cable subscribers in the United States alone, and by 1990 the percentage of

television households patronizing cable services will grow from the present 35 percent to 62 percent. Subscription levels in Western Europe are rising rapidly as well.

Alternative technologies promise stiff competition for these services. Direct broadcast satellites (DBS) bypass cable by transmitting signals directly to dishes installed on subscribers' property. Multi-point distribution service (MDS) transmits video services to individual subscribers via microwaves. Pay television uses broadcast signals that are "unscrambled" at the customer's residence.

The accelerating development of computers, two-way "interactive" services, and fiber optics will further expand the ability of individuals to obtain information from diverse sources and to communicate with one another. From private homes and businesses, we may now access computer data banks and share information with others. "Electronic newspapers," combining traditional publishing with satellite transmission, have enhanced the development of national media and can provide the latest information specifically tailored to suit personal needs and demands. Home banking and a host of other home consumer services are available. And the advent of instantaneous voting via cable can potentially transform a large nation into a town hall-style

democracy. As Ralph Lee Smith concluded more than a decade ago in *The Wired Nation*, "In short, every home and office can contain a communications center of a breadth and flexibility to influence every aspect of private and community life."

The Role of Government

The extent to which these prospects are realized will largely depend on the role of government. All of the new technologies have been subjected to varying levels of regulation. In the United States, for example, heavy regulation by the Federal Communications Commission (FCC) throttled cable television's development for several years. Subsequently, however, the FCC reversed its course and deregulated cable, immediately leading to accelerated technological developments that restored America's leadership role in the telecommunications revolution.

In Europe, governmental control over new technologies has slowed progress and delayed service. Former West German Chancellor Helmut Schmidt stalled cable television progress during his tenure, chastising it as "more dangerous than nuclear power," and refusing to countenance cable development in that country. Now, many European nations, aware at last of cable's potential and aghast at America's invasion of their home turfs through

that medium, are anxiously playing catch-up.

Why is America the leader in the communications revolution? In large part, it is because of its predilection toward free market solutions and its faith in technology, while Europe tends toward greater state involvement in the economy. What makes America truly unique, however, is that the free communications marketplace is not simply an economic policy, but a matter of constitutional doctrine as well. The First Amendment has fostered not only freedom of speech, but also the virtual explosion of technology that has made that precious freedom more meaningful than ever.

Whether the new technologies will ultimately be used to expand or restrict prospects for freedom, however, is still an open question. The information age may witness an expansion of individual sovereignty as never before—or a loss of that sovereignty to state control. In each of the modern industrial nations, the time for decision-making is at hand. As Ithiel de Sola Pool concludes in *Technologies of Freedom*,

The problem is worldwide The onus is on us to determine whether free societies in the twenty-first century will conduct electronic communications under the conditions of freedom established . . . through centuries of struggle, or whether that great achievement will become lost.

Choices and Consequences

In choosing the mechanism that will regulate the telecommunications revolution, two polar opposites are possible: the nightmarish world of George Orwell's *1984* in which all communications are controlled by the state, and an unfettered marketplace of ideas in which a free press thrives.

The first alternative is vividly depicted by Orwell as a world utterly devoid of freedom. Orwell recognized that a totalitarian state could be achieved and maintained only through absolute control over ideas and communications. The state created a language, "Newspeak," with which it could control the scope of ideas and rewrite history under the aegis of the Ministry of Truth. It utilized a highly sophisticated technology capable of monitoring all personal thoughts and communications. Orwell traced the development of this awesome power:

The invention of print . . . made it easier to manipulate public opinion, and the film and the radio carried the process further. With the development of television, and the technical advance which it made possible . . . [t]he possibility of enforcing not only complete obedience to the will of the state, but complete uniformity of opinion on all subjects, now existed for the first time.

In Orwell's society, the state controls all information dissemination and proscribes all contrary

thoughts. The submission of the citizenry is ensured by the Thought Police, who carefully monitor all communications through two-way telecommunications devices designed to serve the needs of the state:

The instrument (the telescreen, it was called) could be dimmed, but there was no way of shutting it off completely The telescreen received and transmitted simultaneously You had to live—did live, from habit that became instinct—in the assumption that every sound you made was overheard.

The world of *1984* is a dismal one, a world in which the new technologies are subverted to constrict, rather than expand, voluntary interpersonal communications. Orwell's message is replete with tacit warnings against permitting government to control the exchange of ideas and the mechanisms that facilitate that exchange. The technology of *1984* exists today—as does the potential for tyrannous governments to exploit it to subvert freedom.

Another course is possible. In stark contrast to *1984* is the historical experience of the press in the United States. The American founders well understood the dangers of vesting in government the power to suppress and censor speech. They recognized in the Virginia Declaration of Rights in 1776 that "the freedom of the press is one

of the greatest bulwarks of liberty, and can never be restrained except by despotick [sic] governments."

Freedom of Speech

Fresh from their experience with the suppression of colonial speech under the rule of the British crown, many of the founders refused to support the new Constitution until freedom of speech was ensured. Resisting the opportunity to seize such power for themselves, they instead incorporated into their basic law the First Amendment: "Congress shall make no law . . . abridging the freedom of speech, or of the press." As Justice Hugo Black observed almost two centuries later, it was established for the first time that "[t]he press was to serve the governed, not the governors."

Ever since the acquittal of publisher John Peter Zenger of charges of seditious libel in 1735, the press in America has been immunized from government interference far more than any other enterprise. Rather than relying on the state to protect the public from "dangerous" or false ideas, the First Amendment vests that right and responsibility in the citizens themselves. As Thomas Jefferson explained, it is "better to trust the public judgment, rather than the magistrate . . . And hitherto the public has performed that office with wonderful correctness."

The founders correctly believed that the only dependable and enduring safeguard for the free marketplace of ideas was to bar the government from exercising editorial control over private communications. As Justice Potter Stewart explained, the First Amendment "is a clear command that government must never be allowed to lay its heavy editorial hand on any newspaper in this country." The concept of free speech has been applied to protect the commerce of ideas between willing communicators, and those willing to receive such communications. The Supreme Court has generally recognized that any departure from these protections would have serious adverse consequences. As Justice Thurgood Marshall observed, "Our whole constitutional heritage rebels at the thought of giving government the power to control men's minds."

The results of the commitment to free speech and a free press are readily apparent in the vigorous exchange of ideas which is a hallmark of American society. Anyone with a typewriter, telephone, or soapbox may freely transmit views to those wishing to receive them. These constitutional guarantees protect dissenting viewpoints and provide mighty deterrents against government tyranny. Indeed, but for the First Amendment, the horror of 1984 could be today's reality.

The Market or the State?

The idea of a free communications marketplace essentially unregulated by the state was a radical one in 1776, and sadly enough remains so today. Particularly with the onset of new technologies, many today advocate some form of "mixed" state and private control of speech, for any of a number of high-sounding reasons. But as Ludwig von Mises warned, the issue is always the same—"the market or the state; and there is no third solution."

Those who advocate mixed control have concluded that individuals should relinquish some measure of their sovereignty for the greater good. All of their rationalizations rest on the notion that the state enjoys a superior capability to determine the interests of society as a whole in the information age.

The first of these justifications is the most transparent. Many government officials view regulation as a vital safeguard against "commercial exploitation" of consumers. This paternalistic notion seeks to justify imposed choices by government while proscribing the individual autonomy provided by the market. But far from exploiting consumers, the market inherently provides the most effective consumer-protection mechanism possible—competition. Due to omnipresent pressures in the market for technological change, the new media must be fiercely com-

petitive. Those entrepreneurs offering the finest products, lowest prices, most personalized services, and latest technical advances will prosper. Conversely, government interference inevitably adds regulatory costs and hampers profitability, thus dampening innovation and choice.

A second justification is fiscal policy. The revenues certain to be realized from the telecommunications revolution are tempting to cash-poor governmental entities. Further, harnessing these new technologies could provide the cornerstone for revived "industrial policy" in many countries. This modern-day mercantilism suffers, however, from the same fundamental flaw that plagues all state-controlled industries: the gains to society's wealth obtained by state displacement of or interference with private enterprise pale in long-term comparison with free industries, which enjoy greater incentive to maximize efficiency, productivity, and improvement. Indeed, those governments which have restrained the new communications technologies are in a virtual frenzy over the spectacle of massive consumer spending in their own countries for the goods and services made possible by these technologies in less-regulated countries. Many have commenced policies of protectionism and government subsidies in a belated and futile attempt to steer con-

sumers away from products they desire.

A third rationale for government regulation is "scarcity" of one sort or another. This is the justification typically cited by those wishing to impose content control to protect the public interest. One type is physical scarcity, which holds that airwaves are limited and thus may only be fairly allocated and regulated by the state. The physical scarcity concept brought about a major departure from First Amendment protections as communications exchange shifted from the press to broadcast media. While newspapers continued to receive full protection, television programmers were subjected to substantial "public interest" regulation, much of which was upheld in the courts. The result has been stifling homogenization in programming as producers concentrate as much on satisfying governmental dictates as they do on customer demands. Still another result, however, has been the rapid development of the new alternative technologies, which offer increasingly stiff competition to the broadcast media. If it was ever a valid premise for government regulation, the physical scarcity rationale is clearly rendered obsolete by the new competitors and the unlimited programming options they present.

A second form of scarcity is "economic scarcity," or the theory of

"natural monopoly." Some theorists argue that many communications technologies require such intensive capital investments that only one producer may profitably serve a given market. Ostensibly protecting the citizenry from "monopoly power," the governmental entity chooses and licenses a single producer as a "franchisee" or "common carrier," and then subjects that producer to extensive taxation and regulatory control. This notion dates at least as far back as 1585, when the British crown awarded monopoly privileges to publishing guilds. The artificial restriction on the number of publishers facilitated government censorship, but was ultimately undermined by sustained illicit competition.

"Economic Scarcity"

In America, the concept of economic scarcity was suggested as a rationale for requiring newspapers to publish replies to unfavorable reporting—an argument the Supreme Court firmly rejected. But although the Court has opposed even the most "benign" regulation of newspaper content, it has yet to fully extend this protection to the new media. It has failed to do so because it asserts that differences in the characteristics of new media justify different degrees of First Amendment protection.

This approach contradicts the

teachings of America's founders. They did not provide protection only to the press, but to speech itself as well, perhaps anticipating that new mechanisms would arise to challenge the press as the prime facilitator of communications exchange. Speech is no less an exchange of ideas if it is transmitted by television, cable, or satellite rather than by newspapers. Yet the courts have departed from First Amendment principles and allowed state regulation of radio and television, and now face a similar decision in the context of cable and other new media. Any further failure to zealously protect the free communications marketplace portends distressing consequences.

The American Cable Experience

Nowhere is the abandonment of First Amendment values more apparent than in the cable television arena. Despite deregulation at the Federal level, regulation of cable in America is increasingly extensive, restraining the full realization of that medium's enormous potential and laying the groundwork for massive state interference with editorial processes traditionally entrusted to private discretion.

With the lifting of most regulations at the Federal level in the last decade, municipal governments have made cable television a focus of attention. Relying on all three

justifications—public interest, revenue, and economic scarcity—they have subjected cable to broader regulation than any communications medium in American history.

Starting with the premise that cable television is a "natural monopoly," municipalities award exclusive franchises, in effect rendering economic scarcity a self-fulfilling prophecy. Based on its control of the public streets, the governmental entity essentially precludes other firms from entering the community. In return, it exacts enormous tribute from the winner of the franchise. Typical concessions include expensive franchise fees, "public access" studios, subsidized programming for special interest groups, and review of program content. While filling public coffers and placing the strong arm of government on the pulse of local communications, these regulations add nearly 25 percent to the cost of cable programming and limit subscribers to a single choice for cable services.

Unsound Reasoning

The rationales for government control in the cable context are fundamentally unsound. Cable is an *unnatural* monopoly; few companies compete head-to-head only because the system of local franchises and pervasive regulations makes it unprofitable and frequently illegal to do so. Even without direct competi-

tion, however, the existence of alternative technologies provides the important disciplinary effects of the marketplace, making "public interest" regulation wholly unnecessary. Open entry policies and the constant threat of competition would accomplish the same end. Indeed, some local governments, recognizing that the natural monopoly myth rests on tenuous assumptions, have acted to exclude from their communities not only additional cable companies but competing alternative technologies as well.

If the First Amendment is displaced and government control over cable is entrenched, the state will be free to further invade the sanctity of the communications marketplace. At least one franchise requires the installation of devices of empowering government officials, at any hour of the day or night, to turn on every subscriber's television set and broadcast "emergency" messages. Two-way telecommunications capacity—a central feature of Orwell's scenario—renders the specter of government control even more alarming.

The courts have yet to definitively rule on the First Amendment implications of government control over cable, and the battle over these issues will be a long and fierce one. While much of the upcoming legal fight may center on economic questions, the basic issue is a moral one:

should individuals be autonomous in choosing what, how, and to whom to communicate, or should those choices be made by government? The resolution of this vital question will loom large in determining the future of human freedom.

The Challenge Ahead

America is unique in its commitment to an uninhibited marketplace of ideas. Yet America itself is precipitously close to discarding that commitment, which for more than 200 years has supported its claim to moral leadership in the area of freedom of speech.


Even before the rapid development of the new media, Justice William O. Douglas warned of the dangers involved in abandoning the commitment to First Amendment principles on the basis of technological change:

The struggle for liberty has been a struggle against government . . . [I]t is anathema to the First Amendment to allow government any role of censorship over newspapers, magazines, books, art, music, TV, radio or any other aspect of the press . . . My conclusion is that the TV and radio stand in the same protected position as do newspapers and magazines . . . for the fear that Madison and Jefferson had of government intrusions is perhaps even more relevant to TV and radio than it is to other like publications.

With the onset of cable and related technologies, the stakes are

higher still. We are on the brink of facilitating voluntary communications and commerce on a scale unprecedented in history. Whether the telecommunications revolution will be a tool for freedom or for suppression depends upon the policy choices we make today. As de Sola Pool warns, "It would be dire if the laws we make today . . . in such an infor-

mation society were subversive of its freedom."

The year 1984 is upon us. If we are to avoid the prophecies of totalitarian doom, we must resolve to protect the legacy of freedom which we have inherited, and to expand it to the world-wide scale now made more possible than ever by the new technologies. 

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Two Freedoms

THE SLAVE born in captivity must learn that an open door can be used to gain freedom. He must learn to rise above the mind and spirit of a slave. He must learn that this is not his natural condition, that there is something within him that craves a higher state of existence. He must awaken to his own self-worth in order to develop his full potential. If his mind has been conditioned to his being a slave, if he is resigned to it, if he is used to being looked upon by everybody else as being in his right niche, if it is easier for him to go along with the way things are, then surely he will remain a slave forever.

Freedom in the usual sense consists of political, personal, religious and economic manifestations. But

Mr. Turnbull is a freelance writer in Old Lyme, Connecticut.

these are the external or secondary aspects of freedom, and this second freedom must be preceded by another kind—an inner freedom of mind and spirit, without which there can be no external freedom.

The slave's chains are forged without his knowledge or consent, often produced from feelings of guilt or of indebtedness for unearned favors.

"The political cultivation of guilt is a central means-to power," explains R. J. Rushdoony in *Politics of Guilt and Pity*, "for guilty men are slaves; their conscience is in bondage, and hence they are easily made objects of control. Guilt is systematically taught for purposes of control. . . . the cultivation of guilt in order to produce a submissive populace. This politics of guilt is aided, not only by the apostate clergy of

the left, but also by . . . ostensibly conservative clergymen." Thus we find, says Rushdoony, "a burdened conscience and a submissive man before priest and politician. The politics of guilt cultivates the slave mind in order to enslave men, and to have the people themselves demand an end to liberty. Slaves, true slaves, want to be rescued from freedom; their greatest fear is liberty. . . . Freedom imposes an impossible burden upon them. Lacking the inner peace of a good conscience, they seek instead the sickly peace of acceptance and co-existence with every kind of evil."

We know there is Something within us that is special and should not be abused. If we follow what is compatible with that Spirit, that Essence of knowing, that Conscience, that Wisdom, that Ability to distinguish between right and wrong—whatever you want to call It—and recognize It as a higher authority than mores, self-serving inclinations, taboos, respectability, lust, the desire to curry favor or just to be "nice," and recognize what has been indoctrinated into us, we will all be pretty much "tuned to the same frequency." To follow this "Inner Voice" is to seek the way to freedom and self-realization. The Bible states this principle by saying that to serve God alone is perfect freedom. Shakespeare speaks this idea through Polonius in *Hamlet*, "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."

To get to the degree of enlightenment just described one may spend a lifetime of gradually peeling away layers of ignorance and misconception, be suddenly enlightened or just always "know." But without this clarity of vision our minds are fitting receptacles of ideas, pressures and programs that enslave. We have thus become a society filled with people who "don't know who they are," are guilt-ridden misfits or are well-adjusted slaves of the omnipotent state.

In his book *The True Believer*, Eric Hoffer has catalogued the types of people who are potential converts to mass movements. These are: the Poor, the Misfits, the Inordinately Selfish, the Ambitious Facing Unlimited Opportunities, Minorities, the Bored, and the Sinners. These are the ones who are most likely to seize at any system that offers some advantage to them and promises to solve all of their most urgent problems. These people become the slaves of that system.

There is no mass movement as powerful and all-pervasive in the United States as the cult of the State. It is fueled by billions of tax dollars. It is propagandized by millions of True Believers who lack enlightenment and by millions who


profit directly from it. It controls an indoctrination system that sentences most of our young people to government-controlled schooling for twelve formative years. It has as allies a host of religious leaders who are misled into being True Believers in the cult of the State, and thereby become unfit to lead or teach the congregations who look to them for guidance through a confusing world. Their secular allies are the entertainment and news media which invade the sanctity of nearly every living room by means of television and newspaper, every car and kitchen by means of radio. To confuse, mislead and ensnare, it employs the "newspeak" kind of double talk described in George Orwell's *1984*. We have been taught to profess freedom without experiencing it.

Richard Bach says in *Illusions*, "The mark of your ignorance is the depth of your belief in injustice and tragedy." Injustice and tragedy are the fruits of the Cult of the State. The all-powerful State has taken away our freedom, starting from within the individual.

But liberty offers penalties as well as advantages. "The central and essential penalty of liberty is insecurity and the problems thereof," says Rushdoony. "The free man lives in a

world of free enterprise, of trial and error, profit and loss, success and failure. . . . His security is not in the visible tokens of a guardian state." He does not stand with his hand out asking for his fair share. He earns it. Every generation must choose between slavery or freedom.

It is to the advantage of each man to be true to the best that is within him. Identify those who would contribute to your enslavement. Denounce them. Shun the "benefits" with which they would buy you. Stand up for what you know is your right and your heritage. Stand for equal justice for all and special privilege for none. Resist coercion of all kinds. The government does not own you and has no rightful claim to your life or the fruits of your labor.

Know the truth and it will make you free. Men who are free in spirit and mind will never become complete slaves. They will demand and get economic, personal, religious and political freedom. Those who achieve the first inner freedom will see clearly how to obtain the secondary manifestations, the external freedom to which we pay lip service, while at the same time we are losing it. They will cut government down to its only legitimate functions and free themselves to prosper as never before. 

Harry Lee Smith

Women in Economic History

WOMEN have been responsible for most of the world's economic wealth. There is considerable evidence to support this sweeping allegation. Their past contribution to economic growth is a measure of their potential.

Except for a short hiatus during the past 200 years, women have always been part of the work force. Women's productivity in pre-industrial society was obvious when they labored in the fields side by side with their men. In certain peasant societies of South America and Asia they still do. In addition to farming, they raised children and kept house, which is just as much a part of economic activity as production for the market. But most importantly, women were not destructive. Their male counterparts destroyed a good

deal of the wealth created by both sexes through wars and political turmoil.

Women's accomplishment in creating and preserving wealth has gone unrecognized due to an anomaly brought about by the Industrial Revolution. During the past two centuries, the work patterns of Western Civilization have changed drastically, particularly those of women. The development of the factory system removed the work place from the home for the first time in history. This separated women from their children, putting a strain on family ties and adversely affecting female productivity.

Economic conditions during the early stages of the Industrial Revolution were such that entire families worked in the factories. Early attempts at restricting child labor were fruitless since they merely put less bread on the table and left the children unattended. But the wealth created by the Industrial Revolution rapidly increased living standards so that, by the middle of the nineteenth century, men were earning enough to retire their wives and children from the work force in vast numbers. It is this process, started only 200 years ago, that gave rise to the mistaken concept that women have *always* stayed at home doing nothing more than domestic chores. This myth was driven home by newly developing sciences such as

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anthropology, biology, sociology, and ethnology among others.

Nearly all the scientific disciplines have evolved during the past 250 years and were therefore heavily influenced by conditions brought about by the Industrial Revolution. Some anthropologists such as Desmond Morris have even projected twentieth-century cultural patterns back into the Stone Age.¹ They developed the myth of the Great Hunter, a primitive hominoid, who left the cave in search of food while his mate waited patiently at home, taking care of the children, willing to exchange sex for food, and doing little else. This myth has been effectively exploded by British anthropologist Elaine Morgan in her insightful book (whose title parodies Darwin), *The Descent of Woman*.²

In primitive times the fundamental family unit consisted of a mother and her children living with older members of the family. Apparently men were less aware of their function and responsibility as fathers than were some advanced animals. More often than not they lived apart from the women and children, banding together in hunting-foraging groups, leaving the females to fend for themselves. These bands were the precursors of modern fraternities and other androcentric organizations.³

Women had high status in primitive societies. Historian Will Durant

wrote: "Since it was the mother who fulfilled most of the parental functions, the family was, at first (so far as we can pierce the mists of history) organized on the assumption that the position of man in the family was superficial and incidental, while that of the woman was fundamental and supreme." At the time, most gods were feminine, dedicated to human fertility. In primitive society woman's status was higher than in Periclean Greece and she would have to wait until modern times to regain that social station.

While it is true that primitive man was a hunter, primitive woman was far more than a baby sitter. She can be credited with skinning animals for clothes and tents, spinning cotton and wool, sewing, weaving, woodworking, and making baskets and pottery. She used fire to defeat the darkness, to keep warm, and to break down inedible foods into a wide variety of digestible meals through cooking. She preserved food through salting and drying. In short, she provided the necessities of food, clothing, and shelter in which she specializes to this day. She also exchanged the products of her labor and initiated trade.

Anthropologist Laurens van der Post watched women in the primitive area of Africa's Kalahari educate their children to glean a meal. Despite the sparse desert vegetation, in short order they had col-

lected a meal of nuts, tsamma melons, eland cucumbers, roots, tubers, grubs, berries and a tortoise. Van der Post said that both men and women searched for food, but the women usually provided two to three times as much food by weight as the men.⁴

While women in primitive times were highly productive in a hunting-gathering economy, they were about to become even more so. Through a nearly miraculous development they invented agriculture.

The Neolithic Food Revolution

Men were too proud or busy as hunter-warriors to dig in the soil. But women, puttering in the back yard, discovered the relationship between seeds and crops. Will Durant put it bluntly: "Most economic advances in early society were made by women rather than men." He goes on to point out that "women made the greatest discovery of all—the bounty of the soil." In short, *women were responsible for the Neolithic Food Revolution which was, and still is, the greatest economic advancement in history.* This development, which started some 10,000 years ago and still continues, increased the human carrying capacity of the earth from five million to a billion inhabitants.⁵ This ratio was not exceeded by the Industrial Revolution. It is an excellent measure of wealth creation.

But the Neolithic Food Revolution had its dark side. The development of agriculture produced vast amounts of wealth. Peaceful, immobile, and wealthy agricultural communities proved to be an enticing temptation for marauding bands of hunter-warriors. They attacked, killed, plundered, and enslaved. Thus, in ruthlessness and violence, the state was born, and with it political man. He produced no wealth himself and his economic contribution to society was negative.

For a hundred centuries the world was run for the exclusive benefit of tiny, self-perpetuating, ruling elites. They confiscated all the means of production. Only rulers were allowed to own land, to which they bound their subjects. The same system carries on today under communist totalitarianism.

There was little improvement over the millennia. As late as the seventeenth century Thomas Hobbes observed that life for most individuals was solitary, nasty, poor, brutish, and short. Edward Gibbon saw history as little more than the register of crimes, follies, and misfortunes of mankind. Women became second-class slaves, subject to the dictates of political overlords and of their patriarchal husbands.

The history of political man in an agricultural economy proved to be one long nightmare. Primitive man had had considerable leisure time.

But under slavery he worked from dawn to dusk to satisfy the wants of avaricious and rich rulers. Wars, conquests, enslavement, and plunder were considered noble and therefore became unending. Political man became the only animal to torture a member of his own species for satisfaction and profit. Wealth created by both sexes was eroded by conflict, and the world's profit and loss statement showed little gain. The female sex participated in this process hardly at all. Female economic contribution to society was positive, outweighing the net wealth contribution of the opposite sex.

Despite this oppression, women continued to bear up sturdily and to produce mightily. The Bible describes the ideal wife as one who is gainfully employed, talented, dignified, praiseworthy and God-fearing. She makes real estate investments ("She considereth a field and buyeth it"), manages her business ("She perceiveth that her merchandise is good"), teaches loyalty and wisdom, and is honored in her community (Proverbs, 31:10-31).

The Industrial Revolution

If the Neolithic Food Revolution was feminine, the Industrial Revolution was masculine. The natural mechanical bent of men had manifested itself in the Bronze Age, the Iron Age, and in such inventions as

tools, the wheel, and the horse collar. But only under individual freedom would this ingenuity find full flower.

The concept of limited government, the protection of private property, and the rule of law gave birth to free entrepreneurial man. Entrepreneurial man became the true champion of woman and his contribution to her emancipation was extraordinary. It is ironic that woman, the mother of agriculture, should have been enslaved for her efforts, whereas the masculine Industrial Revolution bore the seeds of her freedom.

Instead of enslaving other men, entrepreneurial man enslaved oil, gas, coal, and the atom. He filled the home with thousands of mechanical servants. He rescued women from being beasts of burden by inventing incredible transportation machines. In the short span of 200 years he had elevated millions of peasants into a comfortable middle class, free from famine and drudgery for the first time in history. Women, who had looked old at thirty and were dead at forty, could be active, healthy, and attractive during a doubled life span.

Women as Civilizers

"Women are the civilizers of mankind," said Ralph Waldo Emerson. Nevertheless, even in free America, men procrastinated in giving them

equal political status. It is incongruous that the founding fathers could have written such inspirational documents as the *Declaration of Independence*, the *Constitution*, and the *Federalist Papers*, and still have tolerated slavery for blacks and a subservient status for women. As a result, the oppressed made common cause.

As an organizing force, feminism dates from abolitionism in the early 1830s. Abbie Kelley (1810–1887), an abolitionist-feminist, observed: "We have good cause to be grateful to the slave for the benefit we have received ourselves in working for him. In striving to strike his irons off, we found most surely that we were manacled ourselves."

The modern historian Aileen S. Kraditor wrote: "A few women in the abolitionist movement in the 1830s . . . found their religiously inspired work for the slave impeded by prejudices against public activity by women. They and many others began to ponder the parallels between women's status and the Negro status, and to notice that white men usually applied the principles of natural rights and the ideology of individualism only to themselves."⁶

The slaves won the race to emancipation. The thirteenth amendment to the *Constitution* freeing the slaves was ratified in 1865. Women waited another 55 years for the right to vote.

Political Man

During the long nightmare of slavery, most women accepted their lot stoically. Some were known to have killed their infant daughters to save them from a lifetime of child-bearing and drudgery. Others welcomed polygamy to share the burden with their sisters.⁷ But most lived out their short lives asking little more than that they be cherished and respected. They experienced little of either. In a world of poverty and political predation, there was little charity in the human spirit.

Poverty has been the scourge of mankind for centuries, brought about by the greed and oppression of political man. There was a hiatus of this political power during the nineteenth century. This produced not only entrepreneurial man but also the most peaceful century in recorded history. However, as with the agricultural economic wave, the Industrial Revolution produced vast amounts of wealth. With new wealth to plunder, political man came roaring back with renewed virulence. Thus far in the twentieth century he has killed, plundered, tortured, and oppressed more people for political purposes than in all the other centuries combined. Incredibly, the process has been idealized and might possibly accelerate. Political instability and technical ability have put political man in a position to destroy civilization as we know it.

There is far less a tendency for women to become politically over-extended. When faced with the question of feeding the baby or governing the country, she instinctively knows that her duty lies within her capacity. This is a basic wisdom sorely needed in a world facing problems without solutions brought about by hubris.

A small minority of women are seeking further emancipation through the public sector. But the political world is a man's conclave based on coercion and violence, unsuited to the female temperament. A far better place for women to make their mark is in the private sector. Most women have chosen this path.

Women as Producers

In 1980 some 52 per cent of all women aged 16 and over were in the work force, up from 27 per cent in 1940. Today, for the first time working women outnumber housewives. It spells a rise in creativity at which women have always excelled. The problem of divided loyalty brought about by separating women from their children still exists. But Alvin Toffler has suggested in *The Third Wave* (the first two waves being the Neolithic Food Revolution and the Industrial Revolution), that with the advent of the computer age, sophisticated work may be brought back into the home electronically.⁸

Although male-dominated labor unions oppose it, seven per cent of the total labor force now works at home full time and six per cent part time.⁹ It is a heartening trend.

Today, as women venture to continue their contributions to the work force in new ways, they merely ask to be welcomed and to have their worth recognized. In acknowledging their economic contribution of the past and recognizing their potential for the future, men will also come to accept the feminine point of view on weighty matters as valid and a necessary adjunct to their own. But such an intellectual melding can only come about if women are accepted as full-fledged partners and peers without reservation. They deserve nothing less. ☉

—FOOTNOTES—

¹Desmond Morris, *The Naked Ape* (McGraw Hill, 1967), pp. 67, 187.

²Elaine Morgan, *The Descent of Woman* (Bantam Books, 1973), pp. 159–190.

³Will Durant, *Our Oriental Heritage* (Simon and Schuster, 1954), p. 32; also Morris, p. 188.

⁴Morgan, pp. 171–173.

⁵*The Human Population* (Scientific American Books, W. H. Freeman, Inc., 1974), pp. 15–17; also E. A. Wrigley, *Population and History* (World University Library, 1969), pp. 44–45.

⁶Wendy McElroy, editor, *Freedom, Feminism, and the State* (Cato Institute, 1982), p. 4.

⁷Durant, p. 35.

⁸Alvin Toffler, *The Third Wave* (William Morrow & Co., 1980), pp. 181–193.

⁹*The Wall Street Journal*, March 1, 1984.

Getting Governments Out of Debt



A CURIOUS FEATURE of the economic scene is the persistence with which commentators regard government's financial affairs as being somehow different from everybody else's. Government's indebtedness, both in its annual form of deficits and in its perennial form of accumulated debt, is merely a subject for debate. Some would reduce it, while others hold that it could be increased to the general advantage.

None of them, we can assume, would countenance, in their personal affairs, anything approaching indebtedness of comparable proportions. Any tendency in that direction would be corrected at once. Yet they attach no such urgency to the national debate. Whether the debts are accumulating in Washington, or Ottawa, or London, no date is set for repayment.

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It is not so much that those capitals are remote from the generality of citizens as that what goes on there is too vague to be understood. What, after all, is the citizen of Terre Haute, or Temiskaming, or Totnes to make of departments of state too numerous to recite, and inhabited by people of whom one Canadian Auditor General wrote that "30 per cent don't know what they are supposed to be doing"?

It is in this vagueness, this lack of a power to grasp, that the trouble lies. The housewife knows how much there is to spend, and budgets accordingly. So does the businessman. So, within certain limits, does the corporate executive.

The housewife's budget may provide for mortgage payments, the businessman's for repayment of long-term debt, the corporate executive's for obligations to debt and equity. But each one represents both

payment toward eventual discharge and provision for the same out of earnings. (Equity may not be discharged, but shareholders are free to dispose of it.)

Not so with governments. Whatever payments they may make are not to discharge the debt but to pay interest on what was borrowed before plus the interest on what has been borrowed lately. That the money to pay interest may also be borrowed, until the borrowings compound one another like boxes in a Chinese puzzle, goes unremarked. This year's deficit commands the headlines. Yesterday's and tomorrow's must fend for themselves.

Participants in the debate who opt for reducing the deficit and, eventually, the debt, declare that either spending must be cut or taxes raised, or both. Lkening the national budget to other budgets, they offer like treatment: excess of expenditure over revenue calls for spending less or earning more.

Another Way Out

But there is another way, one that businessmen were forced to follow during the past two years. Faced with declines in earnings, their path to debt reduction lay through asset sale, through lowering the debt ratio by selling equity, and withdrawal from unprofitable activities.

*Herbert Spencer, *The Man Versus The State*, Liberty Classics, 1981.

So could it be with governments. After a century of growing state interventions in the economy—1984 is the 100th anniversary of the publication of Herbert Spencer's *The Man Versus The State**—there is enough evidence to show that governments are unsuited to running businesses. Their job, which only they can do, is to set the rules of the game and to see that the players abide by them.

As Spencer wrote: "Every additional State interference strengthens the tacit assumption that it is the duty of the State to deal with all evils and secure all benefits. Increasing power of a growing administrative organization is accompanied by decreasing power of the rest of society to resist its further growth and control . . . The people at large, led to look on benefits received through public agencies as gratis benefits, have their hopes continually excited by the prospect of more."

The task for commentators, and for enlightened political leaders, is to make the connection between those "gratis benefits" and the public debt.

It is safe to assume that a majority of citizens, having given the matter a moment's thought, will conclude that none of the benefits can be gratis. The public agencies' staffs must be paid, the facilities from which they supply the benefits

must be built and maintained. The equipment they use must be manufactured and paid for. All these costs are a charge on the public purse. Yet any suggestion that the services be priced, and that the citizens who use them should pay the prices, is said to be politically unacceptable.

The provision of "universal" services, for which everyone pays indirectly, and which results from a supposedly democratic process, has become a political fixture. A major element of national economies is sheltered from the economic pressures that contain the other elements. The costs incurred rise under the impetus of unchecked demand. The element that is sheltered becomes a major component of the public debt.

Ideally, bringing the reality of price to those services would be debated by political leaders. But self-interest prevents it. The fear of defeat at the polls is more pressing than the debt that stems from the policies. They are in what psychologists call a social trap. Like drug addicts who know that the addiction is harmful, they seek temporary relief in exchange for lasting damage. Like those other addicts, they need outside help.

It lies with the financial community whose spokesmen are most prominent in criticizing the debt. Not that the nation's leading bankers and investment dealers are

impartial. Financing the debt constitutes a sizable part of their business. The trap they are in is similar to that of the politicians, with this difference: that the financiers have the means to get out of it with advantage to themselves.

The debt crisis presents them with the opportunity to assist governments in applying the same remedies that businesses were forced to adopt: selling tangible assets (which has already begun in Britain and the U.S.A.), selling equity, and withdrawing from unprofitable activities.

To this end, and taking elements of the state's activities in turn, they would tailor prospectuses accordingly. One might describe an equity offering to finance the operation of one or more universities by a company to be formed for the purpose. Another might make a similar proposal for public and high schools, another for public transportation, yet others for health and hospital care.

These instruments would supply the focus for debate. Politicians would have firm proposals to consider, practical alternatives to the present methods.

Included in prospectuses would be the requirement that all operators of enterprises that emerged from the financing must conform to standards that national or local governments would set and enforce. Also


included would be estimates, based on analyses of past operating costs, of potential earnings. Of necessity, these would assume that the facilities' clients paid for the services that were supplied, and here, of course, is the nub of the argument.

Now, everyone is paying indirectly for services that are available to all but which not everybody uses. The market mechanism which furnishes a multitude of products at prices to suit a multitude of pockets is stopped short of the products that governments dispense. Stopping that mechanism stops also the checks it imposes on waste, inefficiency and heedless spending. Therein lies the root of the debt. Though many of the services are supplied by local authorities whose borrowing is usually limited by statute, it is the money-issuing national government, sending its subsidies and transfers and grants through-

out the land, that accumulates the debt.

In short, an undertaking of this kind would involve neither a cut in spending nor a rise in taxes. Rather would it bring about a cut in *borrowing* and a *transfer* of spending from governments to the citizens. Taxes would fall of their own accord. Instead of being involuntary debtors in a system of monopoly services that gives them no choice, citizens would become shareholders in enterprises that vied for their custom.

None of this would happen overnight. The proposition does not lend itself to the sort of grandiose concepts that have landed us in the mess we are in. Rather does its chance of success depend upon experiments here and there, learning from mistakes and profiting by examples, in the market mode.

But who can doubt that it is the direction to take? 

Bradford B. Smith

THE REAL HOPE for the recovery of individual liberty lies with millions of individual citizens and in the prospect that they may rediscover the nature of government. It lies in their rediscovery that government wields the monopoly in coercion; that it has in the past and will in the future be ever subject to awful temptation to employ or delegate its coercive power for seemingly benevolent purposes beyond the limits compatible with the maintenance of individual liberty; that the limits once broken, its power tends to feed upon itself; that government tends always toward becoming master and always away from remaining as servant; and that persistently these tendencies must be jealously and rigidly checked if individual liberty is to be preserved.

IDEAS ON



LIBERTY

freedom (frē'dūm), *n.* [AS. *frēodōm*.] 1. Quality or state of being free; as, a liberation from slavery, imprisonment, or restraint. 2. Exemption from necessity, in choice and action; as, the freedom of the will. 3. Frankness; outspokenness. 4. Inconspicuousness; ease of facility. 5. Freedom from care. 6. Possession of the rights or privileges of a citizen, as of a city. 7. Unrestricted use; as, the freedom of the house is his. 8. A privilege; franchise. 9. *Philos.* The status of man as an uncaused cause of human actions; also, sometimes, as Hegelians, self-determination; spiritual self-fulfillment.

EVERYONE, it seems, is in favor of freedom. Amnesty International works constantly to bring about the freedom of prisoners in totalitarian nations, especially from torture and degradation. The A.C.L.U. wishes to extend freedom in the direction of civil liberties, even while it recommends that a Soviet youth be forced to return to the U.S.S.R. because his parents wish it. The Soviet Union itself proclaims its dedication to the "freedom of the Soviet peoples" from the "exploitation" of Western capitalism.

But what is this value that everyone proclaims, at least in words? Without a context, what is being said is far from clear. If you heard a stranger exclaim "I'm free!" what

would you be entitled to infer? Perhaps he has just got out of jail; perhaps he has just been divorced; perhaps he has just recovered from an operation; perhaps he has overcome an allergy, or been successfully treated by a psychoanalyst. Like so many words, "freedom" and "liberty" have come to refer to almost any kind of condition of which the speaker approves. When this happens, it is time to clarify our use of the term, so that it refers to something definite enough to convey a clear meaning in our effort to communicate with one another.

Freedom-from vs. Freedom-to

The most important distinction in the discussion of freedom is between *freedom-from* and *freedom-to*. The Soviet expatriate in the U.S. is free from the dictatorship to which he was subject in the U.S.S.R.; the American businessman, after a regulatory act has been repealed, is now free from the restrictions im-

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posed by that regulation. But once this freedom-from has been obtained, a person is free *to* do many things he could not do before: the Soviet expatriate is now free to choose his own line of work, to buy property, to become an entrepreneur and hire workers, and so on; the businessman is free to conduct his business in a way he was legally prohibited from doing before. The more one is free *from* restrictions, the more one is free *to* do things that he could not do while bound by restrictions.

The two are thus intimately related, but they are not quite two sides of the same coin. If I go mountain-climbing and fall into a crevasse, I am not free to move about, or do anything but remain there until help arrives; my choices are extremely limited. And yet, if I went on the expedition voluntarily, there is no question of my lacking freedom-from: nobody made me go, I was not responding to anyone's command, nobody coerced me. My present sad plight with regard to freedom-to is not the result of any lack of freedom-from. True, I am not free-from obstacles to my getting out of the crevasse—such as the height of the pit and the lack of rope, etc.—but there are no man-made constraints. Much, then, depends on whether freedom-from is considered freedom from constraints or obstacles in general, or whether it is free-

dom from *man-made* constraints and obstacles.

Freedom from the Will of Others: The Absence of Coercion

"The original meaning of the word 'freedom,'" writes Hayek, "meant always the possibility of a person's *acting according to his own decisions* and plans, in contrast to the position of one who was irrevocably subject to the will of another, who by arbitrary decision could coerce him to act or not to act in specific ways. The time-honored phrase by which this freedom has often been described is therefore *independence of the arbitrary will of another*. In this sense 'freedom' refers solely to a relation of human beings to other human beings, and the only infringement on it is by coercion by other human beings." (*Voluntary compliance with the wishes of others is simply honoring their suggestions or taking their advice, which involves no lack of freedom.*)

Freedom-from in this sense is absence of coercion by others; and this, in addition to being the fundamental and original sense of the term, is undoubtedly the most important kind (but, as we shall see, not the only kind) of freedom-from. But this definition in turn requires that we be quite clear about the meaning of the term "coercion." What is coercion? Let us examine a few cases:

1. A man, stronger than I, forces

my hand on the trigger of a loaded gun, and with the strength of his hand on mine forces me to pull the trigger. Is he coercing me? He is certainly using force to get me to do his bidding, and if that is coercion, I am being coerced. But the act of pulling the trigger is not my act; both morally and legally, it is *his* act, and *he* is the killer, not I. I have not *done* anything: I am the passive victim, he the agent. I have not performed a coerced action; I have not performed any action at all.

2. A man with a gun at my back threatens to shoot me if I refuse to hand over my wallet. Rather than surrender my life, I surrender my wallet. Here indeed I have been coerced: *I* have done something, but I have done under coercion what I would not have done of my own free will (surrendered my wallet). I still had a choice, but my choices were limited by his coercive action; but for the coercion, I would have chosen to surrender neither my life nor my wallet.

3. An employer fires a worker. Has he coerced the worker? Clearly not; he has simply decided to terminate a relationship voluntarily entered into by both parties, either because the worker was no longer needed or because the worker was inadequate to the job. Socialists often call this coercion—or its cousin, “exploitation”—and yet if the worker quits his job for a better one,

they would never call it coercion or exploitation. There is an asymmetry in the socialist’s position which is not often noticed. But the one is no more coercion than the other.

4. The employer says, “If you don’t give me your sister in marriage, I’ll fire you.” Here there is clearly a threat; is there coercion? There surely seems to be coercion; one may hesitate in calling it so only because one is not sure about the seriousness of the threat. In most cases the worker would just quit and go somewhere else. Perhaps it was only an *attempt* at coercion?

Coercion can be a matter of degree. It depends on (a) the seriousness of the threat to the person threatened, on (b) whether the threatener is able to go through with the threat, and on (c) the likelihood of his doing so (most threats are idle, like “I’ll kill you” uttered in a bar-room brawl). If someone says to you “If you don’t do as I command, I’ll set fire to your house” you are likely to take it as a serious threat, but one to which you may not give in if your house is fully insured, or if your freedom is more valuable to you than the house. If he says, “If you don’t do as I command, I’ll let the air out of your tires,” you might not consider the threat worth responding to: rather than capitulate, you might simply say “Go ahead and do it.” If he says “If you don’t do as I command, I’ll plant a

nuclear bomb in your house and destroy the whole city," the threat is a serious one indeed; but now it is quite probable (varying of course with circumstances) that either he can't go through with the threat or he won't. If he both can and probably will, this would indeed constitute a strong case of coercion.

In law, coercion exerted upon you to do something usually counts as excusing of what you have done: it was done "under duress," and the responsibility for the act shifts to the person who threatened you. But it is not always so: if someone says he will kill you if you don't kill Mr. X, and everything points to his power and willingness to fulfill his threat, you are nevertheless likely to be liable for murder. (If you could successfully plead duress, and the threatener could repeat his threat, this time demanding that you kill Mr. Y and Mr. Z, you could commit as many murders as the person demanded while getting off scot-free. The law says you should risk being killed yourself rather than fulfilling such threats.)

5. You stake a claim in the desert, build a house, and dig a well. Soon thereafter another man settles on a nearby strip of desert and also builds a house and digs a well. But soon he runs out of water. "Without water I can't live," he says to you. "Won't you give me some of your water, or sell it to me?" But you

refuse, saying "My water is not for sale. I may run out of water myself at any time. And even if I don't, I want to be sure. I simply say, No Sale." Although by your action you are depriving him of a resource without which he cannot continue to live in the desert, you have not coerced him.² You didn't make him come there; you and he both took your chances with the desert. Instead of saying that you coerced him, it would be preferable to say "The desert has beaten him." Perhaps the humane act would have been to give him some water (though this would only be a temporary expedient, and the same problem would arise again the next day), but in any case you have *not* coerced him. His freedom of action (freedom-to) has been restricted by your action, for he can no longer live in his bit of desert; although he may curse you as he leaves the desert, he cannot rightly say that you coerced him.

Neither did the physician use coercion in refusing to sell or give someone else a life-saving medication that he has invented; the physician's refusal simply places the patient where he would have been anyway without the physician's invention. Neither has the man who declined to rescue a drowning person coerced him; he may not have done his moral duty (depending on circumstances such as: how good a

swimmer is he? is the water dangerous? can he rescue without great risk to himself? and so forth), but, assuming that the swimmer went voluntarily into the water, he was free-from all coercion both before and after he decided to swim. Even while drowning, he was free in the sense of free-from dictation by others—but not in the sense of being free-to continue his life thereafter.

Freedom as Freedom-from Coercion

There are those who would restrict the meaning to freedom entirely to this sense of absence of coercion. In his fine book, *The Government Against the Economy*,³ George Reisman writes:

"In the nature of things it is impossible for me to square circles, walk through walls, or be in two places at the same time. It is not possible for me, in the actual circumstances of my life, to win the Nobel Prize in Chemistry or the Academy Award for Best Actor of the Year, or to enter the automobile or steel business. Absolutely none of these facts constitutes a violation of my freedom. In order for a violation of freedom to exist, it is not sufficient merely that someone be unable to achieve what he desires. What is necessary is that the thing stopping him be the government's threat to use force against him, specifically, its threat to *initiate* the use

of force against him in response to an action on his part that does not represent the use of force.

"If I ask a girl to marry me, and she says no, my freedom is not violated. But suppose she says yes, and the government stops me from marrying her, say by virtue of a law concerning marriages among people of different races, religions, or blood types—then my freedom is violated.

"If I want to travel to California, but lack the fare and am unwilling to try hitchhiking, my freedom of travel is in no way violated. But suppose I do have the fare to go to California and want to pay it, but the government stops me—say, with a wall around my city (as in East Berlin), a passport restriction, or a price control on aviation fuel that stops the airlines from flying—*then* my freedom of travel is violated.

"Suppose I want to print my views in the *New York Times*, but can neither afford the advertising rates nor persuade the publisher to give me space. My freedom of the press is not violated; I am not a victim of 'censorship.' But suppose I do have the money to pay the advertising rates or could persuade the publisher to print my views, and the government disallows it—that would be a violation of the freedom of the press; that would be censorship.

"If I cannot enter the automobile business because I am unable to

raise the money necessary to buy the equipment that would enable me to produce and sell cars as cheaply as General Motors or Ford, my freedom of competition is not violated. But suppose I *can* raise the money to enter the automobile business, I am backed by a major steel company or a domestic auto firm, and the government stops me; then, and only then, would my freedom of competition be violated."

On Reisman's account, freedom is not violated unless coercion is employed. Moreover, he narrows the scope of coercion by saying that only when done by *government* does it count as coercion. Though government may be the principal source of coercion in our society, especially in matters of economic freedom, it is surely not plausible to say that *only* government can coerce. Highwaymen, bandits, robbers, rapists, and terrorists can certainly coerce just as effectively, and inhibit one's freedom-from being forced to act at the will of others.

The points that Reisman raises certainly need emphasis, but it is questionable whether that emphasis should be provided by so drastically restricting the scope of inhibitions of one's freedom that only coercion, and coercion by government at that, can violate one's freedom. In ordinary discourse, at any rate, the word "freedom" is used more widely than that. It is also used in referring to

(a) other kinds of freedom-from, as well as to (b) freedom-to.

Though freedom from the arbitrary will of other persons is the principal way one can have freedom-from, there are other things one can be free-from besides the will of other human beings.

A person who was crippled with arthritis and now is cured is surely free from the debilitating ailment that caused him so much distress. A writer who finds himself unable to write anymore (has a "writer's block") and seeks help from a psychotherapist, who makes it possible for him to overcome his problem and to write again, has been freed from the "inner obstacle" (whatever it was) that kept him from writing. A person who has powerful inner drives that threaten to destroy him, such as a seemingly uncontrollable urge to kill or to set fires, and who is cured through psychotherapy or behavior modification techniques from having these urges, is now free from these impediments to his personal developments. A man who, thanks to Alcoholics Anonymous, has gone for twenty years without a drink is now free from the powerful and constant urge to drink. He has been "set free," not from coercion by other human beings, but from his own destructive inner urges.

Surely these are plausible cases of being free-from, even though no coercion by others is involved.

Freedom-to

To many writers, and certainly to many philosophers, the freedoms-from we have described are incidental: the main sense of freedom is freedom-to. When we are free, we are free *to* do many things; the wider our range of choices, the freer we are. If I am free to do A,B,C . . . S, I am freer than if my choice is limited to just A and B.

In this sense, freedom is highly correlated with *ability*; the wider the range of my choice, the greater my ability to do various things I want. If I have a million dollars, I can spend the winter in the south of France if I want to, or make numerous large investments, or buy another house—things I would not be free to do if I had no wealth. Freedom-to also gives a person greater *power* (not necessarily political power): it enables people to control aspects of their environment, including other people (if they wish to), as they would not be able to do if they lacked the means to do it.

There are things, of course, we are not free to do even if we have wealth. We cannot, for instance, fly through the air like birds. Is this a limitation on our freedom? Not in the sense of freedom-from coercion; but it is something that, owing to our physiognomy, we are not free *to* do. If your main dream is to fly through the air like a bird, then you will be likely to count your inability

to do this as a limitation on your freedom. So is the fact that, though you can bend your legs backward from the knee, you cannot bend them forward.

Freedom to Vote

There is a special area of freedom-to that deserves separate mention: the ability to vote, which is something one is free to do in democracies but not in most totalitarian nations. This freedom is sometimes called “political freedom,” though somewhat misleadingly because that same term can also be used for other things.⁴ Voting is, of course, one of the many things which in democratic nations one is free to do. Unfortunately, however, it does not always achieve the freedom from tyranny which is widely supposed to be its aim.⁵ People are often ignorant and shortsighted, and they often do vote themselves into one or another kind of slavery, often through voting themselves large benefits from the public trough and then suffering runaway inflation and destruction of the currency as an unanticipated result of their actions. A wise man is often outvoted by fools. The freedom to vote, then, while valuable, is far from sufficient to guarantee any other freedom or even render its fulfillment much more probable.

In the writings of the Founding Fathers, freedom always meant

freedom from tyranny and oppression. But in today's political climate, the appeal of freedom has largely shifted to freedom-to. If you take money away from the wealthy via government transfer payments, you can do (are free to do) many things you could not do otherwise; in this sense, the higher your welfare payments, the freer you are. The Soviet Union, by training and arming insurgents in Central Africa, used the lure of "freedom" as their appeal: if you take the farms from the landowners, you will have them yourself, and then you will be free because you will be rich. The natives would certainly not be free from political control—quite the opposite—but they were promised freedom to do many things with the expropriated money and property that they were unable to do before. As it turned out, what they expropriated soon became (in most cases) useless to them because they lacked the technology to maintain it and a political structure that honored property rights. But the hope and the promise, at any rate, were of increased freedom: the appeal was freedom-to, not freedom-from.

A Dangerous Development

There is no doubt that this shift in the meaning of "freedom" as the term is used in the political arena is a dangerous development. "Once this identification of freedom with

power is admitted," writes Hayek, "there is no limit to the sophisms by which the attractions of the word 'liberty' can be used to support measures which destroy individual liberty; no end to the tricks by which people can be exhorted in the name of liberty to give up their liberty. It has been with the help of this equivocation that the notion of collective power over circumstances has been substituted for that of individual liberty, and that in totalitarian states, liberty has been suppressed in the name of liberty."⁶ It is fatally easy to pass from freedom as the absence of coercion to freedom as the ability to get what we want (via political coercion).

We cannot object that the word is not constantly used in both these ways, for it is. What we can and should do is to emphasize *that they mean two quite different things*. "Whether or not I am my own master and can follow my own choices, and whether the possibilities from which I must choose are many or few, are two entirely different questions. The courtier living in the lap of luxury but at the beck and call of his prince may be much less free than a poor peasant or artisan, less able to live his own life and to choose his own opportunities for usefulness. Similarly, the general in charge of an army or the director of a large construction project may wield enormous powers which in

some respects may be uncontrollable, and yet may well be less free, more liable to have to change all his intentions and plans at a word from a superior, less able to change his own life or to decide what to him is most important, than the poorest farmer or shepherd."⁷

Some people prefer to be free from tyranny and regulation even at the price of being poor; they remain masters of their own lives. Others prefer to be free to have many choices—or at least they accept the *promise* of having many more choices in the future—while their lives and those of their fellow human beings are ruled and regulated by a powerful central authority. A large part of the history of the twentieth century could be written as the shift from the first, and fundamental, meaning of "freedom" to the second. Both kinds of freedom are doubtless desirable, but people have been all too willing to give up the first kind of freedom for the second, only to find that the second was not after all vouchsafed to them precisely because the first was sacrificed; their fate had been placed in the hands of others.

Freedom and Other Values

It is most important to emphasize, however, that while freedom is an enormously great value, it is not the sum of all values. A person can be free and yet miserable. A person

may be free *from* tyranny and oppression and yet depressed, psychotic, or unhappy because of painful injuries. A person may be free *to* do many things and yet unhappy doing any of them.

"Freedom may mean freedom to starve, to make costly mistakes, or to run mortal risks. In the sense in which we use the term [freedom-from], the penniless vagabond who lives precariously by constant improvisation is indeed freer than the conscripted soldier with all his security and relative comfort."⁸

Nor is it even desirable that a person should be as free as possible in either sense. (1) A person should be free *from* others controlling his life, but not if he is a small child or an imbecile. In any case, there are many desirable laws restricting people's behavior, such as traffic laws, yet every law is a restriction on one's freedom from control by others. (2) A teenager who has just inherited a million dollars is freer *to* do many things than his peers are, but so much money so early in life may ruin him; it might be better if he had not had this freedom to spend so early in life, before he could handle it. Freedom is a heady wine, which needs to be tempered with responsibility, restraint, and rational thought. Having a considerable degree of it is, at best, a *necessary* condition for one's happiness or well-being, never a *sufficient* condition.

Freedom and the Market

For the free market to operate, there must be freedom from the whims of dictators and bureaucrats. The market can survive, though crippled, with *some* degree of interference, but when the interference becomes severe enough to keep a man from being able to estimate probabilities into the future, or when his taxes become so high that it is no longer worth his while to continue in operation, the market is no longer able to function so as to produce a vast quantity of goods and services at competitive prices. Freedom-from is indispensable to the market, and is indeed its chief condition.

Freedom-to is a highly beneficial *consequence* of the unimpeded operation of the market. When entrepreneurs are free from economic controls imposed on their activities by others, they will produce a proliferation of goods which the public is then free to consume. This freedom-to on the part of the public is the direct result of freedom from controls which makes the market able to function.

But this is a lesson which, unfortunately, most of the buying public has yet to learn. They want a large diversity of goods at competitive prices, but they are not averse to shackling the producer of these goods so as to make him less able to produce them. But in the economic

realm you cannot have the one freedom without the other: freedom-to (for the buyer) and freedom-from (for the producer) are inextricably linked. When the one is lost, so, in a short space of time, is the other. ☉

—FOOTNOTES—

¹Friedrich A. Hayek, *The Constitution of Liberty* (Chicago: University of Chicago Press, 1960), p. 12.

²Hayek writes, "True coercion occurs when armed bands of conquerors make the subject people toil for them, when organized gangsters extort a levy for 'protection,' when the knower of an evil secret blackmails his victim, and, of course, when the state threatens to inflict punishment and to employ physical force to make us obey its commands. There are many degrees of coercion, from the extreme case of the dominance of the master over the slave or the tyrant over the subject, where the unlimited power of punishment exacts complete submission to the will of the master, to the instance of the single threat of inflicting an evil to which the threatened would prefer almost anything else." (Hayek, *op. cit.*, pp. 137-8.) Yet he also holds—inconsistently, in my view—that the refusal of the desert-settler to give or sell water to his neighbor is an example of coercion.

³George Reisman, *The Government versus the Economy* (Ottawa, Illinois: Caroline House, 1980) pp. 97-98.

⁴For example, the phrase "political freedom" is sometimes applied to a nation when it is not occupied by the armies of *other* nations. In this sense, Nazi Germany was a free nation, and so are numerous African and Latin American dictatorships.

⁵See John Hospers, "Freedom and Democracy," *The Freeman*, June 1984.

⁶Hayek, *op. cit.*, p. 16.

⁷Hayek, *op. cit.*, p. 17.

⁸Hayek, *op. cit.*, p. 18.



The Consummate Role Player

MODERN CULTURE embraces fatuous men and women made popular by the inept and dismal creators and patrons of alluring yet banal attractions. Those who establish fashion, by means of news stories or events, focus the attention of the adoring multitude upon sportsmen and musicians, actors and politicians, often inventing a larger-than-life montage of mere individuals who, upon cursory analysis, leave a great deal to be desired as human beings. Occasionally, this fascination of the prosaic obscures a remarkable person, one who, in an age devoid of heroes, deserves accolades and applause. If requested, I think I should nominate one such man, Corky Calhoun, as the pre-eminent sportsman of this past decade, not so much for his athletic accomplishments as for his demeanor on the court and his apparent comprehension of a lesson worthwhile for all of us to learn and apply in every function and post in life.

It requires a true aficionado of

sport even to recall Corky Calhoun. He was the last man off the bench on a wondrous basketball team which, for a season and one-half, played Cinderella in charming fashion and transformed my tranquil home town at the confluence of the Columbia and Willamette Rivers into a cacophony of cheers and pride.

The National Basketball Association's Portland Trailblazers, a sorry expansion club in 1970, suddenly became a "team" in the finest sense of the word during the 1976-77 season. In a sport dominated by alleged superstars, often intent on individual accomplishment at the expense of others, an experienced coach (possessed of a Ph.D., no less) molded twelve players into a unit which rose to collect the crown and rule the sport for two-thirds of the ensuing year, until injuries felled all hopes for a dynasty.

The denizens who determine the existence and content of common

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heroes enjoyed a plethora of riches on this Blazer team: A colorfully-attired coach; a red-haired, deft-passing flower child at center; a muscular forward escapee from the late, unlamented American Basketball Association; a courageous blond Lilliputian in the land of giants; a speedy rookie from Dayton who blossomed in the spring; two men named Neal and Steele, first off the bench and capable of starting for almost any other club; and other individuals too numerous to mention; all welded into an entity which meshed like fine gears in a sonorous machine.

The Role Player

In light of these myriad demigods, why would anyone seek to sanctify Corky Calhoun, the man at the end of the pine? Simply stated, Corky Calhoun represented truly Homeric qualities in the life of sport. He recognized his role on the team and he played it with unyielding fervor. I recall him as a tall, slender black man, with long arms and bright eyes. He moved so smoothly that the very motion concealed his speed. He adhered to fundamentals and purpose. Most of all, I remember his smile which never left his countenance, even on the darkest of days. He enjoyed his work, his participation in a child's game, and he performed well. He was versatile. By size and nature, he exhibited the

characteristics of a "small forward," but he could fill in at "power forward," "off guard," or, in a pinch, even at the post. No matter the position or the occasion, Corky Calhoun did his best (which was quite good) and he did it smiling. One would hope that he displayed these sterling features in his private life as well.

The world craves role players, men and women who possess a sense of fundamental value and who adhere to civility with a smile at a time when principle, integrity and honor appear to be forsaking this foundering ship. By virtue of human nature and great misfortune, the world is inundated with dictators—large and small—but bereft of role players. The proof abounds about us. For every person of principle, one discerns a host of rabble who delight in barking orders and directing mankind. Leonard Read termed the latter "dictocrats," a most precise and scrupulous description.

Every planner, tyrant, slave master and social engineer—and those who direct them to positions of authority and feed off their misbegotten largess—all delight in dictating ends and means to their fellow citizens. The dictator decides what *should* be done and *how* to do it. He then commands others under his fleeting majesty to carry out his mandates or suffer the consequences. He cares nothing for the


hopes, prayers and desires of the pawns. He controls them in the same manner as the lord of the manor dominated the serf of medieval times.

Doing One's Best

Contrast the role player. He knows who he is and, just as important, who he is not. Corky Calhoun made a fine Corky Calhoun; he would have appeared very foolish if he had attempted to pass himself off as Bill Walton. The role player exhibits an awareness of participation in a greater plan, equivalent to the precept of team play in the NBA. One who recognizes natural law and governs his actions accordingly survives the vicissitudes of life with greater equanimity than one who flails at windmills. The role player seeks perfection of self. He does not consider himself to be the supervisor of the world. He knows that self-improvement constitutes a sufficient task for a lifetime and beyond. The role player subscribes to fundamental principles of moral law and right action, in much the same way that Corky Calhoun played position defense when called into a game. Most of all, the role player exemplifies with his smile (which may mask his fervor and passion) an acceptance of his role in life without quibble, quarrel or envy.

Many a panjandrumatic habitué of the entertainment, political or so-

cial scene devotes his life to the envious pursuit of shallow goals in an effort to avoid accountability and acquire the mythical something-for-nothing. The crowd substitutes self-aggrandizement for self-improvement, immoral acquisition for proper creation. The live-for-the-day hacks sponsor consumption in place of saving, and rely on theft and coercion in place of productivity and trade. The congruent quality of the show-off differs significantly from that of the role player: The former deals with appearance, the latter with reality. The consummate role player recognizes the essence of the shadows in Plato's cave; the pre-reflective dictator accepts demonstrated untruths as gilt-edged and unassailable verities.

Perhaps some of the alarming disarray of error afflicting mankind in the last quarter of this century could be set aright by the development of a few men and women emulating the courtside appearance of Corky Calhoun. Few of us are destined to shake the earth or perch it on our shoulders. Most of us possess quite limited talents and numerous faults. Those who fit the latter category should ascertain and practice high principle with fidelity within a self-perceived and supremely acquitted role. To do so entitles one to St. Paul's accolade applied to those who run the good race. 

The Fruits of Independence

THE Constitution of 1787 was a culmination. It was the culmination of a decade of constitution making in the states and for the United States. It was the culmination of several long traditions. For one, it was the culmination of a British tradition of having written acknowledgements and guarantees of rights and liberties. For another, it was the culmination of a colonial tradition of having governments based upon charters. And for yet another, it was the fruition of the Judeo-Christian and Protestant practice of appealing to the precise written word. The Constitution brought to fertile fruition, too, the natural law philosophy. The natural rights doctrine, which held a central place in the

justification of revolt against British rule, now served as a basis for protecting rights and freeing people under independence.

That is a way of saying that liberty was the great motivating theme of these years. The desire to preserve and extend their liberty moved the Patriots to break from England, to fight a War for Independence, and to establish their own governments. The constitution making of these years was animated by the determination to establish liberty more firmly upon these shores. Of course, those who participated in these activities were under the sway of a whole range of motives, ranging from the noble to ordinary to sometimes base ones, as people always are. But what distinguished them, surely, was the steadfast determination to establish liberty.

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Limited Government

The Founders believed that for people to have liberty and enjoy their rights governments must be limited and restrained. They believed that government is necessary, of course. It is necessary because men without government would do violence to one another; the strong would prey upon the weak; the clever would take unjust advantage of others; disorder would prevail. Or, to put it another way, man is a fallen creature and must be restrained from harming others. But governments are made up of men as well, and those who govern are given unusual power over others. It is especially important, then, that government be limited and restrained. If men were angels, Madison observed, they would have no need of government. And if they had angels to govern them, there would be no need of limiting the government. But those are not the conditions that prevail: there are fallible men to be governed and fallible men to govern them. That being the case, they believed that government should be limited.

Indeed, there probably have never been a people more jealous of their rights or more aware of the dangers of government to them than were Americans in the late 18th century. The documents of this period are replete with warnings about the dangers of extensive or unrestrained

government power. John Dickinson stated that it was his conviction "that every free state should incessantly watch and instantly take alarm on any addition being made to the power exercised over them."¹ Thomas Jefferson maintained that "The natural progress of things is for liberty to yield and government to gain ground."² John Adams wrote Thomas Jefferson in 1777 congratulating him on the fact that Virginia had been able to fill its quota for the Continental Army without resorting to the draft, for he said that a draft "is a dangerous Measure, and only to be adopted in great Extremities, even by popular Governments." He had observed, he said, that kings gathered armies in this fashion as a means of realizing their own ambitions.³ Power was the danger, not simply the form of government, according to Richard Henry Lee. He thought "that unbridled passions produce the same effect, whether in a king, nobility, or a mob. The experience of all mankind has proved the . . . disposition to use power wantonly. It is therefore as necessary to defend an individual against the majority in a republic as against the king in a monarchy."⁴

The dangers of government were fully rehearsed in the Constitutional Convention. For example, Rufus King of Massachusetts objected to setting a date for Congress to meet each year because he "could

not think there would be a necessity for a meeting every year. A great vice in our system was that of legislating too much.”⁵ Roger Sherman wanted to make the President absolutely dependent on Congress because “An independence of the Executive . . . was in his opinion the very essence of tyranny. . . .”⁶ Benjamin Franklin opposed salaries for those in the executive branch because, he said, “there are two passions which have a powerful influence on the affairs of men. These are ambition and avarice; the love of power, and the love of money. Separately, each of these has great force in prompting men to action; but when united . . . in the same object, they have in many minds the most violent effects. Place before the eyes of such men, a post of *honour* that shall be at the same time a place of *profit*, and they will move heaven and earth to obtain it.”⁷

James Madison pointed out the dangers of unrestricted majority rule: “In all cases where a majority are united by a common interest or passion,” he said, “the rights of the minority are in danger.”⁸

This awareness of the dangers of governmental power, an awareness sharpened by the history of the abuse of those powers over the years, provided the framework for the American limitation of government. It was this that so moved them to separate the powers of gov-

ernment into three branches—the legislative, executive and judicial —, to divide the legislature into two houses, to give the states a check on the government through the Senate, and to disperse power between the general government and the states. But the Founders went beyond separating and dispersing power; they made it necessary for branches to act in concert to accomplish their ends and required a *consensus* for great and important changes.

Legislation has to pass each of the houses separately and be approved by the President to become law. In addition to that, any act is supposed to be in keeping with the powers granted under the Constitution, and the courts may refuse to enforce it. Thus, ultimately, all acts may require the approval of all three branches. That would be majority rule, however. But if the President vetoes a bill, it can only become a law by being passed in each house by at least two-thirds of those voting. That moves closer to the requirement of consensus for government action. For major changes in the government—constitutional changes—there is, in effect, a required consensus. The ordinary route of amendment is for each of the houses to approve a proposed amendment by two-thirds of those voting. Then, the amendment must be submitted to the states, and three-fourths of them must approve

the change. All these are procedural requirements which limit the government.

The United States government is limited in two other ways by the Constitution. First, it is a government of enumerated (named) powers. The government is not clothed with all powers but only such as are named in the Constitution or necessary to put into effect those that are named. James Madison described the situation this way: "The powers delegated by the proposed Constitution to the federal government are few and defined. Those . . . will be exercised principally on external [foreign] objects, as war, peace, negotiation, and foreign commerce; with which last the power of taxation will, for the most part, be connected."⁹

All legislative powers in the United States government are vested by the Constitution in the Congress. Thus, the powers granted to the government are mostly named in the grant of these powers. They are listed in Section 8 of Article I, and include the following:

The Congress shall have Power to lay and collect Taxes. . . .

To borrow Money on the credit of the United States;

To regulate Commerce with foreign Nations, and among the several States, and with the Indian Tribes;

To establish a uniform Rule of Naturalization.

The going assumption at the time of the drawing and ratification of the Constitution was that the general government had only such powers as were granted. But it was not left as an assumption; the 10th Amendment spells out the point. 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 second way the United States government is limited is by specific prohibitions. For example, taxation is limited in various ways in the Constitution. It required that all direct taxes be apportioned on the basis of population (altered later by the 16th Amendment). Other taxes must be levied uniformly throughout the United States. All taxation must be for the common defense and/or general welfare of the United States, which was not a grant of power but a limitation upon it. Section 9, Article I contains these among other limitations:

The Privilege of the Writ of *Habeas Corpus* shall not be suspended, unless when in Cases of Rebellion or Invasion the public Safety may require it.

No Tax or Duty shall be laid on articles exported from any State. . . .

No Title of Nobility shall be granted by the United States.

In addition to such prohibitions as these the Bill of Rights or first ten amendments to the Constitution

consists of limitations on the United States government. As already noted, the fear of government generally, and especially of a central government, resulted in the move for a bill of rights. Many were emphatic about the need for such a list to limit the new government. Thomas Jefferson declared that it was a matter of principle with him "that a bill of rights is what the people are entitled to against every government. . . , and what no just government should refuse."¹⁰ Patrick Henry insisted that "If you intend to reserve your inalienable rights, you must have the most express stipulation. . . ."¹¹

Liberty, in its genuine sense, is security to enjoy the effects of our honest industry and labors, in a free and mild government, and personal security from all illegal restraints.

—Richard Henry Lee, 1787

At any rate, the Bill of Rights specifically restricts and limits the United States government. The first Amendment begins in a way to make that crystal clear: "*Congress shall make no law respecting an establishment of religion, or prohibiting the free exercise thereof; or abridging the freedom of speech,*"

etc. (Italics added.) The others do not point to a specific branch of government that may not act, but it is clear from the language that government is being restricted by them. For example, the fourth Amendment states that "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. . . ." Since governments are the only body that may legally do such things, the article clearly is limiting government. So it is with the other parts of the Bill of Rights.

Not only is the United States government limited by the Constitution, but the state governments are as well. They are limited, in the first place, by the grant of powers to the United States government, powers which, ordinarily, states may only exercise, if at all, with the approval of Congress. Second, some powers are absolutely denied to the states, e.g., "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 . . . Law impairing the Obligation of Contracts, or grant any Title of Nobility."

The central feature of the United States Constitution, then, is the limitation of government.

Freeing the Individual

A major fruit of independence was the freeing of the individual from a variety of government compulsions. Governments were restrained that individuals might be free. That was the thrust of the making of constitutions during these years. The state constitutions were already limiting state governments before the United States Constitution was written. States frequently had their own bills of rights which had as their main purpose the protection of their inhabitants from government. Moreover, many of the restraints which had been imposed under British rule were removed as independence was achieved. Indeed, Americans used the occasion offered by the break from England to remove those restraints on the individual that did not accord with their outlook.

One of those restraints on the individual was compulsory church attendance and the associated taxation and other restrictions supporting an established church. In the main, these restrictions were removed by disestablishing churches. The establishment most readily dispensed with was that of the Church of England. While that church was established in several colonies, it was not popular in most of them, many of its clergy remained loyal to England, and dissenters were numerous in most states. The move-

ment to disestablish the Church of England was greatly aided, too, by the fact that it was a national church; membership in it was tied to loyalty to the king of England. Since Americans could not accept that any longer, the church was speedily disestablished. Several states had no established churches: namely, New Jersey, Rhode Island, Pennsylvania, and Delaware. Even so, they used the opportunity afforded by independence to reduce religious restraints.

The established Congregational church was maintained for several decades in Massachusetts, Connecticut, and New Hampshire. There was, however, some lightening of the load of religious restrictions in these states. The Massachusetts constitution of 1780 affirmed that every man had the right to worship in his own way, that all churches were equal before the law, and tax monies could be used to pay ministers of churches generally. However, attendance in some Christian church was still required, and people were still taxed to pay ministers. New Hampshire made much the same provisions as Massachusetts, but Connecticut clung to as much as the leaders dared of the established church. They did allow a dissenter from it to avoid payment of taxes if he could present a certificate from an officer of the church showing that he attended. But the days of for-

mally established churches were ending in New England, too, though disestablishment in the last of these states was not completed until the 1830s.

The constitutions of New Jersey, Georgia, North and South Carolina, Delaware, and Pennsylvania provided that none should be compelled to pay taxes to churches nor attend any service except such as they chose. Virginia, however, made the most thorough-going effort to establish freedom of conscience. This might have been a reaction to the fact that Virginia had the oldest established church in English America and the most rigorously established. Thomas Jefferson, James Madison, and George Mason were leading advocates of religious liberty, but they did not succeed in getting their ideas into law until 1786. This was done by the Virginia Statute of Religious Freedom, which proclaimed religious liberty a natural right. The legally effective portion of the statute reads this way:

That no man shall be compelled to frequent or support any religious worship, place, or ministry whatsoever, nor shall be enforced, restrained, molested, or burdened in his body or goods, nor shall otherwise suffer on account of his religious opinions or belief; but that all men shall be free to profess and by argument to maintain, their opinion in matters of religion, and that the same shall in no wise diminish, enlarge, or affect their civil capacities.¹²

In large, this was what Americans were coming to think of as religious liberty.

The Constitution of the United States left to the states the power to determine as they would whether they would have an established church or to what extent religious liberty would prevail. The first Amendment simply prohibited Congress to establish a religion or interfere with its free exercise. The states did, however, move to disestablish churches and to reduce religious restrictions, as already noted, thus freeing people in the matter of conscience.

Many of the provisions in the state bills of rights, as well as the Bill of Rights for the United States, were guarantees of legal practices protecting the freedom of the individual that were a part of the British tradition. The Virginia Bill of Rights, adopted June 12, 1776, was both a model for such documents and illustrates the point. It guaranteed trial by jury in both criminal and civil cases, prohibited excessive bail and fines, declared general warrants to be oppressive, and acknowledged freedom of the press. The protections of persons accused of a crime were stated in detail:

That in all capital or criminal prosecutions a man hath a right to demand the cause and nature of his accusation, to be confronted with the accusers and witnesses, to call for evidence in his fa-

vour, and to a speedy trial by an impartial jury of his vicinage [the vicinity of where he lives], without whose unanimous consent he cannot be found guilty, nor can he be compelled to give evidence against himself; that no man may be deprived of his liberty, except by the law of the land or the judgment of his peers.¹³

In addition to these protections, the Massachusetts Declaration of Rights of 1780 provided for the right to bear arms, the right of peaceful assembly, the prohibition of *ex post facto* laws and bills of attainder, among others. Most of the above provisions are also in the United States Constitution.

Property Rights

There were some major changes from British practice, however, particularly in the matter of ownership of real property. Several feudal restraints on property were removed. Primogeniture—the legal provision requirement that if the owner died without a will the bulk of the estate went to the eldest son—was abolished generally. The most general encumbrance on property was the quitrent, an annual payment due to king or proprietors on land. Such claims as still existed at the time of independence were speedily extinguished, and land thereafter was generally owned in “fee simple.” Entail—legal provisions that estates could not be broken up—, where it existed, was abolished. Such royal

prerogatives as the right of the monarch to white pines (for shipbuilding) on private land were, of course, nullified.

A part of the freeing of the individual, then, was making real property ownership free of government restraints and disposable at will by the individual. Indeed, property in general was carefully protected both in state constitutions and in the United States Constitution. Some later commentators have claimed that the Founders distinguished between what they call “human rights” and property rights and attached greater significance to the former. The evidence for that does not appear in the documents or pronouncements of the time. If anything, they placed more emphasis on property than on other rights of humans, but they certainly did not declare one variety higher than the other.

For example, the Massachusetts Declaration of Rights states:

All men are born free and equal, and have certain natural, essential, and unalienable rights; among which may be reckoned the right of enjoying and defending their lives and liberties; that of acquiring, possessing, and protecting property; in fine, that of seeking and obtaining their safety and happiness.¹⁴

The Declaration went on to provide that “No part of the property of any individual can, with justice, be taken from him, or applied to public

uses, without his consent, or that of the representative body of the people. . . ."¹⁵ With even greater clarity, the Virginia Bill of Rights says that people "cannot be taxed or deprived of their property for public uses, without their own consent or that of their representatives so elected."¹⁶

Slavery

In any case, the tendency of the declarations and constitutions of these years was the freeing of individuals from governmental control of their affairs and protecting them in their rights. It has rightly been pointed out, of course, that where Negro slavery continued to exist it was a glaring exception to this tendency. Some have even gone so far as to accuse the Founders of hypocrisy in professing to believe in the equal rights of all men and acquiescing in the continuation of slavery. It strikes us as strange that Thomas Jefferson, who penned the stirring statement "that all men are created equal," should have been himself a slaveholder. But even in the case of chattel slavery the trend of the 1780s was toward the freeing of the individual, and if the trend and sentiment in the direction of ending slavery had continued apace the apparent contradiction would have been resolved.

Some states began to act with the purpose of eventually ending slavery almost as soon as independence

from Britain was declared. In 1776, Delaware prohibited the importation of slaves and removed all restraints on their manumission (freeing by the owner). Virginia stopped slave imports in 1778; Maryland adopted a similar measure in 1783. Both states permitted manumission. In 1780, Pennsylvania not only prohibited further importation of slaves but also provided that after that date all children born of slaves should be free. Similar enactments were made in the early 1780s in New Hampshire, Connecticut, and Rhode Island. In Massachusetts, the supreme court ruled that on the basis of that state's constitution of 1780 slavery was abolished there. Even North Carolina (the greatest resistance to freeing slaves was in the lower South) moved to discourage the slave trade in 1786 by taxing heavily such slaves as were imported after that time. In order to protect free Negroes, Virginia made it a crime punishable by death for anyone found guilty of selling a freed Negro into slavery. As already noted, the Northwest Ordinance of 1787 prohibited slavery in the Northwest territory.

Jefferson had written a warning about the continuation of slavery, which he abhorred, in his *Notes on Virginia*. It was a violation of their most basic rights to keep some people in perpetual bondage. "And can

the liberties of a nation be thought secure when we have removed their only firm basis, a conviction in the minds of the people that these liberties are the gift of God? That they are not to be violated but with his wrath? Indeed I tremble for my country," he said, "when I reflect that God is just: that his justice cannot sleep forever. . . ." ¹⁷

Madison, writing in defense of the Constitution, said that it would no doubt have been better if the slave trade had been prohibited by the Constitution rather than delaying action until 1808, but he looked forward to the time when "a traffic which has so loudly upbraided the barbarism of modern policy . . . may terminate forever. . . ." ¹⁸

There is no reason to doubt the sincerity of many of the Founders in wishing an end both to slavery and the slave trade. Moreover, at the earliest date that it could constitutionally Congress prohibited the importation of slaves. Although slaveholders in the lower South were still tenaciously attached to slavery, they were holding out against a tide running in the opposite direction in the 1780s. Even in the lower South, the crops which were so dependent on slave labor—rice and indigo—declined in importance once the break from England was made. Unfortunately, for the abolition of slavery, the cotton gin was invented in the 1790s; cotton

became an important fiber; and slavery was revived by the expansion into the Old Southwest.

Free Trade

One of the fruits of independence was the freeing of trade both within the United States and with other peoples around the world. Independence from Britain removed British imposed mercantile restrictions in one swoop. That is not to say that Britain did not continue in various ways to limit American trade after the break. They did, well into the 1790s, at least. But British mercantilism was no longer legally binding on Americans; they could trade with whomever they could and would around the world. Initially, too, the states adopted various restrictions which limited trade within the United States. But the Constitution of 1787 put an end to that.

American belief and sentiments were tending more and more to favor free trade. The freedom of people to trade with whomever they would on mutually agreeable terms seemed to them to be of a piece with freedom for the individual in general. Benjamin Franklin said that "it seems contrary to the nature of Commerce, for Government to interfere in the Prices of Commodities. Trade is a voluntary Thing between Buyer and Seller, in every article of which each exercises his own Judgment, and is to please himself." ¹⁹

Pelataiah Webster, an American economic thinker of this period, declared: "I propose . . . to take off every restraint and limitation from our commerce. Let trade be as free as air. Let every man make the most of his goods in his own way and then he will be satisfied."²⁰ Jefferson said that "the exercise of a free trade with all parts of the world" was "possessed by the American . . . as of natural right. . . ."²¹

Actually, the freedom to trade is a corollary of private property. The right to dispose of property on whatever terms he will to whomever he will is necessarily a part of the full ownership of property. At its fully extended development, it involves for the seller the right to find anywhere in the world that buyer who will make the best offer for his goods, his time, or his services. For the buyer of these, it involves his right to locate the most attractive goods at prices he is willing to pay.

Aside from the break from England, the greatest stride by Americans toward free trade was the ratification of the Constitution. The Constitution provided for a common market throughout the United States. The power to regulate commerce among the states was vested in the United States. Thereafter, the states could not obstruct commerce, and the whole country became in effect, a free trading area. Further, the Constitution provided that

states may not tax imports or exports, except for carrying out inspection laws, without the consent of Congress. But to discourage any of that, all money collected had to be paid into the U.S. Treasury.

A Common Currency

The Constitution contains several other provisions promoting a common market throughout the country. Congress is empowered to pass uniform bankruptcy laws, set up standard weights and measures, and establish post offices and post roads. A common currency (or money) is also important for trade to take place easily. So far as the Constitution provides for a common currency, however, it does so by indirection. It authorizes the government to coin money and to regulate its value. It does not authorize the passing of any tender laws (laws making any currency or money legal tender or forcing its acceptance), and it prohibits states to make anything legal tender except gold and silver coins.

Paper money had a well deserved bad reputation at the time of the making of the Constitution. Not only did Americans generally have the recent unsettling experience with the Continental currency, which became worthless, but also several states had in the 1780s flooded the market with virtually worthless paper money. When the

states, most notably Rhode Island, adopted laws to force the paper money into circulation, it not only obstructed trade but also endangered property in debts. The subject of paper money came up twice for extended discussion in the Constitutional Convention. It arose once over a proposal to authorize Congress to emit bills of credit (issue paper money). The delegates were overwhelmingly opposed to the proposal. The tenor of the opposition may be gathered from these delegate comments. Oliver Ellsworth of Connecticut declared that he "thought this a favorable moment to shut and bar the door against paper money. . . . The power may do harm, never good."²² George Read of Delaware "thought the words [emit bills of credit], 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 . . . words."²³ Voting by states, the delegates omitted the power by a vote of 9 to 2.

Paper money came up again in connection with a proposal to permit the states to emit bills of credit with the consent of Congress. That, too, was overwhelmingly rejected. The states are prohibited to issue paper money. Thus, the only provision for a common currency is in the power of the United States to coin money

and the reserved power of the states to make those of gold and silver legal tender.

While the Constitution does not specifically provide for free trade with the rest of the world, its provisions lean in that direction. It does provide that "No Tax or Duty shall be laid on Articles exported from any State." Thus, tariffs on exports are prohibited. Congress is authorized to levy tariffs on imports. In any case, the widespread sentiment in favor of freeing trade set the stage for low tariffs in the early decades of the Republic, and many Americans had come to dislike British mercantilistic restraints too much to wish to impose them on their own trade.

The Voluntary Way

The story of America after 1789, until well into the 20th century, is not so much the story of the doings of government as of people generally. It is the story of freed individuals working, building, growing crops, building factories, clearing the land for farms, organizing churches, providing for families, and doing all those things that make up the warp and woof of life. They did this singly as individuals, as families, and in voluntary groups. This is always to some degree true, of course. The world's work is done by people generally and very little by governments. But

governments often play a dominant role in the economic, social, religious, educational, recreational, and community lives of a people. This had been so in the European countries from which American settlers came. It has become the rule once again in most places in the world in the 20th century.

The constitution making cleared the ground for the triumph of the voluntary way in America in the late 18th century. Governments were restrained and individuals were freed to pursue their own devices alone or in voluntary cooperation with others. There is no need to exaggerate the extent of this change, however. The British colonists generally enjoyed considerable liberty, as a result of British tradition and law, of British neglect, and of the remoteness of many people from the oversight of government. The Americans continued much of what they considered to be the best of their British heritage under their new constitutions. Nor was everyone freed nor to the same degree under them. Slaves were still in bondage where slavery was continued and could hardly participate in the voluntary way. Children were, as they usually are, under the authority of their parents or other adults. Women generally were still under the protection and in some respects the authority of men—fathers, older brothers, and hus-

bands—, partners, as adults, ordinarily to men, though in some ways subordinate ones. But these last were family matters, not things under the direction of government.

In large, then, the voluntary way triumphed. Governments still issued charters for some undertakings, but these more often confirmed some voluntary undertaking than initiating it. Even the registry of births and deaths was much more apt to be done in the family Bible than in some government office. As churches were disestablished, religion became a voluntary affair. Attendance, participation, the payment of the clergy, what structures would be built, what services would be held, were matters left to individual and family choice and voluntary cooperation. Education had never been firmly established by government in America. There had been some faltering attempts to do so in New England and New York, but not much came of them. The education of children was largely left to parents, and schools and colleges were set up, when they were, by churches or other voluntary associations or simply by some schoolmaster. So it was, too, in the matter of providing for those in temporary or some longer term need. Most often, extended families provided for orphans, for widows, for the sick, and for the disabled. Institutional charity, such as it was, was most apt to

be provided by churches or private gifts.

Under mercantilism, governments had attempted to direct economic activity for their own ends. The British had not only restricted and controlled economic activity but also granted monopolies to chartered companies to engage in specified production or trade. American colonies had sometimes imitated some of these mercantilistic practices. There were still residues of mercantilism at the time of the founding of the United States, but in general Americans preferred voluntary economic activity to that which was government directed. Mostly men started and operated businesses without asking the leave or aid or charters from government. They built ships and plied the seas in trade as they could and would. In short, they tended to follow the voluntary in their economic life.

How America flourished and grew by voluntary cooperation is a story to be told in detail elsewhere. Suffice it to say here that numerous voluntary societies came into being, that religious denominations multiplied and congregations were organized in virtually every community, that schools and colleges became commonplace, and that there were no more enterprising people in the world than were Americans in the 19th century. ④

—FOOTNOTES—

¹John Dickinson, *Letters from a Farmer in Pennsylvania* in *Empire and Interest*, Forrest McDonald, intro. (Englewood Cliffs, N.J.: Prentice-Hall, 1962), p. 73.

²Edward Dumbauld, ed., *The Political Writings of Thomas Jefferson* (New York: Liberal Arts Press, 1955), p. 138.

³Lester J. Cappon, ed., *The Adams-Jefferson Letters*, vol. I (Chapel Hill: University of North Carolina Press, 1959), p. 5.

⁴Jack P. Greene, ed., *Colonies to Nation* (New York: McGraw-Hill, 1967), p. 562.

⁵James Madison, *Notes of the Debates in the Federal Convention of 1787*, Adrienne Koch, intro. (Athens, Ohio: Ohio University Press, 1966), p. 398.

⁶*Ibid.*, p. 48.

⁷*Ibid.*, p. 53.

⁸*Ibid.*, p. 76.

⁹Alexander Hamilton, et. al., *The Federalist Papers* (New Rochelle, N.Y.: Arlington House, n.d.), p. 292.

¹⁰Alfred Young, ed. *The Debate over the Constitution* (Chicago: Rand McNally, 1965), p. 49.

¹¹Quoted in Moses C. Tyler, *Patrick Henry* (Boston: Houghton Mifflin, 1887), p. 290.

¹²Greene, *op. cit.*, p. 391.

¹³Henry S. Commager, ed., *Documents of American History*, vol. I (New York: Appleton-Century-Crofts, 1962, 7th ed., 1962), p. 104.

¹⁴*Ibid.*, p. 107.

¹⁵*Ibid.*, p. 108.

¹⁶*Ibid.*, p. 104.

¹⁷Greene, *op. cit.*, p. 398.

¹⁸Hamilton, *op. cit.*, p. 266.

¹⁹Quoted in Virgle G. Wilhite, *Founders of American Economic Thought* (New York: Bookman, 1958), p. 308.

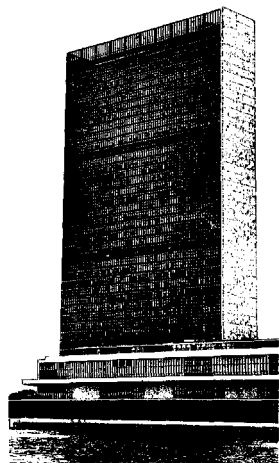
²⁰*Ibid.*, p. 172.

²¹Dumbauld, *op. cit.*, p. 19.

²²Charles C. Tansill, ed., *Formation of the Union of the American States* (Washington: Government Printing Office, 1927), p. 557.

²³*Ibid.*

The Broken Dream



THE UNITED NATIONS today is a sorry forum in which the unfree nations of the world make ever more oppressive claims on our freedom, in which the planned nations of the world make ever more burdensome claims on our wealth, and in which nations not our friends make ever more relentless claims on the sovereignty of our friends.

Like all overweening governments, the United Nations is used by those controlling it to exact tribute from their fellow man, a facility Americans, too, gained in the aftermath of the Great Depression. The endless bickering among the claimants as to the size, scope, and shares of their demands is punctuated by righteous professions of devotion to

peace and indignant protestations of good faith. Our part in this forum, only lately reconsidered, has been to bargain with our freedom, bribe with our wealth, and trifle with our friends. Despite good intentions, our reluctant affirmatives and irresolute abstentions have only served to stamp the unwholesome Acts of this motley body with the validity of the Law of Nations, making way for the next, bolder set of demands.

What went wrong with the forum created, above all, to secure the noble ideals of harmony, goodwill, and peace? Many are the answers provided by the conventionally wise: the distribution of resources, rising ethnicity, continued economic disparities, global scarcities, the rise of international terrorism, the emergence of superpowers, the voting

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structure of the body, the paucity of its powers, and propaganda campaigns, to name but a few. But though some of these conditions are problematic, there are always global and local trends and it is never too difficult to relate the immediate causes of dissension and unrest to these. These are inessential answers that hardly suffice. Then, with Hobbes in mind and a terrible prejudice against human nature, we are told that the promise was too great, the dream too grand, the aspirations too high: The problem of war, they say, is without a solution.

Yet I hold a radically different view. As I see it, the promise was not great enough, the dream not grand enough, the aspirations not high enough. Nothing at all went wrong with the United Nations. It was fatally flawed from the start, for it was based on a conception of peace at once too narrow and too broad, and sought solution to mankind's greatest trouble without searching out its cause. Peace, it was thought, is the presence of goodwill and love or the absence of war. It is neither. The former fosters peace and the latter is the result of peace, for *peace is the absence of force*.

"Live and Let Live"

A world at peace would be governed by the ethos of "Live and Let Live." Force would be used when necessary in self-defense, never as a

means to an end. A world at peace, if I may be permitted the vision, brings to mind not a temporary cessation of hostilities in a violent world but a federation of minimally coercive societies in which the bayonets of government compulsion are raised only to neutralize the aggressive individual or outsider.


The deeply mistaken premise of the world body was that governments could solve the problem of war by forming yet another government. But with war, as with so much else, governments are the problem not the solution. There is not a people on Earth who would not rather live in peace. As Solzhenitsyn reminds us in his latest work, *The Mortal Danger*, this is as true of the enslaved Soviet peoples as of us, here in America. But when the powers that be, known as governments, are not accountable to the people, when they who make wars need never fight them, popular yearnings for peace are invariably broken.

More than this, though, the United Nations is predicated on an unwholesome disjunction of ideas. Somehow it is believed that the right to noninterference which among nations is known as sovereignty and among their peoples as sovereignty of the individual is divisible and that therefore the condition of noninterference which among nations is known as peace and among their citizens as liberty

or security is also divisible, that the one can be attained without the other. When have governments practiced in the unprovoked use of force at home been reluctant to aggress abroad? Are we to believe it an accident of history that the most ruthless dictators have always been the most aggressive?

When, it is asked with longing, will the long-sought ideal of lasting peace descend on the world? The answer is as simple as it is elusive: When the authority of governments is derived from the consent of the governed and extends no farther

than the protection of life, liberty, and property properly understood.

Governments were created, Hobbes says, to remove us from "the miserable condition of war" between one man and his fellow. It is now imperative for just this cause (writ large) that we move down the other road, the road to liberty. There is not a nation among nations which could not stand a substantial reduction in government. A real, mutual, verifiable reduction in weapons' stockpiles is indeed a beneficent idea, but it is hardly what matters most. After all, weapons do not wage wars, governments do. 

Social Power

PEACE is the business of Society. Society is a cooperative effort, springing spontaneously from man's urge to improve on his circumstances and widen his horizon. It is voluntary, completely free of force. It comes because man has learned that the task of life is easier of accomplishment through the exchange of goods, services, and ideas. The greater the volume and the fluidity of such exchanges, the richer and fuller the life of every member of Society. That is the law of association—and of peace.

It is in the free market place that man's peaceful ways are expressed. Here the individual voluntarily gives up possession of what he has in abundance to gain possession of what he lacks. It is in the market place that Society flourishes because it is in the market place that the individual flourishes. Not only does he find here the satisfactions for which he craves, but he also learns of the desires of his fellow men so that he may the better serve them. More than that, it is in the market place that he learns of and swaps ideas, hopes, and dreams and comes away with values of greater worth to him than the material things he acquired.

IDEAS ON



LIBERTY



Socialism Is Legal Plunder

FREDERIC BASTIAT, a member of the French Chamber of Deputies in the 1840s, is the author of perhaps the most damning definition of government ever penned: "The state is the great fiction by which everybody tries to live at the expense of everybody else."

When Bastiat made that statement to his fellow-legislators, they ignored him as usual, and continued to design and implement still more welfare programs to be financed by taking money from some people and transferring it to other people as a gift from government. Bastiat called that process "socialism," and he

fought against it throughout his career as editor, author, farmer, teacher, and legislator.

Bastiat's classical commentary on government, *The Law*, was published in 1850, a few months before his death. In that short book he explained his concept that plunder is plunder, whether done illegally by a robber who hopes to profit directly, or legally by a group of legislators who profit indirectly by thus maintaining their government jobs.

Actually, since Bastiat was as much a philosopher as he was a political economist, his writings tend to deal with universal principles on the proper organization of government, and what is (and is not) a proper governmental activity, and why.

The opening quotation from *The Law* concerns a frightening development in government Bastiat de-

Dr. Russell, recently retired from a full schedule of academic work, continues free lance consulting, lecturing and writing from his home in Westchester County, New York.

This is one of a series of articles examining current interventions of the welfare state in the light of warnings from the French economist and statesman, Frederic Bastiat (1801-1850).

tected in France almost 150 years ago—a development you may recognize as applicable to many of the activities of our own government. “The law [government] perverted. And the police powers of the state perverted along with it. The law, I say, not only turned from its proper purpose but made to follow an entirely contrary purpose. The law became the weapon of every kind of greed. Instead of checking crime, the law [government] itself guilty of the evils it is supposed to punish.

“If this is true, it is a serious fact, and moral duty requires me to call the attention of my fellow citizens to it.”

The governmental activities and projects he opposed in the 1840s in France are still with us today in the United States (as well as in France and every other nation). It is not that today’s problems are somewhat similar to those Bastiat discussed in his day—they are identical, merely dressed in new clothes and grown much bigger.

The destructive effects of those governmental activities as predicted by Bastiat a century and a half ago are visible everywhere, in the United States as in France—huge deficits, increasing taxes, inflation, more crime, an enormous growth in government, a decline in moral values, and so on. As a result of the accuracy of Bastiat’s predictions, there has been a resurgence of inter-

est in his works in his own country. And the same phenomenon is occurring here in the United States.

Legal and Illegal Plunder

To get to the heart of the matter, here’s Bastiat’s basic concept on plunder, both illegal (theft) and legal (socialism):

There are two kinds of plunder: legal and illegal. I do not think that illegal plunder, such as theft or swindling that the penal code defines and punishes, can be called socialism. It is not this kind of plunder that systematically threatens the foundations of society. Anyway, the war against . . . illegal plunder has been going on since the beginning of mankind. Long before the Revolution—long before the appearance even of socialism itself—France had provided police, judges, prisons, and scaffolds for the purpose of fighting illegal plunder. The law itself conducts this war, and it is my wish and opinion that the law should always maintain this attitude toward plunder.

But it does not always do this. Sometimes the law defends plunder and participates in it. Thus the beneficiaries are spared the shame and danger that their acts would otherwise involve. Sometimes the law places the whole apparatus of judges, police, and prisons at the service of the plunderers—and treats the victim, when he defends himself, as a criminal. In short, there is *legal plunder*. . . .

But how is this legal plunder to be identified? Quite simply. See if the law takes from some persons what belongs to them and gives it to other persons to

whom it does not belong. See if the law benefits one citizen at the expense of another by doing what the citizen himself cannot do without committing a crime.

Then abolish that law without delay. For it is not only an evil in itself but also a fertile source for further evils because it invites reprisals and imitation. If such a law—which may be an isolated case—is not abolished immediately, it will spread, multiply, and develop into a system. . . .

Legal plunder can be committed in an infinite number of ways. Thus we have an infinite number of plans for organizing it: tariffs, subsidies, progressive taxation, government schools, guaranteed jobs, guaranteed profits, minimum wages, a right to relief, a right to the tools of labor, free credit, and so on and so on. All these plans together—with their common aim of legal plunder—constitute socialism. . . .

If you wish to be strong, begin by rooting out every particle of socialism that may have crept into your legislation. This will be no light task. . . .

This question of legal plunder must be settled once and for all, and there are only three ways to settle it: First, the few plunder the many. Second, everybody plunders everybody. Third, nobody plunders anybody.

We must make our choice among limited plunder, universal plunder, and no plunder. The law can follow only one of these three.

Limited legal plunder: This system prevailed when the right to vote was restricted. Some would turn back to this system to prevent the invasion of socialism.

Universal legal plunder: We have been

threatened with this system since the franchise was made universal. The newly enfranchised majority have decided to formulate law on the same principle of legal plunder that was used by their predecessors when the vote was restricted.

No legal plunder: This is the principle of justice, peace, order, stability, harmony, and logic. Until the day of my death, I shall proclaim this principle with all my strength. . . .


In all sincerity, can anything more than the absence of plunder be required of the law? Can the law—which necessarily requires the use of force—rationally be used for anything except protecting the equal right of everyone? I defy anyone to extend it beyond this purpose without perverting it and, consequently, turning might against right. This is the most fatal and most illogical social perversion that can possibly be imagined. It must be admitted that the true solution—so long searched for in the area of social relationships—is contained in these simple words: *Law is organized justice.*

Now this must be said: When justice is organized by law—that is, by force—this excludes the idea of using law [government] to organize any human activity whatever, whether it be labor, charity, agriculture, commerce, industry, education, art, or religion. The organizing by law of any one of these would inevitably destroy the essential organization—justice. For truly, how can we imagine force being used against the liberty of peaceful citizens without it also being used against justice, and thus acting contrary to its proper purpose?

Here I encounter the most popular fal-

lacy of our times. It is not considered sufficient for the law to be just; it must be philanthropic. Nor is it sufficient that the law should guarantee to every citizen the free and inoffensive use of his faculties for physical, intellectual, and moral self-improvement. Instead, it is demanded that the law should directly extend welfare, education, and morality throughout the nation.

This is the seductive lure of socialism. And I repeat: These two uses of the law are in direct opposition to each other. We must choose between them. A citizen cannot at the same time be free and not free.

In the above discussion on legal plunder (socialism), Bastiat identifies at least 16 specific areas in which it was found in France in 1848. After that listing, he adds, "and so on and so on." Every one of those listed programs and projects is widely sponsored by our own government today, including many additional "legal plunder schemes" to be found under Bastiat's catch-all phrase, "and so on and so on." These will be discussed in subsequent articles. 

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The law, it has been said, is nothing more than the will of tyrants. So it has been many times in history. But just laws depend upon a law which underlies the law passed by legislatures or declared by rulers. It is a law which provides the framework of liberty. Emancipation from the doleful theories of the compulsive state awaits discerning readers of this brief treatise.

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The Religion of Statolatry

"People frequently call socialism a religion," said Mises. "It is indeed the religion of self-deification."¹ Ozymandias of Percy Shelley's famous poem exemplifies this self-deification. "My name is Ozymandias, king of kings: look on my works, ye Mighty, and despair!" Clearly he was a man who believed in his own omnipotence: such power that even the Mighty would despair. Yet the Mighty did not despair, as the poem states, "Nothing beside remains . . . boundless and bare the lone and level sands stretch far away." All that remains is the wreckage of his statue, a monument no longer to his greatness but merely to his vanity.

Ozymandias was unique only for his audacity and not for his subsequent failure. His fate is shared by anyone who would put himself above the rule of God. As surely as the engineer is limited by the laws of physics, so the politician is limited by the laws of human action. It is not the "frown, and wrinkled lip,

and sneer of cold command" which directs people to thrive and create the monuments we see; rather it is their regard for their own self-interest. And these are monuments to the human spirit, not to the "cold command" of some ruler, no more endowed than his subjects.

"The market economy needs no apologists and propagandists. It can apply to itself the words of Sir Christopher Wren's epitaph in St. Paul's: *Si monumentum requiris, circumspice*. (If you seek his monument, look around.)"²

Ozymandias was mocked by his sculptor, his monument shattered, and whatever works he refers to in his epitaph are long ago buried by the endless sand. There could be no more fitting end for a man who would put himself above God. His monument should stand as a warning to whoever would espouse as progressive the dogma of this king of kings from an antique land. ☉

Mr. Aguilar is a free-lance writer in Santa Barbara, California.

¹ Ludwig von Mises, *Human Action* (Chicago: Contemporary Books, Inc.), p. 693.

² Mises, p. 854.

The Rise of the Right

BACK in 1950 Frank Chodorov, a libertarian known to Henry Hazlitt as "the Grand Street philosopher," came into the offices of the *Freeman* to commend us for our first issue. Chodorov had a prediction to make, based on the history of the socialist Fabian Society in England. The Fabians had begun in the Eighties as a debating society committed to preaching what Sidney Webb called "the inevitability of gradualism." At its inception it could hardly fill a hall. Forty years later it had taken over England. It had also moved in on America in the shape of the New Deal.

What Chodorov had to say was that we were helping to start something that wouldn't pay off for at least a full generation. But he assured us of our ultimate success. The libertarians and conservatives would have to be content for a while

with small victories. But, following a strategy of Fabianism-in-reverse, the movement would eventually displace the collectivists who had filched the name of "liberal" for themselves in what Chodorov termed a semantic swindle.

It is too bad that Chodorov didn't live to read William A. Rusher's *The Rise of the Right* (New York: William Morrow and Co., 336 pages, \$15.95). What Rusher, the publisher of William Buckley's *National Review*, has to tell us is that everything has turned out exactly as Chodorov had predicted. What was prophecy with Chodorov in 1950 has become history in 1984.

Rusher, in a "personal word," tells of some books that affected his youthful thinking when he was just out of law school. There were Whitaker Chambers' *Witness*, Russell Kirk's *The Conservative Mind*, and

Hayek's *The Road to Serfdom*. But a "major episode" in the early Fifties that impressed him most was the "founding of the *Freeman*," which he treats as "a sort of journalistic John the Baptist—a precursor of *National Review*."

The "protoconservatives" who clustered around the *Freeman* moved over to the *National Review* before Rusher became its publisher, but Rusher had already had his initiation into conservative "movement" affairs during seventeen months in Washington, where he served as Bob Morris's associate counsel at the Eastland Senate Internal Security Subcommittee. Rusher's work in investigating the "Communist issue" commended him to Bill Buckley, so instead of returning to a Wall Street law firm after his Washington experience he joined *National Review*.

Ideas Come First

As a historian of the influence of *National Review* on the "rise of the Right," Bill Rusher is fully convinced that ideas must come first in promoting social change. But Rusher had been a Young Republican activist before he became a magazine publisher, and his whole impulse was to let ideas move him into action. Ever since 1960 he has been in the movement to elect conservatives to political office, whether as Republicans, or, as in

the case of New York State, as nominees of the Conservative Party.

With Clif White, Rusher established a group which, as the "watershed year" of 1964 approached, became the "draft Goldwater" movement. Goldwater, a reluctant candidate, took a bad licking in the electoral college, but his candidacy changed the nature of the Republican Party, shifting its control from Nelson Rockefeller's East to the West and South. The shift was not without its troubles and disappointments. Rusher has had little use for Richard Nixon, or even for midwestern "moderates" such as Jerry Ford or George Romney, and the Republican failure to nominate Ronald Reagan in 1968 or 1976 provoked Bill Rusher into some years of fruitless spadework looking toward the establishment of a third party. Reagan's refusal to become the candidate of Rusher's proposed third party was frustrating, but with Reagan's final presidential victory in 1980 Rusher is satisfied that Republicanism and conservatism have been happily mated at last. The so-called New Majority is here to stay, no matter what the official party label.

Rusher's larger concern is cultural and spiritual. He hopes to witness a "final victory of Western Judaeo-Christian society over that misbegotten child of the Enlightenment, communism." Conservatives

have demonstrated that they can elect a President, and even a majority of the U.S. Senate, but they have not yet shown they can deal with the Communist formula for promoting new leftist guerrilla takeovers of Third World nations at an alarmingly progressive pace. This is hardly compatible with Rusher's idea of a "final victory."

Foreign Policy and Debt

The problem of dissidence among conservatives and libertarians over foreign policy is skirted by Rusher. So, too, is the problem of a national debt of more than a trillion-and-one-half dollars. There will be plenty of fights to come over such questions as social security, and over the problem of "entitlements" in general, but Rusher thinks the conservatives will have the edge in solving them. The "fatal weakness" of the liberals, as he sees it, is that they "have no philosophy." So "the challenges posed by twentieth century liberalism, which played so long and so dominant a role in American politics, may prove less menacing in the future than its impressive past might lead us to expect."

Rusher puts an inordinate stress on politics. Libertarians among those whom he classifies as conservatives might object that Rusher has not allowed enough for the possibility that most of our problems might better be settled without

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 \$6.00 from The Foundation for Economic Education, Irvington-on-Hudson, New York 10533.

bringing government into the picture at all. The experience of Italy is instructive here. With both the political Left and the political Right in Italy unable to run things, a hidden economy has grown up parallel to the officially recognized one. The hidden economy keeps no records. It is a prosperous contributor to the GNP nonetheless.

The political movement whose rise has been so well chronicled by Rusher now has its journals of opinion, its think tanks, its legal foundations, its big spread of political action committees, and its newspaper columnists who dominate the op. ed. pages. But Congressman Jack Kemp might tell Bill Rusher that the movement can still founder if it can't come up with a solution for our monetary problems. It could be as simple—or as complicated—as that.

the Freeman

VOL. 34, NO. 10 • OCTOBER 1984

Self-Reliance—		
A Page on Freedom, No. 12	J. Ollie Edmunds	579
"That something" special in American character.		
The Debt: Catastrophic Urgency, Little Concern	Jeff Van Drunen	580
The problem of the Federal debt and how to cope with it.		
Freedom of the Press	Gary McGath	590
Not so much a privilege as a responsibility.		
The Supply of Labor	Hans F. Sennholz	594
Factors that affect entrance to or withdrawal from the labor force.		
Tariffs Are Legal Plunder	Dean Russell	613
Protectionism is as harmful today as in Bastiat's France of 1850.		
Churchpeople, Socialism, and Capitalism	John K. Williams	620
A further study of Biblical references to economic affairs.		
Book Reviews:		635
"My Years With Ludwig von Mises" by Margit von Mises		
"Free Banking in Britain: Theory, Experience, and Debate, 1800–1845" by Lawrence H. White		
"Pieces of Eight: The Monetary Powers and Disabilities of the U.S. Constitution" by Edwin Vieira, Jr.		
"Overdrive" by William F. Buckley, Jr.		

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Self-Reliance

THE GREAT CAUSE for alarm is not that the “planners” want to plan our lives but that we are allowing them to do so. And the most tragic aspect of it all is that so many of us, who should be more far-seeing, are helping them, by scurrying to Washington every time our own “security” in the form of special favors is endangered, every time we ourselves want some “planning”—subsidy—from the government.

This country was not built by men who relied on somebody else to take care of them. It was built by men who relied on themselves, who dared to shape their own lives, who had enough courage to blaze new trails—enough confidence in themselves to take the necessary risks.

This self-reliance is our American legacy. It is the secret of “that something” which stamped Americans as Americans. Some call it individual initiative; others backbone. But

whatever it is called, it is a precious ingredient in our national character—one which we must not lose.

The time has come for us to reestablish the rights for which we stand—to reassert our inalienable rights to human dignity, self-respect, self-reliance—to be again the kind of people who once made America great.

Such a crusade for renewed independence will require a succession of inspired leaders—leaders in spirit and in knowledge of the problem, not just men with political power who are opposed to communism, or to diluted communism, but men who are militantly for the distinctive way of life that was America. We are likely to find such leaders only among those persons who teach self-reliance and who practice it with the strict devotion of belief and understanding. ☸

—J. Ollie Edmunds

THE DEBT:

Catastrophic Urgency, Little Concern

IN recent years the annual federal budget deficit has been growing at a steady rate. Last year alone the "on budget" deficit was nearly \$200 billion. Many people show little concern over these increasing budget deficits and some others who are concerned feel the problem is too great for anyone to tackle. The deficit is not generally talked about with concern among friends and it draws proportionally little serious attention when positioned next to popular daily news items.

The inexorable consequences of continued government deficits will be far more devastating than a few pins and needles from the local Girl Scout Troop, and the general lack of concern by the population indicates little understanding about this "strange" monster called the deficit.

Mr. Van Drunen is a senior at Purdue University and is seriously concerned about the debt he bears.

Statistically, annual budget deficits are growing faster than the economy and also faster than general revenues. Currently the annual increase approaches 18 per cent; an added \$20 billion a year is needed to pay the interest on the previous years deficit.¹ The total Federal debt to date, since the founding of our country is over \$1 trillion; yet at the present rate, in the next 10 short years more than a *doubling* of this debt will take place.

The dangers associated with this debt are very real, and the final principal evil resulting from this debt will be a debasement of the national currency, or in other words, monetization of the debt. Monetization of the U.S. Federal deficit is the most politically acceptable way to "pay" the deficit; however, the consequences of this inflation will be devastating. Economically speak-

ing, a reduction in Federal spending is the only way to reduce our deficits and eliminate the temptation to inflate the money supply if the U.S. is to prosper in the future.

What Is a Debt?

"Individuals and nations can pay for their purchases in three ways: 1) out of current earnings, 2) by drawing from past savings, 3) by going in debt." Government debt is no different from private debt in that deficit spending is simply spending money one does not yet have. Therefore, if Congress votes to spend more money than they take in by taxation or donation, assuming they don't have a savings account to draw from, they must run a deficit. Annual increasing budget deficits of course indicate the government truly has no large bank account to draw from. Deficit spending is a result of excessive government spending. This leads to the question: Why is the government caught up in excessive spending, why doesn't the government stop spending money it does not have?

Why Does the Government Run a Deficit?

The beginning of the U.S. budget deficits are partially attributed to a man named John Maynard Keynes (Keynesian economics). Keynes argued that during a time of depression and unemployment, such as that experienced during the 1929

Great Depression, the government could intervene into private affairs and manipulate savings to offset the generally depressed and unemployed economy. The way he proposed to accomplish this was by increasing "national aggregate demand," by running a government budget deficit during depressed years. Keynes saw that the borrowed money would have a stimulating effect on the economy when initially introduced; however, when the deficit was paid back he realized an opposite, non-stimulating, effect would result.

Eventually, many people began to understand that a bit of stimulation was pleasant when initially introduced into the economy. Continued deficit spending resulted in continued increases in aggregate demand. Finally, many economists and politicians began to believe that an outstanding deficit was the solution to any slowdown in the economy and that deficit spending was a very necessary insurance policy for a successful U.S. economy. This was all very acceptable to those who favored the Keynesian deficits. However, Keynes never resolved how these outstanding deficits would be financed. Keynesian deficits *had to be financed* and that was the unpleasant catch. More will be said about financing deficits later.

The birth of many government programs we have today started in

conjunction with the "Keynesian Revolution." Among these programs are Social Security, Medicaid, and Food Stamps to name just a common few. (Actually, a list of all government financed programs would be longer than this essay.) The point to be made is that government, over time, began to take on the function of being responsible for more than its original and narrowly defined purpose of protecting and maintaining a free society.

Entitlements Claimed

People became accustomed to the government subsidizing part of their income and started to rely on the government for financial security. As time passed the term "entitlement programs" was used to describe these government subsidized payments, and a growing number of students, elderly, and other special interest groups began feeling the government had a duty to provide these subsidized payments to them. Lawrence Reed clearly describes the entitlement program problem he encountered while running for Congress:

Similar experience came my way throughout the campaign. A farmer wanted dairy subsidies; a teacher demanded more money for education; some business man asked for more small business loans; a mayor appealed for more revenue sharing funds, and so on it went. And of course they all wanted me to be sure to send the bill to someone else. Is

it any wonder we are becoming addicted to deficit spending, a practice that threatens to sink the U.S. economy with an incomprehensible burden of debt?³

Transfer Payments

As special interest groups began to associate with the "right" to government transfer payments, derived from tax revenues and ultimately deficit spending, politicians began to find themselves in an increasingly sticky funding situation. Politicians are faced with the desire to be *elected* at the beginning of each new political term, and generally the politician who promises the most benefits from the hard-taxed public to the special interest groups in his district receives the most votes. This was not the sole determinant of who would or would not be elected during the early years of government spending. However, the *number of people participating* in government-financed spending programs increased rapidly as more and more people became "entitled" to one spending program or another. According to economist Warren T. Brookes, "Nearly 55% of the federal budget goes into what are commonly called 'transfer payments,' payments to individuals, families, or state and local governments for which no current service is rendered."⁴

One can easily imagine what happens if 55% of the people in a partic-

ular politician's district enjoy the benefits of these "free and easy" transfer payments. Most wish to continue receiving them long into the future. If the politicians serving these special interest groups would say, "Sorry, we don't have enough money to pay your college loans" (or welfare checks, or whatever else the payment they are receiving might be), those receiving the payments will become *very unhappy*. So unhappy, that if another man runs for office and promises them the same or greater benefits than the incumbent, the population is likely to vote for the greater monetary promise. Considering all the men who wish to run for political office and all the people who wish to receive payment for doing essentially nothing productive, one can see the temptation for politicians to drift toward public spending—and more public spending simply because an increasing majority of the population so demands. A free ride, something for nothing, is not the wisest economic policy.

Obviously, the components of chronic Federal overspending can be attributed to more than just transfer payments; however, transfer payments are the largest part of the Federal budget and clearly demonstrate the kind of political pressure that exists pushing spending beyond balanced limits. For practical purposes, *as the demand for public*

spending increases, political pressure to spend increases, and the size of the budget deficit increases. This is the principal reason for large budget deficits.

Why Is the Deficit Bad?

Apart from the fact that budget deficits are bad for the economy, a point we will consider later, the social "transfer" and "entitlement" programs are detrimental to the economy and population as a whole. These programs transfer wealth from those who produce to those who are not necessarily being productive. Welfare is just one example. The ultimate result is an overall lowering of the standard of living for the population as a whole. Those who receive the payments lose incentive to work, or to be productive. Those who are *taxed* to support these unproductive persons have less money to save and invest in further productive capital. Since profits resulting from productive activity are partially taken away through taxation, the number of dollars left to save and invest in new capital *decreases*, and incentive to produce and maintain future capital is squelched. This increased government spending moves in a vicious circle of taxing, redistributing, and taxing again to bring the population to a lower standard of living and finally to a state of socialism.

Having looked at a short expla-

nation of *how* the government has adopted an overspending policy of financial mismanagement and *why* the politicians are in a spend-spree bind, we can look further at why these deficits are so bad for our economy and country. Let us consider the political and financial alternatives to reducing or financing the debt. Four possible ways to confront a deficit exist: (1) increase taxes, (2) decrease spending, (3) borrow, or (4) monetize the debt. One or a combination of these options *must be enacted when considering debt finance*.

Tax Increases

The first possible path that can be considered when approaching a budget deficit is an increase in taxes. We may cringe as we read this, for who wants to pay more taxes? Well, in fact, *very few* people do. That is a basic problem when considering this option of reconciling a Federal debt. The tax rates in the U.S. are already high enough to suit most people. Gary North states, "We have hit the resistance point in taxes as a percentage of personal income."⁵ In other words, today, taxes imposed are not the same thing as taxes collected. This is not to say that there will be no further tax increases. However, taxes will not increase at the same high percentage rate that deficits and Federal budget outlays are increasing. People just will not accept large tax hikes. Imagine

President Reagan proposing a \$200 billion tax increase to offset next year's deficit! The government would be confronted with a tax revolt and would be unable to squeeze half of the desired revenue from the population. People are at the resistance point as far as taxes go. (Earlier, we also saw that the combination of increased taxation and spending is undesirable since it lowers productivity, capital accumulation, and the overall standard of living, bringing the U.S. population closer and closer to becoming a purely socialized state.)

Decreasing Federal Spending

If increasing taxes is not a good approach when considering the deficit, let us look at another option; decreasing federal spending. First of all, politicians and elected officials have a lot on the line when they consider decreasing spending as opposed to finding other ways to finance the deficit. As discussed earlier, politics is their job and nobody really wants to lose a job. Economically speaking, almost all the special interest groups are willing to *take* but none are willing to *give*.

A reduction in Federal spending is actually a beneficial way to resolve the deficit problem because it reduces the size of the unproductive and inhibitory State burden upon the free market. This option, as economically hopeful as it may be, rests

on the *prerequisite* that the population recognizes the debt hazard and is willing to give up its "Robin Hood Style" of economic gain in order to achieve long-run economic benefit. In addition, government officials must be so aware of the debt hazard that they do not tempt taxpayers to vote them into office on the promise of a free lunch. The chance of reducing government spending at the present time looks grim; however, it is an economically sound option to debt reduction. We will return to this idea of reducing spending later.

Borrowing

A third option one can consider when talking about the deficit is that of borrowing the money to continue enjoying deficit spending. Some real problems exist in borrowing to finance the debt. As Gary North explains, "*The debt must be funded by selling debt certificates, and these certificates are never ever redeemed.* They become part of the *permanent debt base* of the messianic State."⁶ This means the government debt base is never paid off. When the government borrows money from citizens or private banks it begins paying interest on that loan immediately and indefinitely. The result of this can be imagined if one looks 10 years into the future when we will likely have a \$2 trillion debt. The interest payment at 10 per cent per year on just

this \$2 trillion would be \$200 billion which would have to be paid for by *still more* borrowing or taxation. Year after year this compounding will continue until not even the interest payments can be made on this debt, let alone the money needed for daily government operation to continue.

Complicating the problem still further is the fact that massive borrowing, even if it could continue indefinitely, will wreak havoc on the economy. Congressional Budget Office Director Rudolph G. Penner states, "Interest costs are beginning to drive outlays in a very uncomfortable way."⁷ In other words, as the government borrows large amounts of money it begins competing with the private, capital-investing sector of the economy. This causes interest rates to increase and private investment in capital to decrease due to a higher cost involved in borrowing money and investing it in productive capital. Savings will be transferred and consumed by the unproductive government spending spree at the cost of private investment. Reduced private investment in capital, in turn, means a more restricted economy and lower productivity. Decreased productivity will lower government revenues reliant on tax dollars and start the whole vicious borrowing cycle all over again. During this time the standard of living of each person in the

U.S. will continue falling until this ever-hungry debt has siphoned all life out of the economy.

Monetization of the Debt

Now that borrowing, taxing, and reduced spending have been discussed as three possible plans of debt reconciliation, we will turn to a last option, monetization of the debt.

Monetization of the debt is simply the government printing unbacked dollars to pay the debt. You could do precisely the same thing if you were up to your neck in debt and had access to a counterfeit printing machine. All you would need do is print a stack of counterfeit 10s and 20s and proceed to pay your lenders. This, of course, is illegal for a private citizen to do; however, the government uses this method of debt reduction with great regularity.

To understand the monetization process, imagine a small economy in which 100 dollars is the total amount of money in circulation. In this particular year the government collects \$50 in taxes and has an added \$20 deficit. To pay the deficit, the government decides that monetization is the easiest path to follow. So they tell the Federal Reserve Board (the printing press) that they need \$20. The FED sends the 20 crisp new singles, and the government uses these new dollars to pay for their unfunded spending projects. However, now \$120 are circu-

lated in the economy instead of \$100. Does this mean the economy is \$20 richer? Of course not. The government has not created any wealth or capital, nor has it done anything productive. The government, just as any counterfeiter, has actually robbed wealth from some parts of the population and transferred some of that wealth to other parts, *exactly* as a counterfeiter would do.

Soon people will find that \$2 isn't worth \$2 anymore and that they may need \$3 to buy what had been a \$2 item. As a counterfeiter prints new dollars, the value of each dollar in the economy *must decrease*; for now there will be more dollars competing for the same amount of goods, simple supply and demand. This monetization process is termed *inflation* and should not be confused with increasing prices. Price increase is a *result* of inflation; *inflation* is government printing of unbacked paper dollars or counterfeiting.

Inflation logically causes an increase in prices, but along with increasing prices there are other undesirable characteristics: (1) First of all, inflation is politically easy. By inflating, the debt is paid in one shot with no need to borrow any money. (2) The population as a whole does not understand the inflation process and, thus, does not react in the same way they would to large tax in-

creases. (3) People enjoy getting raises and higher incomes year after year even though the inflated dollars they make don't buy as many goods as before. (4) Many politicians and economists feel inflation has a stimulatory effect on the economy, reducing unemployment and increasing productivity. *No government*, however, can "buy" prosperity by printing paper money. Paper money is not wealth. Only increased capital investment and more efficient production can create wealth and revive and build an economy.⁸ Because of these characteristics of inflation the temptation by those in government office to overspend, inflate, and overspend some more is *enormous*. This is simply because the people and government officials view inflation as the *easiest* and *most beneficial* option to follow when financing deficit spending.

No Magic Potion

Inflation is not a magic potion, and the dangers of deficit spending are not easily printed away. Essentially, inflation is a "silent tax" eroding wealth from the American wage earner. This inflationary tax is no different from any other kind of tax in that it has the same tendency toward lowering productive activity as would an officially legislated tax. (Refer back to the section on taxation as a method of debt reduction.)

Inflationary policies *always* end in

destruction of the national currency, *lower* the standard of living, and *decrease* capital accumulation. Continued economic expansion grinds to a halt and a haphazard redistribution of profits and losses takes place.⁹ Ludwig von Mises explains:

... this wonderful system, [inflation] has one fundamental weakness: it cannot last. If inflation could go on forever there would be no point in telling governments they should not inflate. But the certain fact about inflation is that sooner or later, it must come to an end. It is a policy that cannot last.¹⁰

In the end, inflation cannot last because the currency and the economy will be destroyed. In recorded history, *no* inflation ever resulted in continued economic stability and growth; and *no* practice of continued deficit spending *ever* resulted in anything but rampant inflation, monetization of the debt. (Incidentally, government can only inflate if it has access to the national currency. This is usually an unbacked currency. In earlier years American dollars were backed by gold. You cannot inflate gold. Since abandoning the gold standard, the U.S. has fallen into the inflationary trap that is now beginning to show its destructive effects.)

The serious effects of government spending and inflating have not yet been fully felt in the U.S., and many people neither see nor feel the threat of these devastating policies.

Inflation must, however, be halted. According to that wise economist, Ludwig von Mises:

One of the privileges of a rich man is that he can afford to be foolish much longer than a poor man. And this is the situation of the United States. The financial policy of the U.S. is very bad and is getting worse. Perhaps the United States can afford to be foolish a bit longer than some other countries. . . . Inflation is a policy. And a policy can be changed. Therefore, there is no reason to give in to inflation. If one regards inflation as an evil, then one has to stop inflating. One has to balance the budget of the government.¹¹

Conclusion

Borrowing the money for long periods of time, as we saw, is not feasible because of the compounding effect of interest on these never-redeemed debt notes, competition with private borrowing, and a quickly depressed economy. This is politically unacceptable and a path no previous government has followed for long.

Increasing taxes and inflating are *essentially* the same thing since *inflation is a tax*. The public, however, will not stand for much increase in direct taxation without a blatant tax revolt. Large tax increases will not materialize into large revenue increases. Inflation, on the other hand, is a "silent tax"; few people understand it and fewer still would propose a plan to abolish it. Poli-


cians like it because they are not easily associated with the inflating process, and for a while there seems to be no limit to the amount of money they can tax from the American citizen by inflating. They can promise their electors the many benefits of entitlement programs and all other programs in exchange for votes in the name of easy money. However, I repeat, in recorded history, *no* inflation ever resulted in continued economic growth, and *no* practice of continued deficit spending ever resulted in anything but rampant inflation.

Right now the U.S. government is *both* inflating and deficit spending. Time is running out. A serious reduction in government spending is the only way to pull the U.S. economy out of otherwise certain economic destruction. Reduced government spending will not only eliminate the deficit and all the danger associated with it, but, also, revitalize American industry and productivity. Reduced spending will again free American enterprisers to invest in productive capital and let them profitably produce to the best of their ability. More and better capital investment is the *only* way to increase the per capita standard of living in a society despite age-old attempts to produce wealth by means of the printing press.

The lessons of inflation are slowly learned if learned at all. Therefore,

if a serious sustained reduction in government spending is not maintained, the U.S. will follow the history of other nations to a similar inflationary fate. Politicians, citizens, teachers, and economists must intelligently resolve this problem by realizing the hazards of this seemingly inevitable inflation and by voting to greatly reduce government spending, thereby defusing the deficit time-bomb aimed at our country.

"The country," declares G. C. Wiegand, "is faced with grave problems—thirty years of inflationary boom may be followed by thirty years of relative decline, which may seriously affect the character of American society, free enterprise, and personal freedom,—but the country has the potential economic, social, and moral resources to overcome the threatening crisis. It all depends upon whether the leaders have the necessary wisdom and courage to lead, and the people have the stamina and will to make nec-

essary sacrifices. The future of America is ultimately not an economic but a moral issue."¹² 

—FOOTNOTES—

¹Gary North, *Remnant Review*, Vol. 11, No. 2 (P.O. Box 8204, Fort Worth, Texas: 20 Jan. 1984), p. 7.

²G.C. Wiegand, *Debts, Inflation and the Future*, (Greenwich, Conn., Committee for Monetary Research and Education, Monetary Tract 17, Jan. 1977), p. 8.

³Lawrence Reed, "Where Deficits Come From," *Western Monetary Report*, Vol. 3, No. 5 (March 1, 1984), p. 7.

⁴Reed, p. 6.

⁵Gary North, *The Last Train Out* (Fort Worth, Texas: American Bureau of Economic Education, 1983), p. 46.

⁶North, *Remnant Review*, p. 4.

⁷"Reagan's Good Times Budget," *Business Week*, No. 2826 (January 30, 1984), p. 70.

⁸Wiegand, p. 5.

⁹Henry Hazlitt, "Keynesism in a Nutshell," *The Freeman*; Vol. 32, No. 11 (November 1982), p. 650.

¹⁰Ludwig von Mises, *Economic Policy* (South Bend, Ind: Regnery/Gateway, 1979), p. 63.

¹¹Mises, p. 72.

¹²Wiegand, p. 33.

Henry Hazlitt

IDEAS ON



LIBERTY

I may point out (if that is still deemed necessary in this inflationary era) that no inflation of which we have historical knowledge resulted in sound and continued business expansion but only in currency depreciation, a wanton redistribution of profits and losses, disorganized output, and economic demoralization. This has been true whether we begin with the coinage debasement of ancient Rome or the paper money scheme of John Law in 1716.

The lessons of inflation are soon forgotten. They apparently must be relearned in every generation.



Freedom of the Press

A PARADOX of our time is that newspapers and other publications—which are private businesses—are so often hostile to private business. It would seem natural for publishers to take a pro-business stance, if only to defend their own interests. Yet far more often, they attack business and private property with no apparent concern that they might become the victims of what they advocate. They show no fear that their own businesses might be subjected to the regulation, punitive taxation, and harassment which they recommend for business in general.

There is an explanation for this paradox. Publishers believe that their own freedom differs in its source from the freedom of others, and therefore that their attacks on business do not apply to themselves. They believe that they are protected

by their own special wall of defense, called “freedom of the press.”

The obvious explanation for this point of view is that the First Amendment singles out this freedom for explicit protection. While the forgotten Ninth and Tenth Amendments make it clear that the Constitution recognizes other rights as well, the First Amendment rights certainly have fared better under the law than the unnamed ones. But there is a further reason why the press so often regards its freedom as something private and isolated.

A particularly good illustration of the philosophy which grants a special status to press freedom is provided in *Editor and Publisher*, the nation's leading newspaper trade journal, in an article presenting the views of Harvard Constitutional Law professor Laurence Tribe:

Tribe explained the Burger Court viewed the “marketplace of ideas” as being comparable to “the marketplace of

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commerce" in which government is free to regulate to correct any "imperfections in the invisible hand."

"What's good enough for the marketplace of commerce must be good enough for the marketplace of ideas," Tribe said, noting "the hostility of the Supreme Court's marketplace concept to the First Amendment. Devotion to the market is often a mask for suppression of ideas." ("First Amendment Trends Alarm Media Lawyers," *Editor and Publisher*, 12/5/81.)

By splitting rights into one set for the "marketplace of commerce" and a different set for the "marketplace of ideas," publishers try to lift themselves above the "imperfect" material world into a realm of pure ideas which are not subject to any outside control. This, they suppose, is the justification for the Constitution's guaranteeing freedom of the press but not freedom of trade; so they sense no threat to their own freedom when they attack the latter.

How real is this division, though? Are newspapers and magazines really entities of the spirit, divorced from the lowly world of commerce? Virtually all of them are offered for sale or carry commercial advertisements. Like any other businessmen, publishers are concerned with profit and loss. The fact is that *The New York Times* and *Newsweek* are businesses just as are General Motors and Apple Computer.

Can we say that publishing,

though a business, is superior to other businesses because it deals in ideas? Such a claim reflects an unbalanced view of human nature. Human beings are creatures of both mind and body, and the two are inseparable. Without thought, people cannot satisfy their material needs; without matter, they cannot put their thoughts into practice. All businesses deal in ideas—what products to introduce, how to present them to the public, how to maintain an efficient organization, and so on. Publishers differ only in that the ideas are an obvious part of their end product. Even so, this does not make them inherently superior to other businesses; the food people eat is as important to their existence as are the facts they know.

If one believes that "devotion to the market" consists of limiting and controlling it, as Professor Tribe apparently does, the same considerations have to apply to all portions of it. If people cannot be trusted with a free choice as to what they buy and sell, how can they be granted freedom to accept or reject information? Choosing a car or a breakfast cereal is relatively easy; the prospective customer can examine the product and decide whether to buy. But if we suppose that people cannot muster the rational judgment to do this, how can we expect them to judge a story about events they have never seen?

Using Judgment

The basis of freedom is the premise that people must act on their own judgment in order to live. If this need did not exist, if people were better off being compelled to follow the decisions of authorities, then a free press would be just as useless as free trade.

The two kinds of freedom cannot be separated in practice any more than they can in principle. Publications depend on a vast range of commercial activities for their own needs, without which they cannot reach the public. They need buildings in which to operate, communication services for gathering information, financial services to fund their operations, computers for data storage, paper and ink for printing, vehicles for delivery, and much more. If the government denied publishers the right to obtain and use these necessities, it could shut down their operations without resorting to explicit censorship.

The material expression of freedom is in the form of property rights. If these rights are subject to "correction," they are as conditional for the press as for anyone else.

This creates a dilemma for those who regard press freedom as something separate from economic freedom. They recognize the danger of attacks on the press through its commercial foundations, yet they are unwilling to defend those founda-

tions. To escape this dilemma, they are forced to adopt the view that "freedom of the press" refers not to the freedom to engage in a certain *type of activity*, but rather to a freedom belonging to a certain *class of people*.

This view maintains that the government may impose certain restrictions on people in general, but must exempt publishers and reporters. Press freedom, under this view, is not the freedom to use one's own property for making facts and ideas known. Instead, it consists of such matters as immunity of reporters to subpoena, exemption of reading matter from taxation, and guarantees that the press may attend public events. (Some of these matters have a bearing on the government's obligation to disclose information, but this is a different issue from people's freedom to report and discuss the facts.)

It has even been argued that the rights of the press override the property rights of others. According to an article in *Editor and Publisher*, recent court decisions are tending toward the view that the First Amendment permits reporters to trespass on private non-residential property because of "the public interest in obtaining information." ("Reporters and Criminal Trespass," April 28, 1984.)

The consequences of ascribing rights to a professional class have

been devastating. This view sets up "the press" as a separate class of citizens with separate rights. It makes it possible for them to attack the freedom of people in general without undercutting their own freedom. At the same time, it has excluded other sources of information and ideas—notably broadcasters—from the protection of the First Amendment. The United States government, which would never dream of licensing newspapers, licenses television and radio stations as a matter of course.

This is not to say that if publishers were in the same boat with the rest of us, they would automatically be pro-freedom. One's basic views are a matter of implicit or explicit philosophy and do not change just because of a change in the immediate consequences of expressing them. But having to face the consequences of the ideas they advocate would at least encourage them to think about the meaning of those ideas.

An Untenable Claim

Press freedom cannot exist by itself. As a Platonic ideal of freedom in the realm of ideas without freedom in the material realm, it is untenable; until someone invents telepathy, physical means will be necessary to convey ideas. As a right that belongs only to a certain group of people, it is equally hopeless; freedom is not served by establishing

elites. Because it has been cut off from liberty in general, press freedom is not an issue that excites the public today. There was no public outcry when the Federal Elections Commission investigated the *Reader's Digest* in 1981 for allegedly violating election laws by criticizing Ted Kennedy. Nor did many people care when reporters were excluded from the invasion of Grenada.

By the same token, this separation endangers freedom in general. If members of the press see themselves as a "Fourth Estate" with a special charter, they will not see how threats to other people's freedom threaten their own as well. Yet the fact is that the legitimate rights of the press are simply a particular instance of property rights. If the right to property is abolished, the press will lose its freedom along with everyone else.

If the press wants to maintain its own freedom, its members will have to identify the actual nature of that freedom. They will have to realize that the basis of any kind of freedom is personal liberty and private property, and that their only hope for survival lies in their defense of these principles.

Freedom of the press and freedom of the market are inseparable. One cannot exist without the other any more than a person's head and body can be separated and that person still live. ⊕



The Supply of Labor

A MAN cannot speak without revealing himself. He draws his portrait by every word he utters. When he speaks of "labor" he reveals his political, social and economic views by the connotations he attaches. He may look upon the individual and his labor as physical and mental exertion of a practical nature as distinguished from exertion for the sake of recreation and pleasure. Or he may refer to workers collectively, the working class. Most contemporary economists speak of "labor force" or "working force," and discourse upon "national manpower."

Writers used to report about men and women or adults and children in the labor market; they speak of

"manpower" now. People were working in commerce and industry; today they are serving in the sectors of national production, in the public sector or private sector. Economic analysis used to focus on the individual and his ability to perform any kind of labor; today it concentrates on public policies and priorities. Economists routinely analyzed man's choice between labor and leisure, and debated the "disutility" of labor. Today they seek public policy information so that government may act upon the national economy.

Contemporary labor terminology is taken directly from the language of the military. Generals organize their forces in armies, corps and companies, and wage their battles in sectors of defense. Economists who echo the militarists apparently see themselves as the generals of

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economic production; they would like to command the national labor force, or at least serve as learned advisors to the economic commander.

The military terminology may be perfectly suitable in an economic command system, such as socialism, fascism, or communism. But it is utterly alien in a private property order that rests on individual preferences and decisions and functions without economic command and sector strategy. Economists who favor such an order speak of individual choice and participation, of labor and leisure, labor markets and mobility, hours of work and rates of pay. Holistic, militaristic terms are repugnant to them.

Labor or Leisure

Man must labor to sustain his life and improve his conditions. In a free society he is at liberty to choose between labor and leisure. His choice springs from many considerations and value judgments, which may be affected by cultural and environmental factors. It is circumscribed by his physical and mental capacity to work. As individuals differ from each other so do workers differ in intelligence, discipline, amount and quality of training, skill, capacity to direct their own work or the work of others and, above all, in disposition or attitude toward labor.

Man chooses labor over leisure whenever the fruits of his labor

seem more important to him than the disutility of his labor. He labors when his unsatisfied wants are more important to him than the discomfort of his labor exertion; he stops working at the point at which his leisure becomes more important than the satisfaction of another want.

Values and Choices

Man's disposition or attitude toward labor depends on many psychological, cultural and economic factors that affect individual values and choices. Material well-being is an important factor affecting his disposition. Improvements permit the satisfaction of less urgent wants, which in turn lower the value of the labor spent to satisfy those wants. The urgency of individual needs and wants, after all, determines the value of labor that is serving them. When the urgency declines for any reason, a worker may turn from labor to leisure and pursue other interests. Deterioration in well-being, on the other hand, may cause many individuals to return to the labor market and offer more labor.¹

The quantity and quality of the labor offered in exchange for money depends to some extent on cultural and ideological factors that pertain to socially transmitted behavior patterns, beliefs, institutions, work and thought characteristics of a community or country. If the people

rejoice in their labor and the fruits of their productive efforts, if they have the will and courage to work, they meet the most important requisite of success. If they believe in work, hard work and long hours of work, they have the key to prosperity and full employment. But if they work grudgingly because they long for leisure, they are destined to be poverty stricken. If they hate their work because they feel like helpless victims of ruthless employers in an unfair social system, they are doomed to be miserable and poor.

Man's attitude toward labor influences the amount of labor he offers on the market. It affects his subjective valuation of the disutility of labor and the price paid for his labor on the market. Where governments or labor unions interfere with this price, his attitude may assure or deny him employment. The Japanese automobile worker who labors for duty and honor may put his mind, heart and soul in his work. He may compete effectively with a member of the UAW in Detroit who, deluded by the slogans of union propaganda, hates his work, loathes the corporation that employs him, and ever in anger presses his numerous grievances.

Labor and Economics

Market economists not only reject holistic terminology but also repudiate erroneous popular notions

about labor. In particular, they oppose the notion that economic knowledge is applicable to goods prices only, and that wage rates and labor conditions are circumscribed by history and morality. It is this very notion that provides the intellectual foundation for government intervention in the labor market, and supplies labor unions with the rationale for coercive practices.

Acting man actually makes no distinction between the pricing of goods and the pricing of labor. He ascribes value to both according to their contributions to his well-being; he does not exempt labor from value considerations. When he purchases an automobile he does not inquire into the number of labor hours it took to build the vehicle in order to adjust his bid accordingly. Instead, he is likely to inquire into the quality and quantity of transportation services it promises to render. As customers, the workers themselves apply considerations of scarcity and utility to their purchases; as sellers of labor, they make choices that reflect their value judgments.

Human nature slowly and inexorably works its way through economic principles. But man is also political; under the guiding influence of public opinion, he may call on government to interfere with the economic judgments and actions of other people. He may use the coer-

cive powers of government to force his fellowmen to act in a way they would not freely choose. Therefore, economists draw a sharp distinction between the market rate of wages, which the free interplay of the demand for labor and the supply of labor would set, and the actual rate affected by government compulsion and labor union coercion.

In an unhampered labor market, wage rates tend to move toward the increment of value that is added by the employment of a man, which is the same as the value lost by the discharge of a man. Economists call this last value the marginal utility or marginal productivity of labor. It is largely dependent upon the amount of productive capital invested per worker. At this marginal rate, anyone searching for employment can find a job, and anyone looking for labor can find a worker. If wage rates are forcibly kept *below* the market rate they cause shortages of labor. If they are set *above* the market rate they create surpluses, called unemployment. It does not matter who dictates the rates, whether government or union, and what their stated reasons may be; the effects are the same.

In a rare combination of circumstances governments may lower wage rates below those the free market would set. In times of war and postwar inflation governments

may depreciate their currencies and thereby lower real wages. All along they enforce rigid price and wage controls that prevent swift adjustments. The market may call for rising wages, but the police controls permit no correction, which in time creates a discrepancy that causes labor shortages. The chronic shortages of coal miners and skilled craftsmen in postwar Great Britain under the Labor Party are vivid examples in point.

Contemporary governments prefer to use their police powers to raise wage rates *above* those free markets would set. After all, to raise wages is more popular with more people than to lower them. Politicians seek to enhance their popularity with worker-constituents by promising to exact higher wages and fringe benefits from employers. Labor unions thrive on the notion that they can improve the economic conditions of working people. It has made outside intervention in the labor market one of the basic features of our age.

Government or union intervention that seeks to raise the cost of labor above the marginal productivity of labor, i.e., the increment of value added by the employment of a man, reduces the demand for labor and creates unemployment. It renders marginal workers submarginal, i.e., it raises their costs above their productive contributions and thereby inflicts losses on their em-

ployers. To safeguard operations and protect their own jobs and those of their workers, employers have no choice but to discharge the loss-inflicting employees.

Unemployment is a chronic phenomenon wherever labor law and labor union forcibly raise the cost of labor above the rates free markets would set. Changes in the supply of labor may precipitate changes in employment if government prevents the necessary readjustment. A number of supply combinations creating unemployment come to mind:

1. The population is growing but economic production is stagnating or expanding at a lesser rate so that the marginal productivity of labor declines. In free labor markets declining labor productivity causes wage rates to fall. Where government seeks to bolster wages by law or regulation and labor unions defend or even raise the rates by collective coercion, they create mass unemployment. Thomas Malthus who, in 1798, wrote his famous essay on growing misery through population growth, would deliberate on the causes of rising unemployment if he were to write today.

2. The population is stagnant but productive capital is consumed, destroyed or withdrawn so that the marginal productivity of labor declines. If government or labor unions forcibly seek to prevent this decline, they create unemployment.

3. When millions of immigrants legally or illegally join the labor market while the amount of productive capital remains unchanged, they cause the marginal productivity of labor to fall. If wage

rates are prevented from adjusting downward, the most expensive, submarginal labor remains unemployed.

4. The participation rate, that is, the percentage of population participating in labor market activity, may rise while the amount of productive capital remains unchanged. As the marginal productivity of labor falls wage rates are bound to decline. If government, union, or both seek to prevent the decline, they create mass unemployment.

5. If government or union forcibly reduces the number of hours worked per day, week or year, insisting on compensation for hours not worked, they create mass unemployment.

6. Under the sway of antimarket propaganda the workers may reduce their personal labors. Convinced that their wages are the products of class struggle rather than goods production, they may delay or even sabotage the production process. If downward wage adjustments are not permitted, the reductions in output cause unemployment.

Population Growth

No matter how plausible economic arguments may appear to a rational individual, they run counter to prevailing opinion about unemployment. Much of contemporary literature is presenting horrid descriptions of labor conditions, past and present, attributed to the private property order. Sole credit for improvements is given to government and labor unions.

Most unemployment explanations are based either on the Malthusian

theory of population or the Marxian exploitation doctrine, or both. Thomas Robert Malthus, in his *Essay on the Principle of Population* (1798), postulated a universal tendency for population to grow at a geometric progression and for the supply of food to grow only at an arithmetic rate. As population doubles and redoubles, food and subsistence are bound, sooner or later, to fall below the level necessary for life. Positive checks then act to increase the death rate: disease, famine and war. And preventive checks may affect birth rates through moral restraint, such as prudential postponement of early marriages.

Malthus unfortunately did not foresee some of the effects of the Industrial Revolution. Set free from ancient prohibitions and restraints, Western man was about to embark upon a long road of technological innovations that improved the working and living conditions for all people. With private property in the means of production, he could save and invest, forming productive capital at a rate faster than the population growth rate, which was to decline substantially. Consequently, employment multiplied and the standards of living in capitalistic countries rose to unprecedented levels.

Yet, in non-capitalistic countries the fears of Malthus are fully justified. In India, China, Mexico and a

hundred other places the political order may proscribe economic expansion through individual effort and initiative. It may not suffer private property in the means of production, nor tolerate individual freedom and initiative. While medical science and hygienic knowledge, imported from capitalistic countries, may drastically reduce death rates in low-income countries and cause population explosions, the social and economic order may prevent increases in economic productivity. All this points at the sober fact that in many countries the population is growing more rapidly than the means of subsistence.² It cannot be surprising that the Malthusian explanations continue to be relevant for the poverty and unemployment problems in Asia, Africa, and Latin America.

The Marxian View

Karl Marx offered yet a different explanation of man's unemployment, past and present. According to his central thesis, only labor gives value, and since workers do not get all the proceeds of the productive process, they are exploited. Profits are exploitation lucre that leads to capital formation and mass unemployment. Exploitation and unemployment are destined ultimately to culminate in violent revolution and overthrow of the private property order.

This is not the place to refute Marxian dogma. But it must be pointed out that actual trends have been in the opposite direction. The gainfully employed population is much greater in capitalistic countries than in underdeveloped areas that lack productive capital. Underemployment and unemployment are more severe by far in Mexico, Central America and the Caribbean Islands than in the U.S.A. Wage rates and working conditions are immeasurably better in the U.S., which is attracting millions of illegal aliens. In fact, it can be stated as a basic principle of population distribution that man tends to migrate from socialistic countries to capitalistic countries. Only barbed wire, high walls, and armed guards can prevent him from moving en masse.

Participation

There is work to be done every waking moment of man's life. From the dawn of time until the modern age man toiled to sustain his precarious existence. His oldest form of specialization was a strict division of labor between the sexes. The woman cultivated the fields, processed the food grown on the land, and prepared the clothing. To the man fell everything connected with hunting, keeping of livestock, preparation of meat, dressing of leather, and working with metals. Both labored from early childhood to

the last days of their lives. There was no "retirement" or withdrawal from work so as to live at leisure on one's income, savings, or pension.

On the eve of the "Industrial Revolution" economic conditions were as dismal in Europe as they are today in many parts of Asia, Africa, and Latin America. They improved visibly with the dawn of the private property order, which permitted capital accumulation, technological improvements, and practical utilization of new inventions. The improvement of economic conditions, especially for working people, permitted them to think of leisure and retirement. Laborers gradually acquired the productivity and income that permitted them to reduce their work hours, take vacations, and excuse their women and children from participation in economic production. The new economic order that was built on individual freedom and private property in the means of production liberated working people.

The workers in their capacity as savers and investors did contribute a modest share to the improvements—as laborers they did not. They were the primary beneficiaries of the investments in tools and equipment that made their labors more productive and economic goods more accessible. Government officials and labor unions appeared on the scene much later, not only to

claim credit for past improvements, but also to hurry workers along to ever more leisure. During the last half-century radical government intervention and labor union pressure have significantly reduced the supply of labor.

Withdrawal from the Workforce

Millions of *older* American males (65 years and older) have withdrawn from the labor market. When labor productivity rises, the income of all types of labor tends to increase, including that of aging workers. In their case, the rise may be partially or completely offset by a decline in personal productivity on account of illness or age limitations. But few individuals are prepared to suffer wage and salary reductions. Provided they can afford it, most individuals choose retirement rather than face demotions and pay cuts; they like to depart at the height of efficiency, productivity, and popularity. Moreover, they are encouraged to depart by social security, public assistance, and other benefits. All are transfer programs transmitting massive volumes of income and wealth to older people, reducing both the utility of labor and the cost of leisure. They permit millions of elderly Americans to prefer leisure over labor.³

The labor market participation of *young people* (ages 14–20) resembles that of old people. Both groups

have withdrawn en masse. But while the elderly retreat into retirement from which few care to return, young people are flocking to schools and colleges. Their decline in labor market participation is matched almost precisely by school enrollment, which is viewed by many as an investment.

Many people want more education, but few are willing to pay for it. For most people the combination of income forgone during the time of schooling, and the direct cost, such as tuition, room and board, books and materials, transportation, and other expenses, is just too burdensome. Public institutions of higher learning seek to reduce the direct costs through allocations of tax funds. Federal, state and local taxpayers now cover all or most of the tuition of millions of young people attending community colleges and state universities. Federal and state grants further reduce the direct costs of education, which for favored minority students may be free of charge. They may not even forgo any income during the time of schooling. Institutional employment barriers may hold them in a grip of permanent unemployment. After all, there are minimum wages and mandated benefits that exceed by far their labor productivity, which bars their admission to gainful employment. Their only escape from a life of idleness and despair may be

education that raises their productivity above the barrier level. When seen in this light, the rates of return on education are extremely high, which accounts for a continuously strong education demand by minority youth.⁴

The Liberation of Women

Women usually face a three-way choice between leisure, labor market participation, and production at home. In most parts of the world they spend their lives in grueling household labor as homemakers for their families and mothers to their children. They labor from dawn to dusk in the care of home and household. In countries organized along lines of the private property order, however, most women have been liberated from the daily drudgery that had been their lot in life. They were liberated gradually in the same way as men were liberated from grueling chores, through greater specialization and division of labor, and above all, through the application of capital in the form of modern tools, appliances, and labor-saving devices.⁵

Throughout the 19th century the economic liberation drew a growing number of women from the home to the labor market. Rising labor productivity and increasing wage rates together with declining goods prices made it advantageous to participate in the labor market. When it takes

three hours of market labor to earn the purchase price of a dress, but three days of spinning, weaving and sewing to make it at home, it is advisable to seek employment and purchase the dress. If it takes a few minutes of market labor to earn the wage needed to buy a can of chicken soup, which would require many hours of kitchen labor to prepare in a way grandmother did, it becomes economical to earn a wage and buy the soup.

In recent years the private property order has granted new gratuities to countless millions of workers in the form of push-button machines that give men and women unprecedented ability, energy and strength. Surely few women would want to compete with husky males moving weights or swinging heavy hammers; but equipped with a robot that moves the weights or swings the hammers she can compete effectively. Thanks to the formation of capital and labor-saving technology, which are the exquisite products of the enterprise system, the American woman is free to join man in all parts and portions of the labor market. Many are taking advantage of the technological changes and are joining men at the assembly line.

During the 1970s and 80s, yet another cause began to contribute to the rising participation rates of American women. Increasing taxes and soaring inflation rates lowered

the real income of most Americans. Millions fell into outright poverty as a result of chronic unemployment. It cannot be surprising, therefore, that many homemakers felt compelled to return to the labor market in order to supplement the shrinking family income. As the impoverishment continues on account of soaring deficits and rising taxation, ever more women can be expected to return to the labor market. In the strongholds of labor unions, which are also the centers of unemployment, the burden of family support is coming to rest primarily on the shoulders of women. In fact, it may be stated without exaggeration that, in centers of stagnation and decline, female participation and employment immediately adjust to the unemployment of men.

Hours of Work

The proportion of the population actually in the labor market is an important factor in the supply of labor, as are the number of hours worked per week or year, and the skill, quality, and intensity of the service rendered. There have been, and continue to be, wide divergencies within any one market, but common traits are visible in all. From some 3,500 hours a year, or 12 or more hours per day, the hours of work were reduced to some 2,000 hours a year, and 8 hours per day. The work week was shortened first

through half a holiday on Saturdays and, in recent decades, by the five-day week. Paid vacations now extend to two, three, and four weeks.

Most media of communication and education are applauding organized labor and labor legislation for these improvements. Profit-seeking employers are said to favor ever longer hours, fewer holidays and shorter vacations. In the labor literature of today they stand condemned for having fought progress every step of the way.⁶ If these charges were remotely correct, the pain and suffering of the underdeveloped world could be alleviated immediately: courageous labor leaders and wise legislators could eradicate poverty through collective bargaining and labor legislation. American labor leaders could point the way to prosperity in India, Sri Lanka, and Bangladesh. In reality, economic improvement depends on the construction of plants and equipment, i.e., on capital formation, which is a fruit of individual freedom and the private property order. Labor unions and labor laws erect formidable obstacles to economic development.

As to employers, there is so much good in the worst of them, and so much bad in the best of them, that they are just like other people. It behooves us to be considerate of their choices and preferences. When they seek labor they must go to the labor

market and bid for a given quantity and quality of labor. They must pay the going market rate as they do for materials and supplies, water, gas and electricity. As markets change continually, employers must forever readjust to new situations and rearrange their production. Price and cost calculations clearly reveal the changes and indicate what needs to be done. In the labor market they must adjust continually to workers' preferences and choices, which, too, are visible in prices and costs. If most workers prefer a 12-hour day, employment costs per unit of output are lowest in a 12-hour arrangement. Employers who prefer less popular hours, for instance, 13 hours or more, or 11 hours or fewer, would have to pay a premium. If most workers choose eight hours per day, even the dullest employer may learn in time that it is profitable to pay heed to workers' preferences for eight hours.

Labor time reductions were induced by several very different sets of circumstances. Obviously, labor productivity on account of rising per capita investment promoted a preference for shorter hours. Workers could afford reductions in hours without painful losses in earnings. When, at the dawn of the private property order, they were facing hunger and deprivation, they chose to labor every waking moment of the day. When conditions improved

as a result of rising labor productivity, they preferred shorter hours, all the way from 18 to 8.

Spreading the Work

There are circumstances leading to labor time reductions that differ sharply from those cited above. In the depth of depression when the unemployment rate is soaring, many champions of labor legislation and union power are quick to advocate "spread-the-work" schemes that would have each man do less work, rather than have some men be without jobs. Labor time reductions are presented as the best palliative for unemployment.⁷

It is obvious that such schemes make matters worse and, therefore, do not lead to labor time reductions unless government forces them on reluctant workers and employers. When a worker is laid off, or an operation is closed down, a branch discontinued, a company dissolved, it is always the least-productive, loss-inflicting unit that is idled first. Productive units that cover their costs or even earn profits need not fear shut-downs; they are fully employed through boom and bust.

Spreading the work by keeping the losers operating at reduced rates would only aggravate the losses and cause more unemployment. After all, even a loser has an optimum rate of operation at which the unit costs of production are lowest. To

curtail production below this rate is to magnify his losses. Moreover, to limit the services of productive workers who are fully employed and replace them with the least productive workers who are unemployed, would cause even more business failures and more unemployment in the end. In this respect "spread-the-work" schemes are akin to union shops with "bumping schemes" that grant senior union members the right to bump younger workers regardless of ability, skill and diligence. In depressions, the union shops with bumping schemes are usually the first to go under.

During depressions unionized industries, such as automobile, steel and construction, may suffer unemployment rates of 50 percent or more. Spreading the work evenly would entail a work and income reduction of 50 percent or more for senior workers for the benefit of younger workers. It is illusory to believe that seniors would readily consent to such sharing. But even if they did, they would soon want to share in the work and income of other industries that suffer no unemployment. Of course, the sharing would have to proceed at union rates.

The mounting threat of unemployment, whether real or imagined, brings forth noisy demands for labor time reductions. They are loudest in the centers of unemploy-

The idea of a fair, just, or reasonable wage is very appealing. But what is fair, just, and reasonable under the conditions prevailing at a particular time? Since the dawn of history, buyers and sellers have had very different ideas regarding the concrete meaning of these words. How are such differences to be resolved? There is only one valid and objective criterion: the free market, which, under the consumer's whiplash (and the consumer means everyone), forces both buyers and sellers of labor to conform to the basic reality of the situation, the current level of productivity.

The Guaranty Survey, July, 1956

ment where every fallacious explanation is gratefully accepted and every tasty panacea is warmly welcome. The responsibility for depression and unemployment may be laid on the doorsteps of a new technology called "automation," on "sweat-shop foreign competition," "hostile administrations," or "greedy employers," and other such amazing causes. But no matter what the explanation may be, the ready prescription for all is an immediate labor time reduction. The sovereign cure for unemployment is shorter hours and more leisure!

Workers who are convinced that labor time reductions provide a cure for chronic unemployment may also be led to believe that reductions in

labor exertion will help to spread the work. "Slow down! Don't work yourself out of a job," may be their employment motto. Surely, if labor time reduction creates employment, it is easy to conclude that all types of reductions of labor effort and output are equally beneficial. Fortunately, nature is just toward man. It recompenses him for his labor, not for his leisure. It attaches the greatest rewards to the greatest efforts, not to most leisure. It grants employment to workers who are "productive," that is, who produce more than they cost, and denies employment to anyone who costs more than he produces.

People vary greatly in ability, training, education, and application; they make different contributions to the well-being of other individuals and, therefore, earn different incomes. Some are highly productive in the rendition of services, earning million dollar incomes. Others render simple services that pay minimal wages. Some may not contribute anything at all to the production process and, for their existence, depend on individual charity and transfer payments.

Education ranks as an important element in the quality of labor. In its broadest sense it means all the preparation for life. It teaches not only how to make a living but also how to live. It may be highly produc-

tive of income wherever it produces mental improvement, teaches to obey rules and accept authority, provides knowledge and training, develops ability and skill, and motivates man to serve the needs of other people. It may be unproductive in the economic sense where it fails to make the educated person more useful in the service of his fellowmen.

American education is endowed with public interest, that is, it is manipulated, rigged and regulated by all levels of government. It is subjected to the feasts and famines of politics. During the 1950s and 1960s, when the federal government provided massive subsidies, student enrollment increased substantially, causing colleges and universities to expand in facilities and personnel. During the 1970s and 1980s, when Medicare, Medicaid and many other causes made exhausting demands on the Federal budget, the rate of increase fell dramatically, bringing stagnation and retrenchment to many institutions. As the costs to students were rising, enrollment declined, intensifying college competition for students. Many private colleges, chafing under government regulation and state college competition, are barely scraping along. Some may not survive the decade. According to the critics of private education, they are "too traditional" and "unresponsive to the educa-

tional needs of the students." In the noise of controversy public discussion is returning to some root questions of higher education: What is the responsibility of government, especially the federal government? What kind of education should be provided? What is the appropriate institutional structure? And who should pay for it all?

The Role of Education

In a brief discussion of the supply of labor such crucial issues of higher education must remain unresolved. But it is appropriate to search for an answer to related questions such as: How does education affect the supply and employment of labor? How does employment or unemployment affect education? If education is "an investment in human capital," as it is often called, what is its return in terms of employment and income?

Why is anyone attending a college or university? There are as many answers to the question as there are individual motives. But most of them probably can be grouped and arranged in the following order: First, many students expect higher education to improve their capacity to earn an income by augmenting the quality of their labors. Second, some students may derive immediate satisfaction from participation in college or university affairs, which makes their education a "direct consumption service." Many of

these students prefer education in any form over idleness and unemployment, which may be their only alternative.

There is a minimum hurdle to all gainful employment, which is erected by minimum wages and fringe costs mandated by government. Currently, these costs together exceed \$5 per hour. For most young Americans public education provides the training for exceeding the minimum. It makes them employable in the American labor market. But for many young people the minimum hurdle is higher than the productivity they bring to the market. Public education does not impart the training sufficient for employment; in this respect it is sadly deficient for millions of people, especially racial minorities.⁸

A public education system that fails to impart sufficient knowledge and training for some twenty percent of white youth and fifty to seventy percent of minority youth, assumes an additional function: keeping youth occupied and off the streets. It is keeping peace among men, which would soon be jeopardized if all young people were set free to roam the streets in idleness and despair. In this respect American public education is highly effective and productive as an occupation and peace-keeping force. It may be more expensive than the public support of the elderly, but it also is in-

finitely more productive as a guardian of peace.

Public Education and Labor Laws

American compulsory education with its truancy legislation and an army of truant officers is perfectly complementary to labor legislation. One lends strength and support to the other; labor laws depend on truancy laws for preventing mass unemployment of youth, and truancy laws depend on labor laws for denying employment opportunities to youths and keeping them in school. With more than forty million pupils enrolled in full-time elementary and secondary day schools, several million would appear on the unemployment rolls if there were no compulsory education; and several million pupils would desert the compulsory school system if there were no employment barriers. The high unemployment rates of youth released from compulsory education and the high rates of youth truancy illustrate the point. If more youths would be set free, the unemployment rate would soar, to be surpassed only by the juvenile crime rate.

Compulsory education as a peace-keeping force is encompassed not only by limits of financial cost and economic sacrifice on the part of taxpayers, but also by the willingness of youth to be restrained and regulated. Upon release from school

compulsion, which cannot last forever, many youths discover the futility and inadequacy of their education, which does not make them joyous and contented members of society. College graduates may learn that there are too many colleges granting too many degrees and that there is no room for all the graduates to work in their field of choice. As "surplus" they may not take kindly to the market system that forces them to render useful services according to consumer demand rather than allocates employment according to college degree. In frustration they may look toward government and the command system for employment according to license and degree.

Education as "an investment in human capital" is like capital as "a mere congealing of human labor"; both are garbled collections of empty terminology. An investment, in everyday terminology, means the creation or acquisition of means of production that promise safety of principal and a satisfactory return. Obviously, government expenditures on education do not promise safety of principal for government—unless the beneficiaries are deemed to be the property of government. Nor do they promise a satisfactory return—unless educated taxpayers are viewed as property of government. But even if they are, it is doubtful that the productivity gain

of some people outweighs the losses suffered by others from restrictive labor laws and compulsory education. Are government expenditures on public education always more urgent and productive than the uses to which the funds would have been put if they had not been exacted from taxpayers? If productive funds are taken from corporations and put to busing uses in public education, is society rendered more productive?

To view public education as "an investment in human capital" is to confuse transfer spending with saving and investing. To spend means to expend and consume; to save and invest means the very opposite. Public education expenditures consume economic wealth, they do not create it. It is true they impart knowledge and skill to some people who may actually become more productive. But this increase in labor productivity, which is a nebulous quantity, must be weighed against the total cost of public education, which consists not only of direct expenditures but potentially also of the implicit costs of income forgone by student and family.

Moreover, public education expenditures benefit some people at the expense of others, which creates yet another factor of cost: social alienation and conflict. They divide society into two antagonistic classes: the beneficiaries who are entertained and instructed, and the

victims who are forced to cover the expenses. While the former like to describe their take as "profitable investment," the latter always view the exactions as regrettable and unavoidable losses in material well-being.⁹

Markets and Mobility

It is difficult to ascertain whether education and training bring forth labor mobility or whether people with mobility seek more education and training. There is a causal connection that needs to be explored by psychologists and sociologists. But at this place it is significant that the supply of labor is adjusting continually to changes in the intensity and composition of the demand for labor. Labor is shifting into and out of the labor market, among employers, occupations, industries and geographic localities. It has mobility, which affects not only the allocation of labor among alternative uses but also labor productivity. It influences labor competition and, in a sociological sense, determines the ease or difficulty of occupational and social changes.

In the labor market individuals are buying or selling specific quantities and qualities of labor. Workers continually compete for available jobs, and employers are in continuous competition for labor. The result is perpetual movement and adjustment according to the

choices and preferences of the participants. Labor mobility and wage determination are continuous, related processes. Wage differentials and other employment conditions may induce workers to move in search of better conditions. Some may continue to search and move about until the advantage of a move no longer warrants the necessary effort and cost. The end result is not perfection in the allocation of labor, but usually an improvement over previous conditions. After all, every worker seeks to reduce his disutility of labor and improve his conditions.

Workers enter upon many types of changes requiring employment mobility, interfirm mobility, occupational mobility, industrial mobility, or geographic mobility. One category does not exclude another; a single job change may represent a combination of two or more movements. An unemployed Detroit automobile worker may move to Dallas, Texas, and find employment as a doorman at a downtown hotel. A young steelworker from Pittsburgh may move to San Diego, California, to seek employment as a plumber in the construction industry. A pretty teacher with a brand new Pennsylvania state college diploma may move to South Carolina, find employment as an accounting clerk, and then move again to become assistant librarian in a community library. She has mobility

and flexibility that are considerably greater than in most countries of the world.

According to some estimates, American labor mobility is surprisingly high with a proportion of job changes each year exceeding one-tenth of the total number of employees.¹⁰ Many workers change employers several times a year. But a substantial proportion of Americans also have strong job attachments as over one-third of all workers are known to be continuously associated with the same employer for at least ten years. In times of business depression the job attachment tends to rise significantly; during economic booms when business is bidding feverishly for labor, the proportion of voluntary separation and job shifting tends to rise.

Job changes that involve geographic movements are considerably less common than occupational and industrial changes. They entail leaving the home community with its circles of family and friends. There are expenses involved in moving and, above all, the fears of the unknown in a new environment. Nevertheless, throughout most of American history millions of settlers pushed west for opportunity and fortune, giving rise to a particular kind of individual, the pioneer or frontiersman. His psychology may still be with us today, long after the frontier disappeared late in the

nineteenth century. His daring spirit may survive in his great-grandchildren who are seeking new horizons in other endeavors.

The ability to move about in the labor market is by no means evenly distributed among people. There is a direct relationship between youth and all types of mobility. Older workers are less likely to change in occupation and industry, or move across state lines. They may prefer the psychological comfort of routine and familiarity to higher productivity and income. But above all, countless regulations and restrictions designed to protect the elderly actually make it rather hazardous to venture on job changes.

Contrary to popular opinion, there is no inherent discrimination in hiring against older workers; after all, most business executives in charge of hiring are older people. But there are institutional conditions that make them more expensive than young people, and onerous restrictions that make it difficult to dismiss them and therefore risky to hire them. They may have "tenure" in their jobs, seniority in choice of jobs, shifts, vacations, pensions, and so on. No matter what their productivity may be, they may be senior members of their union local, last to be laid off, first to be recalled, and ever ready to "bump" younger workers out of their jobs. They are entitled to maximum unemployment

compensation and generous union subsidies in exchange for minimal efforts for their employers. Naturally, employers seek to avoid them whenever they can.

Mobility rates also vary according to occupation and profession. They tend to decline as personal productivity rises. Professional people and business executives generally make fewer job changes than laborers. Their incidence of layoff and unemployment is practically none. After all, there is no minimum wage for corporate executives, no fringe mandates that raise their costs, no union rules that exact more pay for less work. Job changes by professional people generally are voluntary moves in search of a better life and brighter world. Because of their substantial investment in professional training they have strong attachment to their professions. When they move they are likely to move geographically, even across state lines, reflecting the broad scope of their national markets.

Freedom vs. Control

The vast majority of Americans never experience unemployment. They labor from early youth to old age without ever being told that they are not needed or wanted. They cultivate fields and cover the earth with their structures, they sail the oceans and cruise the stratosphere, laboring for comfort and plenty.

They do not fear unemployment, for there is work to be done, every waking moment of their lives.

And yet, millions of human beings linger in chronic unemployment and despair. They are outcasts of the body politic where politicians legislate higher wages and greater benefits and union agents demand more pay for less work. They are the primary victims of political superstition. ®

—FOOTNOTES—

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Tariffs Are



Legal Plunder

EVERYBODY has an issue he reacts to most intensely. Bastiat's was tariffs. And his most barbed comments were directed against those who favored governmental protection of national industry from foreign competition. He thought this legal method of cheating consumers by keeping prices above the market was a perfect example of how governments plunder their own citizens while promising them more jobs, lower taxes, better quality, and other rewards they can't possibly deliver.

Bastiat's definition of socialism, i.e., using the law to take money from some people and give it to

other people, could more accurately be translated today as "the welfare state." Even so, I'll stick with his term—socialism. And he believed that the idea behind tariffs and other restrictions against free trade was the keystone that supported the legal plunder he saw all about him. He was convinced that if tariffs were abolished, the other elements of socialism would begin to collapse.

He was probably right. For if there were no restrictions against foreign competition—i.e., if foreign goods and capital were treated exactly like domestic goods and capital—the fearful cost we are paying for the other economic compulsions and prohibitions by government would be easily observed by everyone, and would thus soon fall.

Among the several "story examples" offered by Bastiat to expose the fallacy of improving the domestic economy by restricting foreign

Dr. Russell, recently retired from a full schedule of academic work, continues free-lance consulting, lecturing and writing from his home in Westchester County, New York.

This is one of a series of articles examining current interventions of the welfare state in the light of warnings from the French economist and statesman, Frederic Bastiat (1801–1850).

imports, his allegory on prohibiting Belgian iron from entering France is a classic. He begins by following the thoughts and actions of just one French producer of iron. A century and a third after he wrote it, his story reads as though the essence of it were adopted from today's *Congressional Record* or from the editorial pages of any one of hundreds of our daily newspapers.

Our French protectionist was well aware that Belgian mine owners were able to produce and ship iron into France at less cost than he and other French mine owners could produce it and sell it at home. That fact was naturally reflected in the comparatively low price of Belgian iron in French markets. And just as naturally, the French people bought most of their iron from Belgian producers instead of from their own domestic producers. That fact displeased the French mine owners exceedingly, and the one we are here discussing decided to do something about it.

At first, he considered the possibility of *personally* stopping that undesirable trade. He thought that he might take his gun, sally forth to the frontier, and kill the nailmakers, locksmiths, and other users of iron who crossed the border into Belgium to patronize his competitors. That would teach them a lesson!

But, unfortunately, there was the possibility that those buyers of Belgian iron might object to being killed, and kill him instead. Moreover, he knew that he would have to hire men to guard the entire frontier to make his plan effective. That would cost more money than he

had. So our hero was about to resign himself to freedom, when suddenly he had a brilliant idea.

He remembered that at Paris there is a large factory engaged in producing laws. He knew that everyone in France is forced to obey the laws, even the bad ones. So all he needed from the Parisian law-factory was just one small law: *Belgian iron is prohibited*.

Then, instead of having to guard the frontier with his own few employees, the government would send 20,000 guards—chosen from the sons of the very locksmiths and enginemakers who were carrying on this undesirable trade with the Belgians. Better still, the domestic mine owner himself wouldn't even have to pay the wages of those guards. That money would be taken from the French people in general, much of it from the self-same buyers of Belgian iron. Our hero could then sell his iron at his own price.

With this ingenious plan, our French mine owner proceeded to the law-factory in Paris. ("At some other time," interjected Bastiat, who was himself a deputy, "I may tell you of his underhand methods, but here I wish to speak only of what was divulged to the public.")

The protectionist ironmaker urged the authorities of the law-factory to consider the following argument: "Belgian iron sells in France for 10 francs per hundred pounds. But I would prefer to sell it for 15 francs. Now if you will only produce a law that says, *Belgian iron shall no longer enter France*, the following wonderful results will occur. For each hundred pounds of iron that I sell to the public, I shall receive 15 francs instead of 10 francs. As a result, I can expand my business and employ more workers. My

workers and I will have more money to spend. This will help the tradesmen in our community. The tradesmen will, in turn, then also buy more goods. That will mean larger orders to their suppliers all over France. Those suppliers, in turn, will also expand their businesses and hire more workers. Thus employment and prosperity will increase throughout France. All this will result from that extra five francs that your law will permit me to charge."

The producers of the laws in the lawfactory were charmed indeed by the logic of our hero. They rushed to produce the requested law. "Why talk of hard work and economy," they said, "and why use an unpleasant way to increase the wealth of our nation when a single law can do the same thing."

That argument for protection from foreign competition is precisely (word for word) the argument advanced today in Congress and the media in general to support restrictions against Japanese automobiles, Brazilian shoes, Swedish steel, Argentine beef, and Chinese textiles. And, again, that's the reason Bastiat's works are as readable today as they were in 1850; he was dealing with ever-present and universal problems.

"OK," you may observe, "but you've got to admit that protectionism works, just as Bastiat's fictional mine owner claimed. When the owners of the protected industries spend their profits, it does indeed create more jobs. Unrestricted foreign com-

petition would simply wipe out all those jobs and profits. So what's wrong with the French mine owner's argument, if anything?"

Bastiat offered an answer to that question when his fellow-legislators advanced it in the 1800s.

Now in all fairness, we must do justice to the arguments of this mine owner who wanted a tariff to increase domestic employment. His reasoning was not entirely false, but rather incomplete. In securing from the government a special privilege, he had correctly pointed out certain results that can be seen. But he completely ignored certain other effects that cannot be seen.

True enough, the five-franc piece thus directed by law into the cash-box of the domestic producer does serve to stimulate the economy along the lines he predicted. That can easily be seen. But what is not seen is this: That five-franc piece comes, not from the moon, but from the pocket of some French citizen who must now pay 15 francs for the thing that cost him only 10 francs in a free market. And while the protected industrialist may well use the five francs to encourage national industry, the French citizen himself would also have used it for the same purpose, if he had been left free to do so. He would have used his five francs to buy a book, or shoes, or some other article or service he wanted. In either case, national industry as a whole would be stimulated by the same amount.

Thus the new tariff law has resulted in this: The protected industry now makes a high profit to which it is not justly entitled. The average French citizen has been duped out of five francs by his gov-

ernment, and must therefore do without the article or service he would have bought with it. One segment of the economy has profited at the expense of many others. True enough, because of the artificial price increases, new jobs have been created in the protected industry. But what is not seen is the fact that the extra money now spent for iron must necessarily result in reduced spending for other products and services, and thus fewer jobs in those industries. And worst of all, the people have been encouraged to think that robbery is moral if it is legal.

A popular argument today (one that Bastiat never heard) is that those five francs spent by the owners would actually be *more productive* than the same amount spent by U.S. consumers. The economists who support that argument assume that efficiency under "protected prices" will remain the same as under competition, and that the promised profits will be there as specified, and that those profits will be spent on new equipment, e.g., the United States Steel Corporation will actually use its government-created profits to modernize its facilities and *not* use them to buy an existing oil company. For the most part, however, reality simply doesn't work out in harmony with that theory that's still supported by so many of our leading economists.

As Bastiat said, all tariffs result in a net loss to the national economy and to the people in general. He demonstrates this net loss (both in

products and satisfaction) in one of his stories on "compensatory tariffs," i.e., retaliation against foreigners when they have an advantage (natural or artificial) that's not possessed by our own producers. He was referring to cheaper labor costs abroad, subsidies and tax concessions given to native producers by their governments, and other advantages that foreign producers are said to have over domestic producers.

A poor peasant in France had planted a few grape vines of his own. After much sweat and time, he harvested enough grapes to make a cask of wine. "I shall sell this wine," he said to his wife, "and buy enough material to enable you to make a trousseau for our daughter."

Our honest peasant took his cask of wine to the nearest town. There he met an Englishman and a Belgian, and began to bargain with them about exchanging his wine for cloth.

The Belgian said, "Give me your wine, and I will supply you with 15 parcels of the material you want."

Then the Englishman entered the bargaining with this offer, "Since we English can manufacture cloth at less cost than the Belgians, I will give you 20 parcels for your cask of wine."

The peasant was about to sell to the Englishman when a customhouse official, who had heard the conversation, spoke to the wine owner, "My friend," he said, "trade with the Belgian if you wish, but I have orders to stop you from trading with the Englishman."

The astounded countryman exclaimed,

"What! You wish me to be content with 15 parcels of material that come from Brussels when I can get 20 parcels that come from Manchester?"

The customhouse official answered, "Certainly, don't you understand that France would suffer if you receive 20 parcels instead of 15?"

The peasant didn't understand it at all, and said so in no uncertain terms.

Replied the customhouse official, "Well, I'm sorry I can't explain it, but there is no doubt that it's true. You see, all our government officials and journalists have agreed that the more a nation receives in exchange for its products, the more it is impoverished."

Thus because of the protective French tariff against low-cost English textiles, the peasant got just as good a bargain by exchanging his wine for high-cost Belgian textiles. As a result, his daughter got only three-fourths of her trousseau. And those unsophisticated countrymen are still wondering to this day how it happens that a person is ruined by receiving four yards of cloth instead of three. They still don't understand why a person with nine towels is richer than a person with 12.

A Modern Application

I sometimes suggest to my students in international marketing that the use of compensatory tariffs by the European Common Market today gives precisely the same result that Bastiat pointed out in his story, i.e., tariffs cause higher prices and a decrease in products and services—always. The students seem to understand the idea better when

I put the transaction in story form, *à la Bastiat*.

"Take wheat, for example," I begin. "And let's follow the American owner as he enters a European port with a shipload of wheat grown in Kansas. The American owner wants to sell his wheat for, say, \$3 a bushel. But the officials in the European Economic Community refuse to accept that low price and insist that the European purchasers must pay a much higher price."

At that, my students begin to look at me strangely. "You mean the European people insist on paying more for the wheat to bake their daily bread than they need to?"

"That's right," I answer. And in spite of their doubting expressions, I continue with my story.

"You see, while the Europeans believe in competition, it must be fair competition. And those vast wheat lands in Kansas are just better suited to grow wheat than are the small European farms. So it's not fair competition—obviously. Further, those Kansas farmers have another big advantage, i.e., vast amounts of capital (farm machinery) that's just not available to European farmers. The result is unfair competition, i.e., the costs of production for many wheat farmers in Europe are perhaps twice as high as in Kansas. And while most Europeans claim to favor the free market economy and open competition,

naturally it must be fair competition. Everybody is in favor of competition, as long as it's fair. And since fair competition is obviously impossible when the Americans enjoy those two big advantages, tariffs must be used to equalize the situation. Fair's fair, you know.

"First, the EEC officials check around Europe to find the cost of producing a bushel of wheat by the most inefficient wheat producer in all of Europe. The chances are that'll be a French farmer who insists on growing grain on his land when the market says grapes or vegetables.

"Once the costs of this most inefficient wheat farmer in all of Europe are determined, then the compensatory tariff to wipe out the American production-advantage is set so that European consumers will find little or no advantage in buying American wheat over French wheat. The price to them will be about the same.

"That's what most people seem to mean by 'equal competition,' i.e., tariffs to wipe out any advantage (natural or man-made) enjoyed by the foreign producer over the domestic producer. The result is that the Europeans must pay perhaps 100 per cent more for their daily bread than would be necessary under free trade. And since there are always low-cost producers in any industry, those European wheat farm-

ers who are more efficient than that marginal French wheat farmer just automatically reap high profits—while the people in general have less bread and other goods and services."

By now, the students are horrified, of course. It's just inconceivable to them that any people are so gullible as to pay twice as much as they need to pay for products and services. Then, to give them an even worse example, I take them to Japan and the "orange situation." I explain that the Japanese insist on paying perhaps four times as much for their inferior domestic oranges as they need to pay for superior California oranges. We Americans have been trying for years to sell our excellent oranges to them at exceedingly low prices. The Japanese refuse to let us do it, however, and continue to insist that they're better off when they pay three and four times as much as we are willing to charge.

At that point, some of my students become so angry at this "Japanese inscrutability" that they seem almost willing to go to war again to straighten those people out. You doubtless have guessed what I do next—I bring them back home and point out that we Americans insist on forcing ourselves to pay at least 50 per cent more for an American car than the Japanese are willing to charge us for a similar or better car.

A chill settles over the classroom. The students who've been deriding those inscrutable Japanese are suddenly quiet. Then I begin to hear the all-too-familiar arguments you hear every day in Congress and read every day in your local newspaper—precisely the same arguments Bastiat heard as a member in the French Chamber of Deputies in 1848. “But we must protect American jobs. Those Japanese have the advantage of efficient and disciplined labor. It’s a part of their culture, and it’s obviously not fair. We Americans truly believe in the free market, of course, and competition. But the competition must be fair.” And so on and so on.

Truly, most of us Americans honestly believe that a nation prospers by paying more and getting less. Were that not so, tariffs and all other restrictions against peaceful people freely exchanging their goods

and services would disappear immediately. We blind ourselves to reality by concentrating on the producers and their problems instead of on us consumers and our problems. We worry about *who* produces, instead of what is produced and at what price. We just don’t seem to understand that a nation and its people are better off when we get more for our money, i.e., when we have more products and services, not less.

I now understand what Bastiat meant when he observed that logic is not in any way related to laws that (in various ways) take money from people who have earned it and give it to people who have not earned it. According to Bastiat, that process is the mainspring of socialism, and it’s a sure way to the destruction of *both* the producers and the consumers in any nation. ☸

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John K. Williams

Churchpeople, Socialism, and Capitalism

In 1908, some three decades before he was to become Archbishop of Canterbury, the English churchman William Temple contributed an article to the prestigious journal, *Economic Review*. He had no doubts as to what economic system should commend itself to Christians. Wrote Temple: "In the epistle of the Ephesians . . . [Paul] preaches the fullest scheme of evolutionary socialism, so far as all fundamental points are concerned, that has yet to be conceived by man. Socialism is the economic realization of the Christian Gospel. . . . The alternative stands before us—Socialism or Heresy; we are involved in one or the other."¹

William Temple was not alone in his espousal of socialism in the

name of Christianity. In 1915 Karl Barth, one of the theological giants of the twentieth century, asserted that a "true Christian must be a socialist."² Barth's thinking on this issue did not change: in 1951, for example, he wrote that capitalism "not only allows, but demands in principle, that men make a mere instrument, a means to their own ends, of other men and their work."³ In 1919 Paul Tillich, another revered twentieth century theologian, called upon Christians "to enter into the socialist movement in order to pave the way for a future union of Christianity and the socialist social order";⁴ near the end of his life, when asked by a student whether he still supported socialism, Tillich reported that he did, insisting that socialism "is the only possible economic system from the Christian point of view."⁵ Reinhold Niebuhr,

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probably the most influential Protestant theologian in the United States of America for many decades, insisted in 1931 that he espoused the revolutionary socialism of Marx rather than the reformist, evolutionary socialism of the early Christian socialists. He denounced Christians who did not regard a Marxist "class struggle" as a "fact of history"⁶ as either naive or willfully perverse.

Recent Pronouncements

More recent theologians have continued the tradition of linking Christian theology and values to socialism. "Liberation theologians" such as the Latin Americans Juan Luis Segundo⁷ and Gustavo Gutiérrez⁸ have explicitly incorporated Marxist categories and theories into their theological systems. "Political theologians" such as Johann Baptist Metz,⁹ Jurgen Moltmann,¹⁰ and Dorothee Sölle¹¹ have done the same. Publications of such ecumenical bodies as the World Council of Churches, the U.S. National Council of Churches, the British Council of Churches, and the Australian Council of Churches, are, when political and economic issues are addressed, invariably antagonistic to capitalism and sympathetic to socialism.¹²

Recently, however, voices of dissent have been raised in many mainstream churches and beyond.

In 1983 a publication of the Episcopal Commission for Social Affairs of the Canadian Conference of Catholic Bishops, *Ethical Reflections on the Economic Crisis*, was castigated by many informed economists for the eccentric economic theories therein embraced.¹³ Some seventeen English economists and sociologists of stature contributed, in 1984, to a volume arguing that numerous studies and reports issued by Christian denominations in England and by the British Council of Churches were "sloppy, ill thought out, ignorant, one-sided, addicted to secular fashions, uncritical of conventional wisdom, hysterical . . . and uncharitable to those who disagree."¹⁴ An Australian publication bearing the ecumenical *imprimatur* of four church organizations, Catholic and Protestant, and urging the creation of a socialist Australia was, also in 1984, subjected to close examination and devastating criticism by several Australian economists, philosophers, and political scientists.¹⁵ Scholarly defenses on religious grounds of political freedom have proliferated in the last decade, seriously challenging the claim that Christian believers must embrace and advocate a socialist economic order.¹⁶

The debate continues. That what until recently was a virtual monologue has become a debate is encouraging. It is important, however,

that Christian people and other men and women of goodwill continue to challenge those who assume or assert that religious commitment and moral seriousness lead to support for socialism and opposition to capitalism. Too much is at stake for men and women who value the freedom philosophy—in particular church-people numbered among such men and women—to rest their case or to assume that religious enthusiasts for socialism can now be ignored. The moral case for a market economy and the free society needs constant statement.

Defining Terms

"How many a dispute could have been deflated into a single paragraph if the disputants had defined their terms." So commented the philosopher Aristotle in the fourth century B.C. While many of the disputes between supporters of a socialist economy and those supporting a capitalist economy cannot, for the most part, so be deflated, many churchpeople critical of capitalism have not displayed much rigor in defining the economic system they so abhor—or, indeed, the economic system they prefer. Some clear thinking as to what a capitalist or a socialist economic system is necessarily precedes a moral evaluation of the systems. In fact, such thinking may well be a prerequisite for moral reasoning: the great French

mathematician, philosopher, and theologian Pascal was not far off the mark when he wrote, "*Travaillons donc a penser bien; voilà le principe de la morale.*" ("Let us work hard at trying to think clearly; herein lies the source of moral conduct.")

An economy or economic system, be it primitive or modern, socialist or capitalist, is a social system through which people cooperate in using what they *have* (in terms of raw materials, land, labor, skills, tools, and so on) to produce what they *want*. All such systems face the same problem: what people have is limited, but what people want is limitless. The use of scarce resources to produce one good "costs" alternative uses of the same resources to produce other goods. How, then, so to allocate scarce resources that what people value more is produced at the "cost" of what people value less?

Human beings have devised only three means whereby scarce resources are allegedly so allocated: tradition, political processes, and market forces.

Tradition as the determiner of resource allocation is typical of small, closely-knit, essentially static tribal societies. The reason for this is simple. The *information* necessary for the allocation of resources is readily available and slow to change. Members of the tribe *know*, by and large, what raw materials are available,

what skills the tribe possesses, and what the tribe wants.

Comparable information is not, however, easily obtained in a large, complex society. In such a society people's wants are many and varied. Individuals possess different skills, and specialize in producing different goods and services. Rapidly changing technologies make some skills redundant and the acquisition of new skills an imperative. The raw materials available are many, are distributed globally, and are constantly changing in their relative scarcities. How to *know*, given such complexity, what people want? How to *know* the totality of skills upon which a society can draw? How to *know* what new skills are appropriately developed? How to *know* what raw materials are available and their changing relative scarcities? *How, in sum, to collate, synthesize, and relate production to rapidly changing information diffused not simply among the members of a given society but among the countless people making up a global network of interdependent societies?*

A Task for Government

The socialist answer is that only government can conceivably carry out such a mammoth task. The sheer complexity of a modern society makes expert centralized planning an utter necessity. A tribal society may be able to allocate

scarce resources and coordinate its economic activities by tradition. A moderately complex society may be able to entrust resource allocation and economic coordination to private individuals. Today, however, the information needed to allocate resources and coordinate productive effort is so unspeakably complex and so widely diffused that detailed planning by full-time experts is required. A politically determined allocation of resources, and politically coordinated productive enterprises, are demanded if people's wants are to be satisfied. *A society allocating scarce resources by political processes alone, a society coordinating its economic life by political processes alone, is a purely "socialist" society.*

The defenders of a capitalist economic system retort that such a solution to the problem posed by diffused and constantly changing information fails even to grasp the immensity of that problem. The information required to coordinate a modern economy is so complex and so diffused that *no one can collate or synthesize it*. Indeed, much of this information takes the form of a "knowing *how*" rather than a "knowing *that*," and in principle defies systematization. Information as to individuals' wants is essentially private, and while past wants may be capable of being inferred from a detailed record of individuals' past

behavior, *present* wants cannot be so determined. Paradoxically, the more complex a society becomes, the less manageable its economic activities are.

Yet, an unmanageable system can work very well indeed! In and through the seemingly random activities of individuals seeking to improve their own situations, what people *want* encounters what people are willing and able to *do*. The resulting possibilities are summarized in a huge catalogue of alternatives, *with a price appended to each available option*. Information diffused through the members of a given society, and even beyond that society, is thus made available to all decision-makers, from the humblest consumer to the most "exalted" business executive.

To Obtain Optimum Use of Scarce and Valuable Resources

The ever-changing relative money prices generated by the ongoing processes of supply and demand make available, in an appropriately distilled form, a totality of information no experts could ever acquire. A rise in the relative price of a good informs consumers that a good is becoming scarce and should therefore be used more sparingly; the same signal informs producers that more of the good, or some substitute for the good, should be produced. This information as to

what ought to be done to accommodate the new social situation is linked with *incentives* so to act: a rising relative price encourages consumers to be more frugal in their use of a good or to seek out an alternative, and encourages producers to make available more of the good, or a substitute for the good. People, in short, are able to discover what to do, and are encouraged to do what is required, if the resources they possess are to produce the goods and services they want.

The notion of a system which is the creation of intelligent action but not the outcome of deliberate design is to some people (especially intellectuals) a distressing notion. The claim that such a system can draw upon a totality of information no experts could collate or synthesize is an affront to human vanity. Yet the notion is familiar. No "experts" met, meditated, and produced language. "Experts" have yet fully to understand or systematize the subtlety and order—the "deep grammar"—of language. Yet ordinary people (whose forebears, by experiment and experience, gave birth to language) use it, with great effectiveness, every day.

So with the market. The market is not, despite the name, a place. It is rather the total set of possible exchanges of goods and services human beings can engage in, the voluntary cooperative endeavors in

which they engage, and the humble reality of the ever-changing relative money prices these myriad events generate. *A society allocating scarce resources by market forces alone, a society coordinating its economic life by market forces alone, is a purely "capitalist" society.*

Assessing "Socialism" and "Capitalism" in Theory

The most obvious, albeit frequently neglected, contrast between a socialist and a capitalist economy has already been made. Socialism presupposes Promethean figures capable of acquiring knowledge beyond the reach of ordinary mortals. Capitalism presupposes that all human beings are finite creatures who know but in part. There are no all-wise führers or class-conscious workers or liberated intellectuals capable of mastering the information necessary to coordinate the productive efforts of the masses. Fallible human beings who attain political office remain fallible human beings, no more capable of directing a modern economic system than is the humblest citizen wise enough to know how little he knows. Those who make the plans in a so-called "planned economy" or who give the commands in a so-called "command economy" simply do not, and cannot, know enough to make plans or issue commands drawing on the information informing and

guiding a capitalist economy. For these people are but people. They are not gods.

"But do not the managing directors of large companies make plans and issue orders? Are not the captains of industry 'really' in charge of capitalist nations, determining where the ship of state shall sail and dictating the destination to which the passengers shall be taken?"

The questions are familiar. The answers should be obvious. *How* do managing directors make their plans or decide upon their orders? *How* do captains of industry set their course? *They commune with changing relative money prices and seek to optimize their profits.* They heed, in other words, the instructions of the masses. For it is the fickle masses who, by their decisions to buy or to abstain from buying, ultimately generate these prices. They demand more of some good; the alert "captain of industry" perceives that the relative price of this good is rising and feverishly redirects his crew's efforts to comply with the demands he correctly has decoded. Consumers tire of a good; the managing director perceives that the relative price of this good is falling and sets himself to redirect the resources his company possesses. In each case, the "leader" *knows* what to do, and if not led by that knowledge, loses his position. The ostensible leader is, in truth, the led.

The Capitalist Economy

Indeed, this insight suggests the second contrast between a socialist and a capitalist economy. Not only does capitalism begin with the stark fact of human ignorance, it begins with equally stark fact of human selfishness. It challenges not simply the socialist assumption that somewhere, somehow, some person or set of people is capable of knowing what ordinary mortals could never know, but the further assumption that such people would, if controlling an economy by political means, direct production so that it benefited the multitudes no less than themselves. The all-wise planners are also all-good.

Not so the decision-makers in a capitalist economy. They are assumed to be no better and no worse than anyone else. They will put their own interests, and the interests of those nearest and dearest to them, before the interests of anyone and everyone else. Yet, as noted, men and women immediately responsible in a capitalist economy for the deployment of resources *must*, if they successfully are to further their own interests, heed and obey what other people pursuing their own interests demand, as revealed in and through changing relative money prices. No paragons of unearthly virtue, impartially noting the preferences of all and directing production without giving undue prom-

inence to their own preferences, are presupposed.

Indeed it is possible to read Adam Smith's justly famous attack on the politically controlled economy of mercantilism and defense of the market-controlled system of capitalism, as a commentary upon human frailty and sinfulness. Businessmen "seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices."¹⁷ Politicians are but "insidious and crafty animal[s]" incapable of considering long-term goods, being addicted to short-term benefits, "the momentary fluctuations of affairs."¹⁸ Ordinary people foolishly "enjoy, at their ease, the amusement of reading in the newspapers the exploits of their own fleets and armies . . . [and] are commonly dissatisfied with the return of peace, which puts an end to their amusement. . . ." ¹⁹ Truly, "all have sinned."

Human beings are finite and human beings are "fallen." So asserts Christian orthodoxy, and so, in other terms, assert most of humanity's religious traditions. Socialism denies this assertion. It postulates virtually omniscient, omnibenevolent beings who know what ordinary mortals could never know and are marked by an impartiality ordinary mortals cannot attain. Capitalism, conversely, begins with human

beings as they are, coordinating the self-interested actions of self-interested people so as to produce an unintended beneficial outcome, and enabling the actions of ignorant people to be informed by more knowledge than such people could ever individually acquire. It seems odd for churchpeople to applaud a system presupposing the falsity of a basic Christian teaching—indeed odd for any person to applaud a system presupposing the falsity of what seems so evidently true.

Assessing “Socialism” and “Capitalism” in Practice

When William Temple asserted that “socialism is the economic realization of the Christian Gospel,” socialism was, by and large, a pipe-dream. Today some fourscore regimes describing themselves as socialist exist. The bare bones of theory have taken on flesh; the ideal has become incarnate.

It should, indeed *must*, be conceded that no purely socialist societies exist, the allocation of scarce resources being determined *solely* by political processes. Nor for that matter do any *purely* capitalist societies exist, this allocation being effected *solely* by market forces. The purely socialist and purely capitalist society are, in Max Weber's expression, “ideal types.” Yet existing societies approach one or the other of the two models. In this

sense the United States of America, Australia, and Hong Kong can be spoken of as essentially capitalist societies and the Soviet Union, mainland China, and Tanzania be spoken of as essentially socialist societies. Hence, even granting the non-existence of pure socialism or pure capitalism, comparisons can still be made.

Productivity

The argument was proffered earlier about the impossibility of socialist planners collating, synthesizing, and directing production by reference to the totality of information diffused throughout a society, but available, in a capitalist society, in the distilled form of relative money prices. If that argument holds, one would expect socialist economies to be grossly inefficient in so allocating scarce resources that people's wants are satisfied. Observation does not disappoint this expectation!

John K. Williams is one of the scheduled speakers for the Second Annual Leonard E. Read Memorial Conference to be held December 1–2 at Tarrytown Conference Center, near the Foundation. For details contact FEE, Irvington, NY 10533.

In the late 1960s Paul Ehrlich lamented in *The Population Bomb*²⁰ that men and women “acquainted with the available evidence” agreed

that India could never be self-sufficient in food. He quoted, and agreed with, Louis H. Bean, who said, "My examination of the trend on India's grain production over the past eighteen years leads me to the conclusion that the present 1967-1968 production . . . is at maximum level."²¹

Today India is self-sufficient in grain. During the 1970s massive institutional reforms were implemented. From 1947, when achieving independence, India's leaders have been avowedly anti-capitalist, opting for a centrally planned, socialist economy. Tariffs and quotas have controlled imports; extensive subsidies have controlled exports. Wage and price controls have been ubiquitous. Steeply progressive taxation rates have allegedly redistributed wealth. "Five year" plans have prescribed detailed programs of investment and economic development. And most people have gone hungry.

Hence, during the 1970s agriculture was deregulated and essentially entrusted to market forces. Price controls were lifted, food products being allowed to find their market pricing levels. Farmers were allowed to determine what they would produce by reference to anticipated returns, rather than being required to comply with the edicts of central planners. Taxation reforms were implemented so that farmers could retain more of the income

their planning and efforts created. Production increased, being sufficiently large to keep the general food price reasonably low. Farmers' incomes simultaneously increased. By 1977 India was actually exporting grain and agonizing over the welcome problem of how best to store surplus crops.

Simply, the market worked.

The Market in Sri Lanka

It worked also in Sri Lanka. When Sri Lanka achieved its independence it, like India, opted for a socialist economy. By 1977 the nation stood on the brink of ruin. Yet in that year's presidential elections the United National Party's leader, J. R. Jayawardene, called for an abandonment of socialist policies. When he and his party assumed office, government was consuming 70 per cent of Sri Lanka's wealth, as measured by the so-called Gross National Product. Tax cuts and drastic reductions in government spending reduced that amount to under 40 per cent. Agriculture was restored to the free market; the government's monopoly on transportation was ended; even part of the postal system was sold to private enterprise. Over one hundred and twenty foreign investment projects were approved. In five years Sri Lanka was enjoying vastly increased agricultural production, a 50 per cent increase in that admittedly strange

measure the National Standard of Living, and in 1982 a return of Mr. Jayawardene's government with an 80 per cent majority and a mandate further to move the Sri Lankan economy toward capitalism. Again, the market had triumphed.²²

It is therefore little wonder that in socialist states—in Yugoslavia, Hungary, Poland, mainland China, and even Soviet Russia—the most interesting and promising economic experiments relate to an increased reliance upon the market forces. In particular, food production has been deemed, it would seem, too important to be entrusted to “scientific socialism”! As is well known, the main productive units of Soviet Russia's state and collectivist agricultural sectors—the *Sovkhoz* and the *Kolkhoz* respectively—have long been notoriously inefficient, the tiny three per cent of cultivated land returned to private control producing thirty per cent of the meat, milk, and green vegetables, thirty-three per cent of the eggs, and sixty-one per cent of the potatoes available to feed the men, women, and children of Soviet Russia.

Perhaps the most startling manifestation of such experiments is a volume of essays recently published by mainland Chinese economists: *China's Search for Economic Growth*.²³ The contributors redefine “authentic socialism” in terms of the principle, “From each according to

his ability; to each according to his work,”²⁴ laud the virtues of saving and of capital accumulation,²⁵ and deride egalitarianism as an evil doctrine which “protects the backward, obstructs the advanced, frustrates the enthusiastic, lowers working efficiency, and is, in general, a hindrance to the realization of socialist modernization.”²⁶

Four Little Dragons

Perhaps the productive efficiency of capitalism is best perceived by comparing the economic situation of the “four little dragons”—Hong Kong, Singapore, Taiwan, and South Korea—with the sorry plight of Tanzania.

The “four little dragons,” capitalist societies, are surging ahead. During the 1970s they posted an annual growth rate of 9.4 per cent. With only 1.4 per cent of the world's population, these nations—enjoying sparse natural resources—produce 6 per cent of the world's manufacturing exports. In Singapore, real *per capita* income has doubled every decade; in Hong Kong, real *per capita* income has increased sevenfold since 1946; and South Korea's *per capita* income is double that of resource-rich North Korea.

Yet, compare the situation in Tanzania. Prior to the advent of President Julius Nyerere and his particular version of socialism, Tanzania enjoyed a robust economy and

thriving agricultural bases, actually exporting maize. Agriculture was collectivized in the name of "agrarian reform"; the country, as a result, is now utterly dependent upon foreign aid (of which socialist Tanzania has received more *per capita* than any other Third World Nation) for the most basic of foodstuffs. Output *per worker* has declined 50 per cent over a single decade. The government bureaucracy, however, has increased by 15 per cent *per annum*, doubling in under a decade. Of the more than three hundred industries socialized by president Nyerere, nearly half were bankrupt by 1975; most of the others now operate at a loss, consuming more scarce resources than their output warrants. Life for the masses has become, if not brutish, certainly nasty.²⁷

Such "materialistic" concerns may seem a matter of indifference to many churchmen extolling the virtues of socialism. But man—*adam*—is of the earth—*adamah*; the book of Genesis has it right. People do not live by bread alone, but they need bread if they are to live at all. The hungry cannot be fed until food is produced; the naked cannot be clothed until clothing is created; the destitute cannot be sheltered until bricks are made and houses are built. Talk about an "ethic of distribution" is at best self-indulgent and at worst sheer impertinence if divorced from an *ethic of*

production. And the evidence is clear, the evidence is concise, the evidence is conclusive: *a socialist economy is simply unable so to allocate scarce resources that the most basic of human needs can be met*. An alleged concern for the needy inexorably leads to the espousal of that economic system which historically has produced sufficient wealth to transform the very nature of poverty. And the name of that system is capitalism.

Socialist churchmen who read to their congregations the parable of the judgment of the nations found in Matthew chapter twenty-five might do well to commune with the plethora of evidence available as to the relative success of a capitalist economy and a socialist economy in producing food and clothing and shelter sufficient for all, quietly read the parable yet again, and reconsider their commitment to socialism. Minimally, they might ask why it is they are consumed with an abhorrence of the very economic system which, to date, has best done what they profess to value most.

Yet, economic efficiency is not and cannot be the entire story. As it happens (and as Adam Smith pointed out over two hundred years ago) the institution of slavery is a singularly economically inefficient social institution. Suppose, however, it contributed to economic efficiency. What then? If Egypt's Pharaoh had estab-

lished to the satisfaction of Moses that the continuing enslavement of the children of Israel was necessary for Egypt's economic well-being, would Moses have thanked him for the information, sighed with relief that he had not unintentionally wrought great harm, and composed a little song entitled, "Don't Let My People Go!"?

Clearly, further issues have to be considered.

Democracy

Not all capitalist societies are free societies. Indeed, not all people who have defended the view that only market forces can allocate scarce resources so that people's wants are least inadequately met, have even *defended* the free society. The Physiocrats who preceded Adam Smith and who coined the motto, "*Laissez-faire, laissez-passer*" ("Let things alone, let things pass") advocated absolute monarchy: such a form of government, they argued, would be consolidated and made more stable if the monarch recognized the inexorable laws which govern economic affairs, did not intervene in the market, and thereby allowed wealth to be created and his people to enjoy prosperity.

Societies can be identified today, which, although numbered among those nations clustering around the ideal type of economic system described above as "pure capitalism,"

do not respect a body of civil rights, both in government and against government, enjoyed by all. More precisely, not all capitalist societies existing in the past or in the present enjoy institutional provisions for political opposition and for a change in government by universal franchise and a body of civil liberties protected from the whims of any given government.

Yet, while not all capitalist societies are free societies, *all free societies are capitalist societies*. No socialist societies are free societies. More: if non-free societies are divided into authoritarian societies and totalitarian societies, *all totalitarian societies turn out to be, or to have been, socialist societies*. Authoritarian capitalist societies do exist and have existed, but no totalitarian capitalist societies do exist or have existed.

Socialism enjoys a negative correlation with political liberty and a positive correlation with totalitarianism. Capitalism, however, seems to be a necessary, but not a sufficient, condition for political liberty.

It is obvious why capitalism is incompatible with totalitarianism. Capitalism demands, by definition, forces and institutions detached from government. It depends upon individual men and women seeking to improve their own situation in their own ways. It depends upon the free meeting of what people want

with what people are willing and able to do. It depends upon people being free to perceive opportunities to improve their situation and to devise and implement means which, they believe and hope, will enable them to avail themselves of these opportunities. It depends upon people being able to form voluntary associations and to devise forms of cooperation that will enable them to achieve together what they could not have achieved alone.

Total Political Control

Totalitarianism demands the *subordination of all human activities to political control*. Indeed politics, in a totalitarian society, are omnipresent. No social institutions are, ideally from the totalitarian's viewpoint, non-politicized. Religious institutions, social institutions, legal institutions, academic institutions, the family—*nothing* falls outside the province of political action and control. The totalitarian state ascribes to itself the attributes of God: omniscience, omnipotence, and omnipresence. Authoritarianism does *not* seek to make the political omnipresent; rather, *it seeks to make the political taboo!* So long as an individual's actions do not impinge upon the political, considerable liberty can be enjoyed. Economic exchanges can be made. Voluntary associations can be formed. Newspapers and books can be published. The one pro-

viso is that no attempt is made to challenge the political *status quo*.

Yet, while a capitalist economy is compatible with political authoritarianism, a tension exists. The existence of institutions not directly controlled by government makes opposition to a given government possible, albeit dangerous. More importantly, people begin to desire in the political sphere the sovereignty they enjoy in the economic sphere. Why should not those people immediately controlling political institutions be as subject to the wants of the people as are those enjoying immediate control of resources in the economic sphere? The seed of liberty planted in the economic field increases and multiplies and soon takes root in the political field. The authoritarian regime either drifts toward totalitarianism or is supplanted by the free society.

Vital Economic Liberty

Economic liberty and political liberty strengthen and reinforce each other. They are twins, although not "Siamese twins." One twin—economic liberty—can exist without the other—political liberty—although strangely, political liberty cannot exist without economic liberty. Authoritarianism is threatened by the presence of economic liberty. Totalitarianism cannot tolerate the presence of such liberty at all.

The Christian believes in a God Who made man in His own image, a God Who endowed His creature with something of the perfect freedom that is God's alone. Made in the *imago Dei* human beings are free: free to dream their own dreams and struggle to make them come true, free to formulate their own visions of the "good life" and strive to realize them, free to set their own goals and seek to achieve them. It is strange when those who profess to serve that God—a God Who simultaneously loves His creature yet so reveres that creature's autonomy that He allows him to choose damnation—willingly disregard human liberty, claiming, in effect, the "right" coercively to "correct" dreams they judge foolish, to veto visions of the "good life" they judge inadequate, and to proscribe goals they judge unworthy. It is stranger still when one remembers that such churchmen claim to follow One Who prefers to "stand at the door and knock"²⁸ rather than use the battering ram of coercion. Strangest of all is the assumption of churchmen advocating a "planned" or "command" economy that they shall be numbered among the mighty who draw up the plans and issue the commands rather than among the planned and the commanded.²⁹

Socialism is, for many, the appropriate stance of the revolutionary spirit which yearns for what could

be and is discontent with what is. Yet, rule by proud people who claim to know what no one can know and promise to do what no one can do is not new. Rulers dining at tables laden with the produce of those they have enslaved are not new. The tired masses waiting in queues for bread are not new. The suppression of human liberty is not new. One law for the rulers and another law for the ruled is not new. If this be revolution it is the revolution of the full circle and the return to what was before the dream of freedom burst into flame and the tyrants fell and the "rights" of all people were proclaimed.

Conclusion

There is a revolution men and women of goodwill can seek. Other revolutions ended in terror or tyranny, or resulted in Napoleonic empire. This revolution is never finally realized. It is ongoing, continuous, dynamic. It challenged at its beginning, and has challenged ever since, all dominations and tyrannies, all bigotries and prejudices, all predatory institutions debasing and enslaving the free spirit of humanity. It cries that people are not chattels, not pawns on a planner's chessboard. It is therefore sacrilegious to enslave them, infamous to engineer them, criminal to degrade them and rob them of the liberty that burns within their being.

In truth no tyrant can expropriate that liberty. If it die, people have themselves quenched it; if it be absent, people have themselves thrown it away; if it be not perceived, people have closed their own eyes. For that liberty is the gift of the Creator, and its destruction can be wrought only by those to whom it was given.

God help us not so to destroy it.
God help us and our children's children if we do!



—FOOTNOTES—

¹Quoted in *Marxism and Christianity*, ed. Herbert Aptheker (New York: Humanities Press, 1968), p. 203.

²Quoted in *Forderungen der Umkehr. Beiträge zur Gesellschaft*, Helmut Gollwitzer (Munich: Christian Kaiser Verlag, 1976), p. 173.

³K. Barth, *Kirchliche Dogmatik III/4* (Munich and Zurich: 1951), p. 623.

⁴P. Tillich *et al.*, "Der Sozialismus als Kirchenfrage," in *Gesammelte Werke, Vol. II*, Paul Tillich (Stuttgart: Evangelisches Verlagswerk, 1962), p. 19.

⁵Quoted by J. P. Wogaman, *The Great Economic Debate* (Philadelphia: Westminster Press, 1977), p. 133.

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⁷J. L. Segundo, *The Liberation of Theology* (New York: Orbis Books, 1976).

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¹⁰J. Moltmann, *The Experiment Hope* (Philadelphia: Fortress Press, 1975).

¹¹D. Sölle, *Political Theology*, trans. John Shelley (Philadelphia: Fortress Press, 1974).

¹²An admirable discussion of the World Council of Churches is provided by *Amsterdam to Nairobi*, Ernest W. Lefebvre (Washington: Ethics and Public Policy Center, 1979); an equally admirable discussion of the U.S. National Council of Churches is found in *The Coercive Utopians*, R. J. and E. Isaac (Chicago: Regnery-Gateway, 1983), chap. 2.

¹³See, for example, "Economics and the Canadian Bishops: A Symposium," *This World*, Spring/Summer 1983, pp. 122ff. and "On Economics and the Canadian Bishops," Walter Block, *Focus Number Three* (Vancouver, B. C.: The Fraser Institute, 1983).

¹⁴*The Kindness That Kills*, D. Anderson (ed.) (London: S.P.C.K., 1984), p. 9.

¹⁵*Chaining Australia*, G. Brennan and J. K. Williams (eds.) (St. Leonards: Centre for Independent Studies, 1984).

¹⁶Two such works are *The Spirit of Democratic Capitalism*, M. Novak (New York: Simon and Schuster, 1982) and *The Ethic of Democratic Capitalism*, R. Benne (Philadelphia: Fortress Press, 1981).

¹⁷A. Smith, *An Inquiry Into the Nature and Causes of the Wealth of Nations* (New York: Random House, Modern Library Edition, 1937), p. 128.

¹⁸*Ibid.*, p. 435.

¹⁹*Ibid.*, p. 872.

²⁰P. Ehrlich, *The Population Bomb* (New York: Ballantine, 1968).

²¹*Ibid.*, p. 40f.

²²An admirable study of the Sri Lankan dalliance with socialism is found in L. J. M. Cooray, *The 1983 James Peiris Memorial Lecture* (The Sri Lanka Foundation Institute).

²³X. Dixin (ed.), *China's Search for Economic Growth* (Beijing: New World Press, 1982).

²⁴*Ibid.*, pp. 19, 102, 104, 107.

²⁵*Ibid.*, p. 109.

²⁶*Ibid.*, p. 122.

²⁷T. Sowell, *The Economics and Politics of Race* (New York: William Morrow, 1983), p. 240.

²⁸*Revelation* 3:20.

²⁹*Matthew* 23:12. *Philippians* 2:6-11 also merit contemplation.

My Years With Ludwig von Mises

IF ECONOMICS is a dismal science, you would never know it from Margit von Mises' book about her husband, *My Years With Ludwig von Mises*, which has just been republished, with important additions, by the Center for Futures Education, Inc. (P.O. Box 489, Cedar Falls, Iowa 50613, 230 pp., \$12.95 cloth; \$7.95 paperback).

Margit von Mises has all along disclaimed any intention of "answering" economic problems in her book. But her whole story is living testimony to the truth that interventionism, if persisted in by governments, can only have disastrous consequences. She happened to be married to a fighter, with the inevitable consequence that her book is a battlefield report as well as a very human story of life with a private person who kept his personal feelings to himself.

Before her marriage to "Lu," Margit had a life as an actress on the North German and the Viennese stages. A widow with two children,

she had managed to support herself after leaving the stage by translating English and American plays for presentation in Central Europe. She also wrote short stories. She has an unfailing dramatic instinct in anything she writes. Curiously, though she was married to a man who had sedentary habits (he couldn't be bothered with tennis because he had "no interest in the fate of the ball"), her method is wholly appropriate to what she has to tell.

The dramatic centerpiece of the book is the account of a great exodus. Margit first met Lu in the middle Twenties, but thirteen years had to pass before he could see his way clear to propose a marriage. This was in 1937. Lu had already left Vienna to take an economic professorship in Geneva at Dr. William Rappard's Graduate Institute of International Studies. The date for the wedding was set for April of 1938, but on March 14 Hitler marched into Vienna. The problem was how to get Margit and her daughter

Gitta out of Austria, but somehow that was managed. The wedding came in June, not April.

Mises' Academic Career in Europe

"Austrian" economics, even in the heyday of Carl Menger and Böhm-Bawerk, had always had to contend with the German "historical" school which had no valid theory of value. (Mises had written about this in *The Historical Setting of the Austrian School of Economics*, recently published in pamphlet form by the Ludwig von Mises Institute of Auburn University.) Mises had to build a reputation as an economist without "official" support in German and Austrian university circles. His famous Vienna seminar was held in the offices of the Vienna Chamber of Commerce, for which Mises worked while writing his early books.

Teaching at Rappard's Institute in Geneva was the first academic job that Mises had really liked. But after the fall of France in 1940, life in Switzerland seemed unbearably constricted. The problem this time was how to get through occupied France to Lisbon in Portugal. It was a problem faced by other intellectuals from Central Europe who had incurred the Nazis' displeasure. Margit tells the story of a ticklish escape with a fine attention to the details. They had to make a great circle in France, with occasional

backtracking to avoid German troops. At the Spanish border they were held up by customs officers who were only accepting French, American and English passports for passage. Mises had to go to Toulouse for a valid visa for himself and Margit and for other refugees from Central Europe that had been on the bus through France.

Mises could have gone to California, where he had an offer of a six-month job as a lecturer, but he and Margit chose to stay in New York City. There was a two-month interlude in Mexico. Margit Mises describes this exciting but poverty-stricken country as it has never been described before. The trip to Mexico was only the first of many Mises incursions into Latin America, where his non-interventionist economics has had great appeal to dissident intellectuals who would like to get away from their statist regimes. It is a Mises disciple, Dr. Manuel Ayau, who founded the Francisco Marroquín University in Guatemala to teach Austrian economics to bigger and bigger classes. Ayau will make it difficult for Nicaraguan Sandinistas and Castroites to take over in his country.

The New York Story

The Mises New York story is intimately bound up with the rise of the conservative movement that finally placed a Mises reader named

Ronald Reagan in the White House. It is far more than a domestic chronicle that Margit Mises has undertaken in this section of her book. There is a full account of the Mises seminar at New York University that meant so much to such Mises scholars as Murray Rothbard and Israel Kirzner. Mises had plenty of enemies, but he had great and enduring friendships. Leonard Read brought him frequently to The Foundation for Economic Education for lectures and seminars. And Harry Hazlitt and Larry Fertig took it as a special privilege to find backing for Mises projects.

It was Hazlitt who brought Mises' great work, *Human Action*, to the attention of Eugene Davidson at the Yale University Press. Davidson published it with great success, but lost his job before a new edition could be brought out. The new edition was incredibly botched, and Mises was even denied the opportunity to have a look at the page proofs. Was there sabotage involved in the botching? Mises was angry in an ice-cold way, and for the first time in his life he had sleeping problems. Margit Mises asks one question: "Was Eugene Davidson the only person whose support had brought *Human Action* to life?" It wasn't until Henry Regnery had brought out a new edition of *Human Action* that Mises slept soundly again.

Rewarding Originality

Murray Rothbard has said that Mises was badly rewarded in America even by those who were willing to give him a public forum. This may be true enough, but things hadn't been much different in his native Austria when it came to rewarding originality. Mises has recalled that Freud was laughed at in Vienna, and Gregor Mendel carried on his genetic experiments in an "intellectual desert." The aging pioneer of marginal utility, Carl Menger, when told about the Mises Vienna seminar discussions, remarked that "when I was your age, nobody in Vienna cared about these things."

All in all, Mises has had attention—the current rout of the Keynesians in academic circles is proof that his non-interventionist doctrines have had their effect. In an entirely new chapter in her book, Margit Mises sketches the story of the spread of her husband's influence. The chapter takes thirteen closely-packed pages.

Other new additions to the book include a letter from Professor Hayek and an appendix containing impressions and memories of still-living students who had attended the original Mises Vienna seminar.

Mises once said that "truth persists and works, even if nobody is left to utter it." But in his case there are plenty left to give utterance. ☉

**FREE BANKING IN BRITAIN:
THEORY, EXPERIENCE, AND
DEBATE, 1800-1845**

by Lawrence H. White

(Cambridge University Press, 510 North
Avenue, New Rochelle, N.Y. 10801) 1984
171 pages • \$29.95 cloth

Reviewed by Philippe Nataf

FOR decades two closely-related ideas have been taken for granted. The first holds that business cycles stem naturally from within the capitalist market economy; and the second, that free banking is a most unstable system, as evidenced by pre-Civil War America. Significantly, near unanimity on these questions has not always existed; during the 18th and 19th centuries prestigious economists thought otherwise—frequently the exact opposite. One counts Americans, British and French among them, including the Physiocrat DuPont de Nemours, Adam Smith, J. B. Say, Mushet, Parnell, Gilbert, S. Bailey, H. C. Carey, Hildreth, Courcelle-Seneuil and the unjustly forgotten friend of Bastiat, the encyclopedic Charles Coquelin, with his numerous disciples.

The great merit of Professor White's book lies in the challenge it presents to today's views about money and banking. To this end, Professor White has chosen to ex-


amine the British theoretical debates and the Scottish free banking history before 1845. Going beyond the controversy of the Currency School versus the Banking School, Professor White focuses on the previously overlooked Free Banking School, which questioned the basic premises of the other two. In so doing, it addressed a more basic issue: under which condition—competition or regulation—is a banking system more efficient? It concluded in favor of competition. The Free Banking School identified the root cause of recurring economic disturbances in the legal monopoly of the Bank of England over bank note issue. Consequently, it favored subjecting the Bank of England to competition in bank note issue as the best means of checking credit fluctuations. White's exposition of this controversy provides a most valuable refutation of interventionist reasoning.

Furthermore, the book challenges the validity of the classic argument against Free Banking, which cites the American experience before the Civil War. The term "free banking," as used in this instance, is misleading, given the close regulation of banks by the state legislatures. Thus, one cannot fault "free banking" for the failure of systems that were not, in fact, free (except for competitive and stable New England, one might add). In con-

trast, White presents the truly free banking system of Scotland before 1845 as a paradigm, showing that this competitive system generated no erratic fluctuations. Scotland's system was prosperous and depression-proof, while the regulated English banks suffered severe monetary disturbances.

The reader should note White's use of a simplified bank balance sheet model showing, with twelve equations, the self-regulating nature of a free banking system. That is, the system spontaneously adjusts the supply to the demand for currency. White points out that under free market conditions the bank reserve ratio may be well below 100 per cent. "Fractional reserves" exist naturally and may fall to surprisingly low ratios. After citing a Scottish bank in the 1830's that "held specie reserves averaging only 0.5 per cent of total demand liabilities," White accurately concludes that "a bank note-issuing firm is presumably competent to choose a level of reserves prudent enough for its own private purposes."

So convincing are the conclusions of Professor White's research that even before the publication of his book and while travelling in Scotland, England and Continental Europe, he had already influenced academic thinkers significantly. Combined with a growing interest in the monetary contributions of

Ludwig von Mises and F. A. Hayek, Professor White's theoretical and historical work will undoubtedly foster a better understanding of free competitive processes in money and banking. 

PIECES OF EIGHT: THE MONETARY POWERS AND DISABILITIES OF THE UNITED STATES CONSTITUTION

by Edwin Vieira, Jr.

(Devin-Adair, 143 Sound Beach Avenue,
Box A, Old Greenwich, CT 06870), 1984
391 pages • \$19.95 paperback

Reviewed by Brian Summers

THIS is a scholarly, thoroughly documented analysis of the monetary powers of the United States Constitution, and how these powers have been disabled by Congress, the Courts, and Presidential edicts. The arguments are cogent, with numerous references to Acts of Congress and Supreme Court rulings. In short, this is a challenging book.

But the challenge is well worth meeting, especially for those who are serious students of money, banking, and Constitutional law. In particular, Professor Vieira makes a compelling case that Congress exceeded its Constitutional authority in creating the Federal Reserve. Our fractional reserve, fiat money

system is not only an economic house of cards, it also, in the final analysis, is unconstitutional.

How to rectify the situation? Professor Vieira counsels bold Presidential action. But unless the President is backed by an enlightened electorate, radical moves would only lead to impeachment and disgrace. Education is probably still the only answer, and this book can play a valuable role in that process. ☉

OVERDRIVE

by William F. Buckley, Jr.

(Doubleday and Company, Garden City, New York) 1983

262 pages • \$16.95 cloth

Reviewed by Joseph S. Fulda

William F. Buckley, Jr. is a man of many talents and interests and *Overdrive*, a factual accounting of eight days of Mr. Buckley's life, makes a weekend's fascinating reading. The form Mr. Buckley has chosen is especially welcome, since

it reduces self-evaluation to a bare minimum—we see Mr. Buckley “as is.” Probably the leading conservative thinker in America, Buckley is a busy man—shuttling and flying from state to state for speaking engagements, dinners, editing *National Review*, and hosting his public television series, *Firing Line*.

Overdrive gives us insight into what Buckley considers important: among other things—careful attention to his correspondence, to which he is always ready with a witty reply, a full social life, a concern for his friends (he has a great many of these), sailing, and of course, his work. With all these endeavors, one might wonder how he finds time to write a column three times a week or devote so much interest to music. Buckley's secret is to waste no time. Much of his work—columns, correspondence, editorial decisions, and telephone calls—is done in transit in the back seat of his refitted car. By the time the reader finishes *Overdrive*, he begins to wonder at the pace of it all, yet it comes through often and clearly that Mr. Buckley is a happy and fulfilled man. ☉

the Freeman

VOL. 34, NO. 11 • NOVEMBER 1984

Liberty Means Responsibility— A Page on Freedom, No. 13	Betty Knowles Hunt	643
Are we morally strong enough to be free?		
The "Natural" Rate of Unemployment	Hans F. Sennholz	644
It is unnatural to be unemployed.		
Preferential Hiring Revisited	William Noland	651
Is reverse discrimination now justified by earlier discrimination?		
Stability and the Free Market	Dennis Bechara	658
The road to peace and stability follows the market.		
The Source of Rights	Dean Russell	661
Bastiat's rationale for personal and collective rights.		
The Illusion of Certainty	Ridgway K. Foley, Jr.	669
Among fallible beings, certainty is forever an illusion.		
Why Not Private Charity?	Robert Awenius	680
Let the government keep the peace.		
Of Obligation and Transfer Taxation	Howard Baetjer Jr.	685
Concerning who owes what to whom?		
Demand Side Economics in Medicine	Jane M. Orient	691
What happens when the market process is abandoned.		
Herbert Spencer: Freedom's Philosopher	Jerry Millett	694
Proponent of limited government.		
Book Reviews:		700
"Opportunity or Privilege: Labor Legislation in America" by Charles W. Baird		
"The Philosophic Thought of Ayn Rand" edited by Douglas J. Den Uyl and Douglas B. Rasmussen		

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Liberty Means Responsibility

My argument against socialism is that America already has the best economic and political system yet devised, and that this is proven by her glorious record—and not in a paper blueprint. America did not become the breadbasket, the factory, the bank, and the hope of the world by following the wrong systems or believing in the wrong principles. Her solution is to reacquaint herself with her own best way of life, and to live up to its tenets more faithfully—not to throw it away before she has completely understood or practiced it.

American capitalism has never failed; only some of our human capitalists have failed. Whenever a free-enterpriser achieves his own goal, and then attempts to shut the door of opportunity behind him, or to choke off the free play of competition around him, then he has cheated his own system. Whenever believers in freedom discriminate against minorities, or show favoritism to meritless friends, then they are sabotaging their own constitu-

tional principles and weakening the foundations upon which America was built. Whenever individuals or groups in America use the political power to gain advantage at the expense of others, then such persons or groups are undermining the structure of our republic, and the results will be evil and unjust. Whenever an American acquires wealth or power—and then fails to be a good and honest steward of these benefits—then he not only denies the principles of America, he denies the principles of Christianity.

The answer, and the only answer, is for all of us to educate ourselves to the responsibilities as well as to the benefits of freedom. Perhaps as a people, we are not morally strong enough to be free. If that is the case, then we shall certainly lose our freedom, and it will not matter much what “ism” supplants Americanism. But this will not prove that our free way of life was not the best way. It will only prove that we were not worthy of it. ©

—Betty Knowles Hunt, 1951



The “Natural” Rate of Unemployment

MAN cannot impose his will on nature until he first ascertains what her will is. She sets the rules that make cause and consequences inseparable, and passes the laws by which man must live. In his interaction with nature and the physical universe man is eagerly searching for her ordinances and readily submitting to her will. But in his inter-human relations he is ever desirous of declaring his independence. He defies her will and makes his own rules; he passes laws and regulations by counting votes, and creates governments that are to enforce his wishes. Relying on legislators and enforcement officials, he seeks to

modify nature or, if she should not bend, ignore her entirely.

It is unnatural that man should be unemployed. There are countless needs and wants not fulfilled, desires not met. Labor is the great provider and producer of wealth; it moves all other causes. And yet, there also is unemployment because political man wants to modify human nature. He passes minimum wage laws and assigns costly benefits that exceed the productivity of millions of individuals. He makes them “uneconomical” and thereby condemns them to unemployment. Having created an army of unwanted workers, he then seeks to inflate and depreciate his currency in order to generate new demand for labor. But all the currency depreciation cannot for long alleviate the

Dr. Hans 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.

unemployment. It lingers on year after year as if it were sustained by natural law.

A few writers actually postulate a theory of a "natural" rate of unemployment. Their intentions are laudable, seeking to dissuade government from inflating the currency in order to create more jobs. All such efforts are futile, they contend, because inflation does not affect the "natural" rate. But despite their noble opposition to currency depreciation, these writers quietly acquiesce in the policies that are creating the unemployment. They speak of "natural rates" that actually are the rates of human folly that is causing the unemployment. They are elevating folly to "nature" and thereby reinforcing the folly.

In a staff study prepared for the Subcommittee on Monetary and Fiscal Policy of the Joint Economic Committee of the U.S. Congress,¹ Lowell E. Gallaway and Richard K. Vedder define the "natural" rate of unemployment as "the minimum sustainable rate of unemployment for the economy given a stable rate of price inflation. Put another way, the 'natural' rate of unemployment may be thought of as the 'equilibrium' rate of unemployment."² The authors thereby seek to remove the unemployment phenomenon from the political arena and elevate it to an equilibrium. According to Gallaway and Vedder, "the 'natural' or

'equilibrium' rate of unemployment can be thought of as a basic constraint that the economy faces."³

"Frictional" Unemployment

The natural rate is said to consist of two components: frictional and structural. The former denotes the unemployment that results from economic changes necessitating reallocation and re-employment of labor. The latter, which is the more important component, is said to reflect underlying factors, such as the industrial demand for certain skills, the demographic composition of the labor force, institutional constraints, and the behavioral responses of the total population. Collectively, all these factors are said to shape the "minimum permanently sustainable unemployment rate."

When economists resort to metaphors borrowed from the natural sciences their understanding is liable to grievous error. The notion of "friction" is borrowed from physics and denotes a force that resists the motion of one body in contact with another. "Frictional" unemployment means to convey unemployment that results from a force resisting full employment. Yet there is no such natural force that gives rise to unemployment. Man chooses between alternatives. He may choose leisure over labor, unemployment over production. He may be

unemployed voluntarily or by institutional force. There are no other types of unemployment.

Changing conditions may necessitate changes in employment; they cause no frictions in human behavior. The world is a scene of changes; today is not yesterday, and not tomorrow. Change may be painful, yet ever needful. Economic changes may necessitate labor adjustments in pay, conditions and location. They may require new learning and training and demand new efforts by the individual.

In a free and unhampered market all the changes in the world do not create unemployment unless the individual chooses to be unemployed. He may choose to wait until an employment opportunity presents itself in a more desirable location, in another line of business or with a favorite employer. He may choose to wait for noneconomic reasons, to be closer to his family, or with people who share his religious, moral or political views. His waiting is a matter of choice, his unemployment is voluntary.

On the unhampered market, wage rates for each type of labor adjust continually so that all those eager to work can find a job. At the market wage all jobseekers can get jobs and all employers can find as many workers as they would like to hire.

When seen in this light, even seasonal unemployment is voluntary.

In months of intense demand, wage rates must be high enough to attract a sufficient number of workers from other trades and occupations. They may permit the seasonal workers to save part of their earnings during the busy season and remain unemployed in the off season. They may permit some workers to attend school and seek instruction during the school year, which may coincide with the off season. Of course, every season presents its special demand for labor which may offer opportunities to adjustable, mobile labor throughout the year. If some people nevertheless choose to be idle they do so knowingly and voluntarily.

"Structural" Unemployment

It is appropriate, however, to distinguish between voluntary unemployment and so-called "structural" unemployment, the latter relating to unemployment that is "constructed" or "built" by the social and economic institutions of man. It, too, is voluntary in the sense that man chooses to create these institutions and causes them to act in certain ways. But the institutions may be endowed with coercive powers that deny the individual the freedom to choose. The minimum wage law negates the right to employment at compensation rates lower than the minimum. The unemployment it creates is voluntary for the society that enacts such laws, it is involun-

tary for the individual whom it condemns to unemployment.

"Structural" unemployment may be the product of political intention and design, or it may be the bitter fruit of economic ignorance. Laws and regulations that create the unemployment may be enacted by legislators who are utterly ignorant in economic matters. Enamored of their position of power, legislators may actually believe that they, backed by courts and police, can order the wage rates of their constituents to rise. Many legislators, however, are known to favor such legislation because of its stifling effects on the productive efforts of their competitors. The representatives of industrial labor in the northeastern United States are fervent advocates of ever higher minimum wages because they are fully aware of the consequences. The wage mandates are meant to hamper less productive competitors especially in the South, which hopefully provides more employment for their constituents. Labor legislation in this sense is an indication of class and regional economic warfare that is waged by transfer politicians.

Union Policies

In a broader sense, "structural" unemployment may also be the product of ideas and policies that guide labor unions. After all, it is

the very function of unions to exact higher pay for less work, which raises labor costs and reduces the demand for labor. The unemployment it creates is "voluntary" in the sense that society voluntarily creates the union phenomenon; it is involuntary for the individual who is cast out of productive employment. Unfortunately, most sources of information never touch on this structural unemployment.

The U.S. Department of Labor may provide detailed information on males and females, whites and blacks, and many other interesting criteria, but it steadfastly ignores the most important employment factor: union membership. It may report on severe unemployment in Michigan, Ohio, Pennsylvania, and New York, and ignore the fact that the depressed industries usually are unionized industries: automobile, coal, steel, and transportation. In fact, the mass of detailed information seems to be designed to obscure the fact that the strongholds of labor unions also are the centers of unemployment.

Structural unemployment may also be "purchased." That is, we may speak of "purchased" unemployment when the institutional benefits of unemployment, i.e., the state compensation, supplementary benefits by company and union, health-care benefits, foodstamps and other gratuities, induce some people to

prefer unemployment over gainful employment. Surely, many people can be induced to withdraw from the labor market if the price is right. Most people may withdraw when the benefits equal or exceed the compensation for labor exertion. Millions actually withdraw when the subjective value of the free time granted by unemployment together with the transfer benefits exceed the subjective value of the wages earned by labor exertion. When seen in this light, the transfer society is "purchasing" a given unemployment rate. Its willingness to grant benefits is an important factor affecting the unemployment rate.

The Range of Skills

The "underlying forces" do not cause unemployment. Not the industrial demand for certain skills, nor the demographic composition of the labor force, nor the behavioral response of the population can be charged with the gradually rising unemployment rates. It is erroneous to contend that "the wider the range of skills among the labor force, i.e., the greater the disparity among workers' ability to perform in the work place, the more likely it is that those at the bottom end of the skill distribution will be unable to find employment." (Gallaway and Veder, p. 4)

If it were true that a widening range of skills in a given labor mar-

ket would cause unemployment, it would follow logically that the technically most advanced countries would suffer the highest unemployment rates. The United States, Germany and Japan would be not only the centers of high technology but also of high unemployment. Such a conclusion belies the facts. The unemployment rate in some less developed countries, such as Mexico and many others, exceeds by far that of the technically more advanced countries. Unemployment in every country is a cost phenomenon; it has no relation to the given range of technological knowledge and skills. Workers everywhere acquire most of their skills on the job. They are learning continually as they are advancing slowly from young trainees to senior craftsmen. They are fully employed all their lives as long as they do not price themselves out of their respective markets. This is true for the most skillful worker as well as the most inept.

Learning may be a dangerous weapon and apt to hurt its master if he cannot use it. In many societies the costs of education and training are practically free to the trainee, which gives rise to a massive demand for training and immense misallocation and waste of labor. Free education and training tends to give rise to false hopes and expectations, which, in the end, may bring disappointment and discontent.

The Demographic Mix

Among the various determinants of structural unemployment the changing demographic mix is said to play an important role. Over the years there has been a relative increase in the number of females and teenagers in the labor market, people with relatively little skill. They are reported to have driven up the amount of employment and the rate of unemployment. According to Galaway and Vedder, "among the 16-19 group (both sexes) the civilian labor force participation rate rose from 44.0 percent in 1960 to 58.0 percent in 1979. Among females, aged 20 and over, the increase was from 37.6 percent in 1960 to 50.6 percent in 1979." (p. 12) If the level of skills actually affects the rate of unemployment, it follows that the influx of young people with few skills must bear some of the responsibility for rising unemployment.

Actually, the level of productive skill merely determines individual productivity and labor income; it has no bearing whatever on employment and unemployment. Surely, unemployment is more concentrated among females and young people who are congregating in white collar and service areas. They are flocking to these areas for a great number of reasons. Union rules and regulations may bar them from industrial employment, which makes white collar and service areas the

only entrance gates to the labor market. As millions of females and young people are streaming through those gates, wage rates tend to be relatively low. They may approach the minimum allowable rate, the legal minimum. When they fall below this rate unemployment raises its head. It rises or falls, always reacting directly to the excess of the legal rate over the market rate.

The high rate of unemployment among females and young people also reflects a large component of "purchased" unemployment. After all, the difference between income from work and unemployment benefits may be minimal. When it is smaller than the value of the free time gained by unemployment it is reasonable and economical to seek unemployment. Many young people attach extraordinary value to free time that can be devoted to so many exciting pursuits.


Behavioral Responses and Other Differences

Structural unemployment is said to reflect the basic attitudes of people seeking work. Man's frame of reference, outlook, disposition, temper, and morale may change over time. His ethos of labor may change, which may affect the usefulness and productivity of his labor, and thus also the market price. Wage rates rise or fall depending on the contribution made by labor to the produc-

tion process. How do they affect unemployment?

Behavioral differences, even ethnic differences, may explain differences in income and wealth; they may have a bearing on unemployment only in conjunction with government wage mandates and transfer temptations. That is, differences in the ethos of labor, for any reason, do not cause unemployment unless they encounter the given obstacles: false pricing of labor backed by brute force, and benefit temptations giving rise to "purchased" unemployment. In his offer of labor,

every individual, regardless of his ethnic background, faces price and cost considerations. He can find employment as long as he does not become ensnared in one of the "safety nets" spun by government.

It is unnatural that man should be unemployed. To proclaim a "natural" rate of unemployment is most unnatural. 

—FOOTNOTES—

¹U.S. Government Printing Office, Washington: Dec. 17, 1982, 11-8030.

²*Ibid.*, p. 2.

³*Ibid.*

Reprints . . .

A Page on Freedom

Each of these brief messages is a handy way to share with friends, teachers, editors, clergymen and others a thought-starter on liberty. It also serves to introduce the reader to our work at FEE.

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DISCRIMINATION is familiar behavior. We discriminate all the time—in the goods we buy, in the candidate we support at the polls, in the religion we prefer, even in choice of marriage partner (where options exist!). Children discriminate when they issue invitations to their birthday parties. Teachers, in awarding grades, must discriminate between good and inferior work. And the list goes on. Most discrimination is completely justified; in fact, much is morally required.

The dictionary definition of discrimination is neutral, but current social and political climates have done a good job of changing that. Now the predominant meaning is non-neutral, even pejorative. In this atmosphere, those who discriminate are subject to complaints, re-

proach, even condemnation. In race relations, we are being told to practice reverse discrimination in order to compensate for the evils of the past, the exploitation of blacks by whites. But if one takes “discrimination” in a deprecatory sense, to include wrongful or unjustified treatment as part of its meaning, then “reverse discrimination” must likewise imply wrongness because reverse direction wrongness is still wrongness.

Disagreement on the merits of reverse discrimination is widespread and may ultimately prove untamable. It is a debate that transcends earlier debates on racial segregation and subordination. The last two did not attack our moral beliefs as reverse discrimination does. They called on us to condemn and denounce such morally corrupt attitudes and behaviors as lynchings, hatred and hypocrisy, and to stand

Dr. Noland is Professor Emeritus, University of North Carolina, and remains active with his writing and industrial and educational consulting work.

up for the preservation of elementary liberties—not an impossible assignment as judged by the progress we have made in these directions. But reverse discrimination digs much deeper.

Here we are called on to find answers to more basic questions about social justice and human rights. Informed people, open-minded to arguments on both sides, willing to devote substantial time and energy to careful examination of the moral and legal merits of the problem, may differ stoutly on the rightness of preferential hiring. It raises many difficult questions. Since we have not had good success at predicting and weighing the future effects of alternative social policies, must we not approach the solution of this particular problem with extreme care and healthful skepticism? Are the broad principles of justice with which we must wrestle sufficiently clear and do they have defined limits? Is the degree of precision we are able to achieve likely to be sufficient to justify the arbitrariness we may find ourselves having to employ? Is the job of finding pertinent established and universally accepted principles likely to be too difficult?

One view of reverse discrimination, commonly called the social utility approach, argues that the public interest, the "common good," the well-being of society overall,

hinges on our providing ways and means to improve the lot of blacks in our society, resulting in the creation of motivating role models for the most deprived of all blacks, the young ones. Opponents of this position question the benefit-to-cost ratio of such a policy and point to other ways to reduce racial stereotypes, promote integration, and improve the economic condition of blacks.

Distributive Justice

A second approach to reverse discrimination speaks of distributive justice. Here our society is called on to increase opportunities and improve conditions of the disadvantaged, those toward the bottom of the socioeconomic-political spectrum, who themselves do not have the resources necessary to alter their life chances. Here is an implied emphasis on improving the welfare of blacks. To remedy this situation, the argument runs, there should be suspension of equal opportunity until the disadvantaged catch up; in short, unequal opportunity favoring blacks should be mandated.

Opponents call such a program charity, that while the society should help the needy, demanding relief as a right is unacceptable. Furthermore, ask these opponents, what kind and amount of redistribution is due to whom, and under what circumstances? While some re-

distribution may be commendable, would we not be placing the burden of achieving such a goal unequally, too heavily on white job applicants disadvantaged by being in competition with blacks who are being shown preference? Under such an arrangement, the expression "equal opportunity employer" would be a gross misrepresentation, for in reality we would have an "unequal opportunity employer favoring blacks." Again, reverse discrimination is still discrimination.

In an interview reported recently in *U.S. News & World Report* Frank Askin, General Counsel, American Civil Liberties Union, was asked: Is reverse discrimination justified? Yes, said Askin, or else "we doom the nation to another era of racial strife." Racial quotas are necessary in order not to diminish the opportunities which are now being opened to members of minority groups. Advancement opportunities for whites will diminish but that is the price we must pay.

Eugene Rostow, Sterling Professor of Law and former Dean, Yale University Law School, was asked the same question. His reply: No, it is using "an immoral, illegal means to achieve a very good end." Reverse discrimination is not the fastest way to help minorities recover from years of mistreatment. If you take a lot of people who really can't do the work, as you would have to do under

a quota system, you find that many of them drop out. "They are bitter, bruised and badly hurt by their experience."

Quotas or Goals?

A major reason for citing the above opinions, in addition to their obvious utility in pointing up two strikingly different points of view, is that the word "quota" appears in both. So often "quota" is confused with "goal." The two are quite different.

In both of the approaches to reverse discrimination briefly described above—social utility and distributive justice—this difference is important. A quota sets both a ceiling and a floor. If there are not enough qualified workers to meet a quota, some who are not qualified will be added. If there are more qualified than the quota allows, some who are qualified will be rejected, usually on the most arbitrary and irrational grounds. Even when employment circumstances change, the quota is unlikely to be altered, for it was initially set for reasons unrelated to personnel supply and demand. Even the late Justice William O. Douglas proclaimed that there is no way to reconcile a quota system with the Fourteenth Amendment mandating equality of opportunity.

A goal is altogether different: both its underlying reason and its

content reflect human circumstances. The purpose of a goal is to include, but not exclude. If there are too few persons to meet the goal, it will not be filled. However, if, in the future, the pool of qualified persons rises above the goal, it can be exceeded justifiably. According to J. Stanley Pottinger, former Assistant Attorney General in charge of the federal Civil Rights Division, the key word is flexibility. "A goal serves as an objective to be reached, but unlike quotas, a goal should not become carved in stone. Changing circumstances beyond the employer's control, or estimations which prove through experience to have been unrealistic when made, can impair an employer's ability to meet a goal regardless of his good faith efforts to do so."

Compensatory Justice

Now we come to what is likely the least publicized but potentially the most troublesome of all approaches to reverse discrimination: compensatory justice. Here the focus is on preferential hiring as a way of compensating blacks for the "wrongful benefits" whites have enjoyed at their expense. This raises the question: To what extent does preferential hiring of some threaten the *basic right of equal employment* of others?

If a community owes compensation to blacks, does each white mem-

ber, W, of that community owe each black, B? The answer here, where the community is considered distributively, is no. Here the syllogism we studied in introductory logic would run:

<i>Major premise:</i>	Each member of the community owes B
<i>Minor premise:</i>	W is a member of the community
<i>Conclusion:</i>	Therefore, W owes B

This begs the question, for the major premise is precisely what is in dispute.

Nor does the community taken corporately "convict" W, for liability generally is not something born of mere group membership and is not distributed to individual members in a complex organization.

Of course an individual may owe his fair share to his community, but there are recognized criteria for determining the amount (e.g., property evaluation for tax purposes). But what is the white job seeker's fair share? All this smacks of distasteful anonymity, one's being accused of owing somebody something without the chance to defend himself. For contrast, it reminds one of the nature of a fair trial, sacrosanct except for genuine emergency situations, that a prosecution witness cannot give testimony anonymously because it would violate the defendant's right to confront and cross-examine his accusers. So another question becomes: Is not one's right

to consideration for employment as basic as his right to a fair trial?

In 1969, James Forman presented the Black Manifesto to American churches, demanding that they pay blacks \$500 million in reparations (later other institutions were asked for reparations also). Forman's argument ran as follows: For three and a half centuries blacks in America have been "exploited and degraded, brutalized, killed and persecuted" by whites; that whites have been guilty during this time of, first, legal slavery, then legal discrimination and forced segregation, resulting in their extracting enormous wealth from black labor with little return to blacks. We need to raise blacks to the level they would have now if they had not been so subjugated. It is the fair way to compensate for the sins of the ancestors of present-day whites. (Perhaps there was the concealed belief here that it would also be the most effective way to redress wrongs because it would strike at one of the most sacred of possessions, pocketbooks!) These facts, Forman argued, justify a demand for reparations on a massive scale.

While the Black Manifesto charges wrongs to white *America* rather than white *Americans*, it is important to note that if the federal government mandates a general policy of preferential hiring, white job applicants will be asked only if

they are white, not if they have ever wronged blacks. So here we would have the assumption of vicarious liability, i.e., that work performed or deprivations suffered by one person have produced results accruing to the benefit or advantage of another. But how does a white take care of these assumed wrongful benefits? By forfeiting his right to equal employment consideration? By having the government mandate that blacks must be accorded preferential hiring rights?

Let us consider a simple business transaction where obligations and implications parallel a white's status under preferential hiring. Suppose Alexander, A, and Brown, B, are next-door neighbors, living in white houses with identical architecture. A goes on vacation but before he goes he pays a contractor to paint his house—again white, just as originally painted. An "enemy," C, learns of this business transaction and that B went on vacation at the same time. So C switches the residence numbers of plates stuck in the adjacent lawns: 316 and 318 exchange places. The painters paint the wrong house. The mistake is discovered when A returns; somebody owes him compensation. Is it B? Is it the contractor? Obviously it is C, but his identity is unknown. The house cannot be "unpainted," so the benefit to which B is not entitled cannot be taken away without dis-

turbing his other rights. B has no obligation to A: since B's house did not need painting, he cannot pay A without incurring a loss. He benefited from a wrong, to be sure, but he had no choice in the matter, no way of avoiding the benefit. So the premise, "He who benefits from a wrong must, willingly or unwillingly, help pay for the wrong" is false; it should read, "He who knowingly and willingly benefits from a wrong must help pay for the wrong."

Now let us return to the white applicant's case and see the parallel to this one. Preferential hiring takes away the white applicant's undeserved benefits by taking away his right to equal consideration for employment. We must ask not whether he benefited from wrongs done to blacks but whether he deliberately took advantage of the benefits or refused to avoid them when he easily could have. This may be true of some whites—this deliberately taking advantage—but conceivably not all.

There are, of course, situations where imputing vicarious liability is in order—but in all such cases the person made liable possesses some control that would enable him to avoid liability. Parents, by exercising control over their children, can escape liability for their children's debts by seeing to it that the children do not incur unwanted debts. Criminal law makes a participant in

a felony liable for the criminal acts of his co-participants, but one can avoid risk of such liability by shying away from felonious behavior. But whites in the past, in their employment relationships with blacks, did not realistically have such avoidance behavior available.

Early Influences

A further word in defense of whites in the past is in order. During the time when discrimination against blacks was pervasive, any attempt to avoid the taint of advantage would have been difficult if not impossible; in many instances the price paid actually would have been loss of employment. Whites had a competitive advantage over blacks because their early socialization, *beyond their control*, had given them a more secure level of self-respect and self-confidence. Young children have no control over their early socialization; by the time they are able to understand and evaluate social behavior the basic features of their personalities are in place. In fact, much the same can be said about basic educational advantages, e.g., reading and mathematical skills. Even in adulthood, membership in a community defines and reinforces one's self-respect and self-confidence. So it is hard to see how injustices done to blacks could have been avoided by individual whites.

It seems likely that some of the

opponents of preferential hiring—perhaps even a substantial number of them—refrain from absolving all whites of complicity in the evils of the racist system, and even accept the idea that blacks are entitled to some compensation in our society. However, they may at the same time be concerned that preferential hiring lies outside the realm of acceptable means for compensating blacks because it violates a basic human right, that of equal consideration for employment. There are two crucial and related points here: personal guilt is necessary for the creation of personal obligation, and benefits accruing to one from someone else's wrongdoing do not obligate.

One of our worst traits has been the imputing of vicarious liability to our "enemies." We attribute to all in a group the guilt of one of its members. Perhaps the most celebrated case is the blood feud between the Hatfields and McCoys, which raged for thirty years (1865–1895) and left

twenty-seven dead. In such inveterate strife, when first a member of one family kills a member of another, the shooting begins in earnest; every member of each group immediately becomes a suitable object of retaliation by members of the other. Here we have the nasty application of "collective responsibility" and "guilt by association," which, fortunately, we succeed in rejecting most of the time. Opponents of preferential hiring suggest that we do it here.

While there may be a place at times for some limited principles such as vicarious liability, we must proceed with utmost caution. So far our society has subscribed to a moral code that opposes the ascription of liability and guilt to one who could not avoid what he did. If we ever arrive at the point of rejecting this view, we will have succumbed to what we have been trying to avoid: stereotyping and tainting, sources and propagators of racism itself. ☉

F. A. Harper

IDEAS ON



LIBERTY

WHEN discrimination is not allowed according to one's wisdom and conscience, both discrimination and conscience will atrophy in the same manner as an unused muscle. Since man was given these faculties, it necessarily follows that he should use them and be personally responsible for the consequences of his choices. He must be free to either enjoy or endure the consequences of each decision, because the lesson it teaches is the sole purpose of experience—the best of all teachers.

Stability and the Free Market

AN IMPORTANT DIVIDEND of the market economy is the prospect it offers of a peaceful and orderly society. Without the stabilizing influence of the market, democracy and representative government would disappear. War, or the threat of its occurrence, breeds authoritarianism and intolerance. Only under peaceful conditions will there be proper incentives for the creation of wealth.

When the political environment is unstable people tend to look to government more for personal security than for freedom. This has happened in many countries in many ages, and the consequent disappearance of the market order in those countries has only tended to strengthen the government's hold over the population. Such governments attempt to direct the working of the economy, either through outright nationalization of the means of production or by enacting rules and regulations which control the market.

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The stabilizing influence of the free market may be observed in the international division of labor. As people engage in free trade internationally, there is a tendency for individuals and countries to specialize in the production of certain goods. Consequently, free trade establishes an interdependence between countries, as each looks to the production of other countries to help meet its needs. There is thus an incentive for the maintenance of peace.

Since the free economy depends upon social cooperation and the progressive division of labor, it follows that peace is a precondition for capitalism. As Ludwig von Mises stated, "The progressive intensification of the division of labor is possible only in a society in which there is an assurance of lasting peace. Only under the shelter of such security can the division of labor develop. In the absence of this prerequisite, the division of labor does not extend beyond the limits of the village or even of the individual household." (*Liberalism*, p. 25)

Consequently, the market order promotes peace among nations. As free trade increases the world's productivity, it is in the self-interest of nations to refrain from aggressive behavior. When governments control substantial sectors of the economy, on the other hand, this leads to economic nationalism, which increases the possibility of conflict.

Before the advent of the free economy, most social relationships were based on one's heritage or membership in a particular class. Serfs in the Middle Ages, for example, were attached to the land, and it was practically impossible for them to escape such restrictions. Grievances often led to violence. A child's heritage is of less significance in the free economy. True, the influence upon a child in the home is of utmost importance, but each family is free to choose the values it deems most appropriate. In eliminating institutions that granted privileges on the basis of birth, the free economy has promoted social stability and limited this source of conflict.

Voluntarism

Voluntary activities are encouraged within the free market. Contracts are the quintessence of voluntary relationships, and a body of law has evolved in order to reinforce their validity. No significant economic activity could be accomplished if long-term contracts were unenforceable. So there is this further incentive to maintain peace and stability.

Another characteristic of the free economy is that it promotes self-responsibility, insofar as it assures a correlation between effort and remuneration. As effort is rewarded in proportion to its utility to consumers, a work ethic is fostered.

Whenever market forces have been allowed to operate, one of the consequences has been an unequal distribution of income. People's abilities and ambitions vary, and consumers value certain goods and services over others. Those people who are best able to identify the opportunities to satisfy consumer demand are rewarded accordingly. When the government attempts to alter this arrangement, economic incentives are reduced and political considerations assume greater importance. The potential for strife and conflict is heightened as people recognize that they may improve their material position not by pleasing consumers but by obtaining political favors. And political favors usually mean special privileges or subsidies at the expense of the population at large. Government thus grows out of bounds as the market is diminished.

The preservation of peace is one of the great virtues of the market order. The market gives neither cause for war, nor gain from it. War is destruction, and people who participate in wars lose both spiritually and materially. Even if a country is victorious in war, if the means of production are in private hands, the acquisition of more territory does not enrich the country's citizens. If the means of production, on the other hand, are publicly held, then governments will have an incentive

to plunder other countries in order to seize their natural resources and factories. This was one of the reasons Nazi Germany was so aggressive, and this is partly why Soviet Russia has an incentive to expand its sphere of influence.

Separation of Power

The free economy disperses power in many centers and it provides countervailing influences which in turn stabilize a pluralistic society. The alternative to the free economy, on the other hand, concentrates power in the state, weakening the individual's position in society. It is of no use to claim that a constitution or a bill of rights will guarantee our freedom if the government controls the means of production. This is so because as governments control the economy, they will delegate power to bureaucratic agencies. These administrative agencies, however, are not accountable to the public.

Since the legislative branch of the government cannot foresee every possible course of action which may be required of administrative agencies, it must delegate broad powers to them. This in turn weakens the rule of law, because the agencies will not have specific limits defined beforehand; rather, the agencies will legislate their own brand of economic and social justice according to the prevailing notions of the time. This development thus breeds con-

flict by promoting political action as the means to improve one's economic position.

Government, the monopoly of organized force, must be limited if there is to be freedom from its coercion. The free economy permits the existence of liberty because it does not allow the state to attain more powers than are necessary to keep the peace. By limiting the power of government to the rule of law, the free economy restores a degree of predictability to the government's actions, which in turn is a shield from arbitrary power. By broadening the areas within which individuals may act privately, the free economy permits the blossoming of each person's potential.

Competition, which is enhanced by the free market, raises productivity by rewarding those who most efficiently allocate scarce resources. But besides raising productivity, competition has an additional advantage—it encourages individual growth. As the late Leonard Read so frequently said, "The art of becoming is composed of acts of overcoming." It is precisely by overcoming obstacles that we are able to negotiate the different stages of growth, in open competition. And the free economy, by creating the framework of peace, cooperation and stability, insures the survival of representative government—a worthy achievement of any social order. ☉

The Source of



Rights

THE prevailing justification for governmental action in the United States today is this: The desires of the majority, as determined by universal and secret ballot, shall become the law of the land. And once the vote is in, everyone must obey, including those who think the law is immoral or economically destructive. Even if a person thinks the law violates individual freedom and the basic human rights of every person, he must still conform. Here are three examples of this situation currently in force.

1. Some hospital administrators think abortions are immoral. Even so, abortions must still be accom-

modated in their hospitals. If the administrator refuses, the penalty for frustrating the legal right of a woman to have an abortion in a hospital open to the general public will be the loss of essential funds and certification for the hospital. This will result in the almost-certain demise of that particular hospital.

2. One of the few economic principles accepted by economists of all persuasions is that tariffs cause higher prices, with a resulting decrease in goods and services. Even so, we economists (along with everyone else) must conform to that costly measure in practice, or suffer additional penalties as law-breakers.

3. If the idea of human rights has any validity at all, surely the most fundamental one is the right of every peaceful human being to his own life. Yet the majority of American people have voted time and again to give to our government (the mecha-

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This is one of a series of articles examining current interventions of the welfare state in the light of warnings from the French economist and statesman, Frederic Bastiat (1801-1850).

nism we use to enforce the collective will) the right to sacrifice that life on a battlefield of its own choosing.

Since the majority of people claim they have a right to use legal violence to compel dissenters to conform to those laws (and thousands more just like them), surely they should feel some obligation to justify their position with a rationale more acceptable than, "There are more of us than there are of you; we're bigger."

Further, when there's a prior law (constitutional or common or statute) that interferes with the current desires of the majority, then that law can be repealed in precisely the same manner the new law is passed, i.e., by majority vote in the customary way it's done in our particular form of democracy and representative government. While our unique Constitution (along with tradition) can delay the popular will, it can't stop it.

Ask anyone—teacher, preacher, editor, or public official—how we *should* determine what is (and what is not) a proper function of government. The answer is always, "Why, by a democratic vote—the *American* way." If there's any other generally accepted way to determine collective actions, I'm unaware of it.

This doesn't mean, of course, that this philosophy of government causes the minority (the individual) to accept the decision of the majority

as right or just. And certainly it doesn't cause us to accept it as final. In fact, this process of majority-rule automatically encourages the losers to regroup and strive again to become a majority—and then, in turn, to impose their desires on the former victors. While each group always claims "right is on our side," neither is in a sound position to make that claim—at least, not as long as each group is striving to impose its will on the other group by force of law that's based on nothing more acceptable than sheer numbers.

This battle is never-ending. It's fought on the local level, the state level, the national level, and the international level. And it will continue to be fought on all levels everywhere until this vital issue of individual rights and group rights is based on a more acceptable and fundamental principle than the law of large numbers.

Individual Rights

In truth, if it's to be effective, the issue must be settled between persons in the smallest possible unit—just two human beings deciding together what rights each has as an individual, what rights the two of them have collectively, and the source of those individual and collective rights. Until that hoped-for accomplishment is in place, however, we must continue to remain constantly alert for those persons

(even the well-intentioned ones) who are trying to use the law to force you and me to conform to *their* viewpoints. And please remember that those persons are to be found in Washington rather than in Moscow. While the Russians are truly a threat to our freedom, it's a threat of another kind.

In our heated discussions of this issue of "rights," all of us actually do pay lip-service to the idea of rights for the individual, i.e., we constantly recite the word. But almost never do we use the concept of individual rights to determine the validity of collective rights.

You'd think that would be the logical starting point. But when more than two people are involved, it seems we just call for a show of hands—winner takes all. The losers then immediately prepare to continue the battle in one way or another until *they* finally become the majority.

And why not; for once you move away from the idea of individual rights to collective rights, what criterion is left except the law of large numbers? The only principle I can find there is that, mathematically, 51 per cent is larger than 49 per cent. There's not even one individual right to be found in that concept.

But since this law of large numbers (democracy in action) is the only rationale we've ever been taught for determining proper gov-

ernmental actions in any area, it's not surprising we accept it without undue protest. We simply don't know any other way to do it. And in the areas of our most heated disagreements, e.g., taxing and spending and other matters affecting our incomes, most of us appear to vote automatically *against* paying higher taxes and vote *for* getting more subsidies of some kind.

Organized Plunder

As Frederic Bastiat said in *The Law*: "When plunder is organized by law . . . all the plundered classes try somehow to enter—by peaceful or revolutionary means—into the making of laws."

If the American people (you and I and our neighbors) can legally get money merely by voting for it, most of us will do so. Even if some of us are hesitant to vote subsidies directly to ourselves, we feel real good when we do the same thing indirectly by voting for more government housing, education, and medical care for needy people. Whether we say so or not, we know full well we'd have to do it with our own money if the government didn't do it.

This process will continue with increasingly destructive consequences until one of two solutions occurs. First (and most likely), a would-be dictator will seize power by declaring an emergency and re-

fusing to submit his right to rule to the uncertain outcome of another election that involves an opposition party. You need only glance casually around you to discover scores of nations where that's happened. Or second, we'll finally devise and accept a better rationale for collective (governmental) action that's based on a principle more fundamental and permanent than a mere show of hands.

Life, Liberty, Property

I'm convinced that Frederic Bastiat devised that "better rationale" for group action in his writings in 1850. In his short book devoted to this issue, *The Law*, he offers a clear and simple method for determining the justification of any collective (governmental) action. He starts with the individual human being and never deviates from that universal base.

First he identifies the rights possessed by each and every person. He follows this with a logical explanation of where those individual rights come from. Finally, he demonstrates how the individual can logically and legitimately and morally retain and use his individual rights in harmony with his fellow humans in a viable social arrangement (government) designed to advance the well-being of everyone.

Bastiat begins by stating that every human being has three basic

rights: (1) The right to his own life, (2) the right to be free to develop whatever faculties he's born with, and (3) the right to the use of his own property.

These three rights come from the creator of life itself. While Bastiat used the conventional word "God," the word "nature" serves his concept just as well. The essential point he was making is that these rights inhere in each individual at birth and thus they "precede all human legislation and are superior to it."

Not surprisingly, Bastiat was familiar with our own Declaration of Independence, including the first draft of that "natural rights" document that referred to life, liberty, and property. Perhaps that's where he got his idea. At any rate, it's certain that both our Declaration of Independence and our Constitution greatly influenced him.

Bastiat continued to develop his own version of that familiar "natural rights" idea as follows: "Life, liberty, and property do not exist because men have made laws. On the contrary, it was the fact that life, liberty, and property existed beforehand that caused men to make laws in the first place."

Bastiat's objective was to establish the logical principle that these individual rights come from a source *other than government*. I accept his principle, and will develop as best I can a rationale to support it.

It doesn't require profound thinking to reach the obvious conclusion that government did not (and cannot) create human beings and our faculties. And while the collective force of government can indeed protect liberty (as well as suppress it), this legal force can't very well create liberty in the first place. Necessarily, that concept or condition or aptitude must pre-exist as an idea or desire or faculty within the minds of individuals. Otherwise we individuals wouldn't even be discussing it; it just couldn't come up.

Thus there's no problem concerning the identification and source of the first two of Bastiat's three rights. But the third one (property) does indeed generate considerable controversy. Unfortunately, Bastiat didn't spell that one out as clearly as he did the other two. So, based on my agreement with his idea that all three of these rights are so inextricably mixed that they necessarily stand or fall together, I'll here try to develop it in harmony with what he did say.

Of course, property includes liquid assets (the form in which most of us prefer to keep it) as well as so-called real property. We're continually shifting our property from one form to the other. And when either form is threatened by governmental action, there's no long-term safety to be found in the other. The idea of "property rights" stands or falls as a

concept; it's not based in the long run on the mechanical form in which assets may be held. Considerations of that nature are mostly for investment purposes, and thus are not a part of this study of man and his government.

Government Is Not Creative

While our government can certainly legally seize our property or tax it away from us, there's no possible way it can create property in the first place. Obviously the land and all its natural resources were here before those settlers arrived at Jamestown. And the land that's been appropriated by our government for any purpose has necessarily been taken (justly or unjustly) from human beings who claimed it as their own. (Even the claim made by our government to a slice of the uninhabited moon wouldn't have been possible unless our officials had first appropriated far more valuable property from its owners here on earth to get there.)

And there's no recorded example of our government creating permanent wealth by the printing of money. In fact, the officials of government invariably get around to using that process as a subtle form of indirect taxation, i.e., they eventually just print it up and buy goods and services from us producers before we finally realize we're increasingly getting more of nothing for

something. There's just no way our government can transfer a product or service to one person without first taking it away from another person, directly or indirectly. While "defense" by government is a desirable service, even it is still a cost that must be paid for by us producers who are protected by it.

That's the best explanation I can offer of Bastiat's statement that life, liberty, and property preceded legislation—and that their prior existence generated laws, not the other way around. I find the idea persuasive. For it's clear to me that unless you hold the belief that man is motivated by "swarm instinct," it's illogical to argue that the basic rights of man come from government, i.e., from the group or swarm or anthill.

In truth, since you (the reader) can argue and hold a belief, it's simply impossible for you to belong to a swarm, even if you wanted to. While you may demand subsidies and protection from the group, the impetus for your action comes from your own mind *before* you take action. That obviously has to be so, and it's sad indeed that so few people realize its implications in support of the idea of rights coming from a source that's before, beyond, and superior to our government.

Of course, Bastiat didn't invent the concept of the "natural rights of man." That concept of human rights inhering in each individual is older

than recorded history. But I'm confident that Bastiat's clear and logical development of the idea of basing collective rights strictly on pre-existing individual rights will prove to be his major contribution to political economy.

What Is Law?

After identifying the rights of man and the nongovernmental source of those rights, Bastiat moves on to his definition of government and the legitimate source of governmental or collective rights. "What, then, is law [government]? It is the collective organization of the individual right to lawful defense."

"Each of us has a natural right . . . to defend his person, his liberty, and his property. These are the three basic requirements of life, and the preservation of any one of them is completely dependent upon the preservation of the other two. For what are our faculties but the extension of our individuality? And what is property but an extension of our faculties?"

"If every person has the right to defend—even by force—his person, his liberty, and his property, then it follows that a group of men have the right to organize and support a common force to protect these rights constantly. Thus the principle of collective right—its reason for existing, its lawfulness—is based on individual right. And the common

force that protects this collective right cannot logically have any other purpose or any other mission than that for which it acts as a substitute. Thus, since an individual cannot lawfully use force against the person, liberty, or property of another individual, then the common force—for the same reason—cannot lawfully be used to destroy the person, liberty, or property of individuals or groups.

"Such a perversion of force would be, in both cases, contrary to our premise. Force has been given to us to defend our own individual rights. Who will dare to say that force has been given to us to destroy the equal rights of our brothers? Since no individual acting separately can lawfully use force to destroy the rights of others, does it not logically follow that the same principle also applies to the common force that is nothing more than the organized combination of the individual forces?

"If this is true, then nothing can be more evident than this: The law is the organization of the natural right of lawful defense. It is the substitution of a common force for individual forces. And this common force is to do only what the individual forces have a natural and lawful right to do: to protect persons, liberties, and properties; to maintain the right of each, and to cause *justice* to reign over us all.

"If a nation were founded on this

basis, it seems to me that order would prevail among the people, in thought as well as in deed. It seems to me that such a nation would have the most simple, easy to accept, economical, limited, nonoppressive, just, and enduring government imaginable—whatever its political form might be.

"Under such an administration, 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. . . .

"But, unfortunately, law by no means confines itself to its proper functions. And when it has exceeded its proper functions, it has not done so merely in some inconsequential and debatable matters. The law has gone further than this; it has acted in direct opposition to its own purpose. The law has been used to destroy its own objective: It has been applied to annihilating the justice that it was supposed to maintain; to limiting and destroying rights which its real purpose was to respect. The law has placed the collective force at the disposal of the unscrupulous who wish, without risk, to exploit the person, liberty, and property of others. It has converted plunder into a right."


Well, there you have it—the clearest and most logical explanation of the source of collective rights you're likely to read. Every other justification I've heard for governmental action is solidly based on the concept of some one (or some group) imposing its will on other peaceful persons—"for their own good," of course. But when you examine the laws in practice, you'll find only one absolute: A group of people are using the collective force of government to make some people do what they don't want to do, or are preventing them from doing something they want to do.

The claim of the imposers that the process is for the good of the imposed-upon is seldom obvious in practice. True, measures for collective defense can't automatically be called plunder. And while there may be other exceptions, the entire charade seems to be mostly for the glory and gratification or profit of the imposers themselves. That's why Bastiat called them "plunderers"—legal plunderers but still plunderers.

"Frontier Government"

Bastiat could quite easily have gotten his basic idea of the source of collective rights from reading about "frontier government" in the early history of the United States. At any rate, we know Bastiat could read English well, was a voracious reader

in the area of political economy, and was familiar with the book, *Democracy in America*, written by his fellow countryman, Alexis de Tocqueville, who traveled so extensively in the United States in the 1830s.

In any case, Bastiat's theoretical development of the source of collective rights corresponds reasonably well to the practice of it on the western frontiers of the United States during much of the Nineteenth Century. We may look to that "frontier setting" to demonstrate how it did work then, as well as how it might work again—if we ever decide to return to the practice of individual human rights instead of the current mania for collective rights based primarily on the law of large numbers. 

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The Illusion of Certainty



MANKIND seeks certainty. Arguably, this quest derives, at least in part, from the magnificent and observable order pervading the universe. To fallible man, this illusive certainty provides the allure of security, avoidance of risk, the easy life and guaranteed attainment of personal goals. Thoughtful perception and insightful analysis reveals the fiction attendant upon this search: While the universe indeed exists in a state of perfect order, it is populated by individuals possessed of free will, fully capable of determining a course of conduct inharmonious with the law of nature. Consequently, imperfect people in a perfect world forecast fallibly and make mistakes; human actors ap-

proach certainty most nearly when they act in accord with the natural law of moral consequence. However, to the extent that an individuals' conduct or desired consequence depends, in part, upon discerning and propitious action by other persons, such search for certainty proves elusive almost to the point of impossibility.

Those individuals committed to the freedom philosophy often recognize and deride the liberal or statist who hankers after the supposed assurance of perfection in a world inexorably beset by the results of sinister men dealing inhumanely with their fellows. Guaranteed annual income programs, universal suffrage, mandatory public education, affirmative anti-discrimination rules, and all-embracing

regulatory codes of every kind and kin, among a plethora of examples, demonstrate this liberal miasma. The social engineer believes in the fable that an elite directorate elected by a universal majority ineluctably possesses the prescience, analysis, and motivation to order all human conduct in a manner most just and efficient.

Unfortunately, few defenders of the moral private property order observe the mote in their own respective eyes. The voluntarist rightly recognizes the error of the socialist way; few take note and admit to a comparable misapprehension of their own. This essay proposes to unmask several common misconceptions prevalent on the right side of the American political spectrum in an effort to demonstrate that alien methodology and reflection does not belong exclusively to the statist or absolutist left.

The minority who follow the freedom philosophy attain and exhibit varying degrees of intellectual sophistication in their eternal journey. Some of the more obvious and deficient examples of panaceas offered currently to inhibit or erode the excesses of state power deserve at least cursory mention.

The Jury Nullification Doctrine

Ambiguous state constitutional theory and questionable legal conceptual history afford the basis of

the doctrine that a common law jury may override judicial instructions on the law in order to reach a just result.¹ This concept partakes of the more general populist belief that a majority of the community, left to its own devices, will inevitably reach the proper political or legal decision.

The misconception, likely stemming from the foundations supplied by Jean Jacques Rousseau, errs significantly in its assessment of human behavior: Human beings, capable of seeking perfection, swerve from the proper natural order by virtue of a malevolent predilection to disharmony with fundamental moral law. Thus, a jury of peers may render its verdict upon irrational grounds; it may act out of envy, jealousy, fear or greed; it may do justice on one occasion and injustice upon another; it performs like the mill-run of us all, lacking particular virtue and insight. Indeed, a jury may very well behave like any other crowd, out of a peculiar madness which turns right action upon its head.² To entrust individual rights to a community jury is to rest civility and principle upon a slender reed.

Judicial Protection of Individual Rights

A related, ill-defined concept subsumes the judiciary as a repository of wisdom and purpose, existing as

the ultimate defender of personal freedom. Adherents to this proposition seldom articulate their premises, but their basic belief appears from the course of action chosen to secure a desired result: The advocate persists in asserting a legal right, theory or doctrine with dogged determination, confident that if he receives a hearing before a judicial tribunal, the obvious and uncontradictable theory put forth will mandate full vindication of his position. Once again, the belief founders upon the shoals of reason posited from human nature.

Judges are selected from the average cut of society by a political process, and no amount of tinkering with the structure or the system will alter fundamental human frailty or counteract the natural law that political choice produces the least desirable officeholder. Drawn from the community of human beings, the judicial officer possesses no greater wisdom, morality or innate sense of fairness than do his neighbors. He may act sagaciously on some occasions, but he will err often.

Moreover, with exceedingly rare exceptions, judges secure substantial benefits from the plunder society and are, therefore, unlikely and inhibited defenders of human liberty. In addition, few if any courts comprehend and protect the freedom philosophy; judges fall prey to untoward beliefs and clichés of statist

rule and act accordingly. To expect surcease in court is to ensure disappointment.

Organized Campaigns to Convince Your Congressman

A closely allied political theory exhorts the organization and use of pressure group politics for conservative ends. Modeled upon the political dynamics of the left, naive partisans are persuaded to conduct letter writing, telephone and postcard campaigns in an attempt to overwhelm legislators with an outpouring of righteousness. Once again, a superficial particle of truth leads to a grand gleaning of error. Socialist issue groups have secured significant benefits by coercive and mendacious political tricks; officeholders desire re-election—Potomac fever is a very real disease.

Unfortunately, the countervailing position cannot find fertile ground in the same fields: The vast majority of officeholders, and the vast majority of citizens, are wedded to the statist philosophy and beholden to the political larder; hence the left can market its position quite easily to its constituent legislators, while the right starts with two political strikes: An unpopular position and an unresponsive politician. Reliance upon the conviction and commitment of legislators to act correctly when provided with facts and reason results in genuine dismay.

Direct Legislation and Control of the Political Process

The Oregon System, designed in large part by the inventive William Simon U'ren,³ offered a populist solution to real or perceived inequities imposed by the standard legislative apparatus. A direct legislative system permits a fairly small number of citizen-voters to initiate a law, refer a legislative act to the people for approval, and to place on the ballot the question of removal or retention of an elected official.

In theory, the mass of voters possess an edge in common sense, and the direct legislative system acts as a check or restraint upon inaccessible, corrupt or ineffective legislators. In fact, those who elect the public officials form the same majority which will defeat any measure designed to increase free individual choice. Ballot access (often hindered by strict normative impediments) means very little without the votes necessary for final success.

Furthermore, if by chance a measure conducive to human freedom achieves passage, the statist majority still controls the machinery necessary to disembowel the interloper: Legislative circumvention, administrative oversight, and judicial obliteration all offer neat tools to restrict yearnings of free men and women. Populism awards little solace to the true believer in the freedom philosophy, for the essential

premise of populist doctrine—the inevitably intelligent will of the majority—provides no protection to the minority, save that granted by the whim of those who set the agenda and make the rules.

The Constitutional Convention

The Scandinavian Realists label the constitution of a state a *grun'norm*, the essential rule of law against which all other rules and orders of that nation must be assessed and measured.⁴ The United States of America presented one of the earliest successful examples of a written constitution, a constitution unique in its underlying premise (elucidated by the Declaration of Independence) that each individual possesses inalienable sovereign natural rights to life, liberty, and the pursuit of happiness derived not from the state but from the natural and all-prevailing order of the universe. Respect for personal, non-aggressive free choice provides the hallmark of justice in a free society. Despite the remarkable decline in personal liberty and the rapid encroachment of government, the United States still offers the one best remaining hope for avoidance of a coming Dark Age and the survival of a free society.

The obvious dangerous interventions by the state have called forth several conservative or voluntarist exhortations for the passage of con-

stitutional amendments or the establishment of a constitutional convention to right wrongs perceived and to further limit the development of the mandate state. Balanced budget amendments, human life amendments, tax limitation amendments, out of abundant examples, all offer their particular (and ordinarily well-meaning) proponents. The advocates on the right express assurance that a constitutional convention in, say, 1987, can and will proffer sufficient insight, talent and wisdom to correct the ambiguities and mistakes of 1787 and reaffirm our dedication to liberty.

I dissent, not from some of the principles propelling the partisans of human liberty and the restricted state, but from the gullible suppositions which form the major premise of the proposals. The delegates to the constitutional convention of 1787 were truly remarkable and dedicated men; I see few today who approach their stature, and those few stand virtually no chance of selection to a 1987 convention.

What empirical fact or rational theory affords any proof that delegates to a proposed constitutional convention will differ in person or in thought from the abysmal lot who inhabit our state houses, court-houses and Capitol Hill? Furthermore, what legal or moral restraints would proscribe the delegates to a

proposed convention from exceeding the assumed limitation of purpose (e.g., a single issue convention to consider a balanced budget amendment) and rewriting the remarkable document which sets the standard for our country?

Remember: The constitutional convention of 1787 broke faith with its selectors' purposes to consider amendments to the Articles of Confederation, and instead presented a brand new design! In addition, their predecessors in the First and Second Continental Congresses ploughed new and luxurious conceptual grounds by declaring and successfully acting out a right of revolution not necessarily in accordance with the desires of those who directed them to convene in Philadelphia. Given the proclivity of our society with its surfeit of rascals in high places, resort to a constitutional convention possesses an unacceptable risk of danger to the remaining fabric of our free society.

Tax Avoidance in Ten Easy Lessons

The outlandish growth of the tax assessment and collection apparatus, with its concomitant invasion of individual rights, has produced an astonishing array of theories designed to cut taxes and limit government in the process. The schemes presented to a credulous portion of the public range from the hare-

brained to the astute: Imperfections in the adoption of the Sixteenth Amendment, the assertion that wages do not constitute income, the employment of "family," "pure equity" or "constitutional" trusts to avoid all taxation, and the contention that only gold and silver (not fiat currency) constitute money and taxable income, represent but four of a virtually countless number of variations. Promoters of particular theories parade about the country (when not abiding in jail or in civil court as a result of their positive-law transgressions), selling their hypothetical concepts from lecturn or bookshelf for \$14.95 or some such nominal sum.

Again, the peddlers of tax escape nostrums (and most of their followers) miserably fail to differentiate between able theory and political reality. For example, legal and constitutional history provide substantial proof that the draftsmen of Article I, Sections 8 and 10, of the Constitution of the United States, intended to deny to both national and state governments any power to issue paper money.⁵ Nevertheless, any credible observer of the passing scene during the past century must recognize that official acceptance of the theory that state-sanctioned trade goods ("money") must be related to a precious metal standard will occur far in the future, if at all.

The looter state garners unyield-

ing support from myriad beneficiaries, e.g., public school teachers, unionists, bureaucrats, judges, politicians, and businessmen of the limousine liberal ilk; such pre-reflective men and women own little motivation and scant ethical inclination necessary to stand aside from personal benefit and to radiate principle.

No matter how principled and accurate one may be in proclaiming a legal theory resting upon sound economic and historical fact, acceptance of that theory will and must depend ultimately upon recognition, if not by a majority of voters under a universal suffrage system, then at least by an elected and effective majority of politicians. Sparse chance exists for adoption of any proper or fair system of taxation given current political dynamics.

How to Make a Million Dollars

Investment savants of the conservative tinge may actually outnumber political pundits and self-styled tax experts appealing to the right. Many of this genre combine scant economic knowledge with newborn conservatism or libertarianism, seasoned oft-times with a dash of religious fervor. They produce an abundance of newsletters and reports, normally coupled with investment seminars, lectures and conferences. Prolific charts and graphs illustrate their convoluted

prognostications. Two earmarks identify many of these financial populists: High prices of literature of low order, and almost universally bad writing.

As with the soothsayers of the tax revolution, many of the investment advisors of the market philosophy (as well as most of their traditional brethren) commit a fundamental series of errors. First, they assume that history recurs precisely. Second, they rely upon esoteric technical charting as a tool of prediction. Third, they attempt to apply Austrian economic principles to short-term market investment strategy without a fundamental comprehension of those principles. Fourth, they overlook the fact that right action does not always assure success in a market peopled with myriad volitional human beings exercising free (or partly free) choice, where some (if not most) of those actors operate upon irrational or incorrect premises. Fifth, they interpret an occasional successful forecast as evidence of infallibility and as a demand for self-laudation.

Investment by finite individuals proves difficult in the best of times. Even the most committed believer in personal liberty must acknowledge that his quest for knowledge is incomplete and endless. By virtue of our human nature and our gift of free choice, we necessarily forecast inaccurately; even a perfect belief

on my part in the moral private property order will not assure a like acceptance by even one other investor, and in a market, supply, demand, and price by definition result from a concatenation of choices which are mistaken or irrational, at least in part. William Rickenbacker has admonished that use of the ubiquitous computer demonstrates that no chart theory or technical analysis provides any useful prediction expertise.⁶ Knowledge of human nature and observation of fundamental principles delineate the most acceptable and valuable talents for the investor—and no pedant or medicine man can prescribe large doses of those commodities.

Perfection as Illusion

Consider two disclaimers.

First, do not interpret this criticism as directed against fundamental ideas. Those who believe in individual choice and the limited state may well differ upon various issues—indeed, the central tenet of this essay focuses precisely upon this very element, that men and women interpret phenomena and concepts in disparate ways, that in the words of St. Paul, they view truth, if at all “through a glass darkly”.⁷

Second, do not assume that the fundamental charge levied here applies only to the political/economic right. The criticism attaches univer-

sally to all persons of whatever persuasion. The liberal obsession with fatuous omniscience and the presumed perfectibility of mankind appears so patent and foolish as to require no extended comment. A leading liberal dogmatic stated the proposition concisely:

The Senator [Wayne Morse] was totally committed to the perfectibility of the Democratic political process. Particular programs and policies could be argued as right or wrong, but not the process. He counted it the one authentic and distinguishing American characteristic. The essence of his political idealism was a devout belief in the ultimate rationality of the electorate.⁸

The point which escapes those who replace reason with rage is the universality of the trait. Self-righteous satisfaction does not become any of us.

What, then, of the perfect illusion? It is simply this: In a world dominated by bloc or aggregate thought, it is deceptively easy to overlook the individual, and to do so virtually compels the error of belief that men act as hordes or groups and not as persons or individuals. The Austrian School perceives the ill-advised Keynesian focus upon macroeconomics to the obscurity of the single acting man or woman who produces, earns, saves, consumes, and thinks. Nevertheless, proponents of that primal school of thought sometimes forget to trans-

fer the fundamentals there recognized into other disciplines.

The philosophy of individual liberty necessarily focuses upon, and dignifies, the individual human being as an actor causing consequences, accountable for his conduct, and (by virtue of his signal ability to select from an array of choices) imperfect and mistake-prone in the sense of being incapable of universally determining a desired result. Dr. George Charles Roche III concludes that one of the most telling legacies of Frederic Bastiat was his insistence "that men were imperfect and unique, that freedom could be found only by protecting the individual's life, liberty, and property from the predations of other men, organized or unorganized."⁹

Both the socialist of the left and the anarchist on the right fall prey to the self-same misconception concerning the fundamental nature of mankind: Both the true socialist and the philosophical anarchist must agree (whether they concede the point or not) that the minor premise of their fundamental syllogism is that man is perfectible. The socialist contends that mankind, while fallible now, may achieve a perfect society of perfect grace and freedom if only the universal electorate will choose the right leader and allow him to impose his plan of communal owner-

ship of all assets and his egalitarian book of rules.

The anarchist, on the other extreme of the political spectrum, decries the mandate state, yet assumes that all governmental functions may be performed in a privately organized society upon a rational basis; the anarchist necessarily posits, for example, that private courts will adjudicate all controversies necessarily arising from real or supposed collisions of rights between competing individuals, yet he offers no solution to avoid civil chaos attendant where one party to the private litigation refuses to accept the arbitrator's decision.

The Illusion of the Left

The illusion of the left results from the belief in codification and prior restraint, of channeling all human action into "acceptable" codes of conduct determined by an elite, no matter how chosen. The illusion of the right results from a like assumption of perfectibility: The populist assumption that a community jury of peers may ignore legal screening processes and inevitably perform acts of untrammelled justice, the belief in the judges of today as guardians of individual rights, the creed that an informed and rational minority may influence liberal controllers of the political apparatus, the dogma that others

will accept the notions of the true believer, and like fallacies too prevalent to mention.

History unfolds. Men and women act, and at times, they act unwisely, inhumanely, in contradiction to the natural order of things eternal. Because the world consists of many acting beings, individuals whose own internal scale of subjective values constantly changes, and because time is unfolding with the historical process, history does not inexorably repeat in absolute detail. Because mankind is not possessed of infallibility and perfect foresight (or even perfect hindsight, at least in the assessment of causal consequence), our choices consist of imperfect selections among alternatives.

Even granted the perfect philosophical foundation, the perfect illusion will still occur: Consistent application of truth eludes us all; and, each individual possesses significantly differing fundamental value structures impelling each person's course of conduct so that the hypothesized perfect choosing being must necessarily find his sought-after certainty impeded at least in part by the interplay of other actors on the stage.

This essay presents no startling vision. It seeks merely to underscore the inevitable danger in reposing ultimate faith in a doctrine uttered by another fallible being, no matter how persuasive and articulate the

protagonist may appear, nor how reasonable the price he charges for the dispensation of his nostrum. The psalmist David, 2500 years ago, cautioned his followers to "put not your trust in princes, nor in a son of man, in whom there is no help."¹⁰ And the sage of Kirkcaldy, Adam Smith, noted that the quintessential teacher, Socrates, had chided the inconsistency of those who profess to offer the magic golden key to all understanding:

Isocrates, in what is called his discourse against the sophists, reproaches the teachers of his own time with inconsistencies. "They make the most magnificent promises to their scholars, says he, and undertake to teach them to be wise, to be happy, and to be just, and in return for so important a service they stipulate the poultry reward of four or five minae. They who teach wisdom, continues he, ought certainly to be wise themselves; but if any man were to sell such a bargain for such a price, he would be convicted of the most evident folly."¹¹

Perhaps recourse to the teacher, Socrates, provides one who seeks certainty and truth with a hint of effective methodology: Socrates advised those who sought him out that: "I know not; but I know that I know not." Apprehension and appreciation of the doctrine of human liberty, of the moral private property order, is a full-time, lifetime task, a task which proves effective only when the scholar concentrates

upon his or her own improvement and leaves others with the task of their personal advancement. ☉

—FOOTNOTES—

¹The eminent nineteenth century anarchist, Lysander Spooner, provided the most provocative advocacy of a constitutional doctrine which would effectively support the theory of jury nullification. See, Lysander Spooner, *No Treason: The Constitution of No Authority* (Ralph Myles Publisher, Inc., Colorado Springs, Colorado: 1973) (original publication date 1870). The Oregon Constitution, among others, provides an example of a poorly articulated basis for the state doctrine of jury nullification. See, Oregon Constitution, Article I, Section 16.

²Charles Mackay, *Extraordinary Popular Delusions and The Madness of Crowds*.

³The Oregon System encompassed the initiative, the referendum, the recall, direct election of Senators, and a state Corrupt Practices Act. It also provided for a presidential primary and for local home-rule. See, for an erudite legal perspective on the adoption and early operation of the Oregon system, James D. Barnett, *The Operation of The Initiative, Referendum and Recall in Oregon* (The MacMillan Company, New York 1915); see also, Joseph Gaston, *Portland, Oregon, Its History and Builders* (The S. P. Clark Publishing Co., Chicago, Portland, 1911).

⁴Hans Kelsen, *The Pure Theory of Law* (1934-35) pp. 517-523.

⁵See, Constitution of the United States, Article I, § 8, 10 which developed out of the delegates' distaste for the "aggressions" of paper money as noted by James Madison, *Journal of the Constitutional Convention of 1787* for June 19, 1787. See generally, Max Farrand, *The Records of The Federal Convention of 1787* for May 29, June 6-8, 18-19, July 17, 19, 21, August 15-18, and 28. The vote of August 16, 1787, as detailed in the proceedings of the Constitutional Convention, demonstrate that the

delegates prohibited the emission of bills of credit as a means of preventing fiat currency. See also, Luther Martin, *Genuine Information, Delivered to the Legislature of the State of Maryland on the Proceedings of the General Convention Held at Philadelphia*. Alexander Hamilton declared " * * * the emission of paper money * * * [is] incompatible * * * with the principles of good government". *The Federalist* No. 80.

In his preface to the debates in the Convention of 1787, James Madison observed that the recent history of the colonies documented the need for restraint upon use of paper money. III *Documentary History of the Constitution*, 1-7, 796 *et seq.* The point was reiterated in James Madison to —; 1833 Hunt, *The Writings of James Madison*, IX 522. See also, *Ontario Bank v. Lightbody*, 13 Wend. 103, 111 (New York 1834) quoting from Mr. Gallatin, an early statesman, in his essay on *The Currency and Banking of the United States*, p. 29. See also, *Craig v. The State of Missouri*, 4 Pet 410, 432, 434-436 (1830); see also, Charles Prather, *Money and Banking* (Chicago: Irwin, 1941) 205.

The Supreme Court of the United States long ago decided that the Constitution prohibited the issuance of paper money by the states under Article I, Section 10. *Lane County v. Oregon*, 7 Wall. 71 (1868). This case has never been overruled.

The eminent early Chief Justice John Marshall recognized that the Constitution absolutely and expressly forbade paper money and legal tender laws. *Sturges v. Crowninshield*, 4 Wheat 122, 205 (1819). The eminent jurist and scholar, Mr. Justice Joseph Story, clearly differentiated between specie (money) and bank notes in *United States Bank v. Bank of Georgia*, 10 Wheat 333, 347 (1825). The Marshall Court reiterated its stand in *Craig v. The State of Missouri*, *supra*, 4 Pet. 410, 432, *et seq.* (1830). The Roger Taney Court continued holdings

which undergirded this position in *Gwin v. Breedlove*, 2 How. 29, 15 U.S. 16, 22 (1844) and *United States v. Marigold*, 18 U.S. 261, 263, 9 How. 560 (1849).

A phalanx of Supreme Court decisions in the Civil War Era culminating in *Hepburn v. Griswold*, 8 Wall. 603 (1869) re-emphasized the point. Indeed, Chief Justice of the United States Salmon P. Chase recognized his own error in the issuance of greenbacks during the War Between States as Secretary of the Treasury for President Lincoln. *Hepburn v. Griswold*, 8 Wall. at 625-626.

No constitutional convention was called and no amendment wrought in the fabric of the great document which governs our land, yet two Republican appointments to the Supreme Court of the United States within a short period of time during the Reconstruction Era altered the universal judicial construction of the Constitution, a fracturing of logic which extends to this day. See, *Knox v. Lee*, and *Parker v. Davis (The Legal Tender Cases)*, 79 U.S. (12 Wall.) 457, 20 L.Ed. 287 (1870) and their illegitimate offspring, *Juilliard v. Greenman*, 110 U.S. 421, 4 Sup. Ct. 122, 28 L.Ed 204 (1884).

⁶William Rickenbacker, "Methods of Picking Stocks," *Private Practice* (May 1975) pp. 45-46.

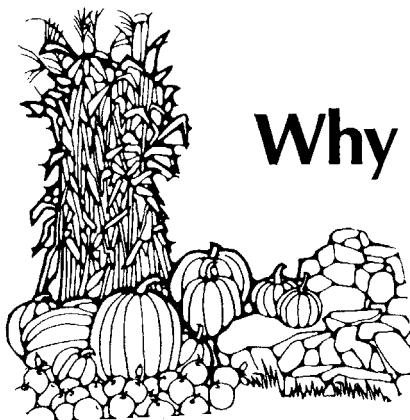
⁷I Corinthians 13:12.

⁸Willard Wirtz, "An Attack on Political Pessimism", 60 *Old Oregon*, (No. 1; Fall 1980) 17.

⁹George Charles Roche III, *Frederic Bastiat: A Man Alone* (Arlington House, New Rochelle, New York, 1971) 233. For another excellent study of influence of Bastiat, see, Dean Russell, *Frederic Bastiat: Ideas and Influence* (The Foundation for Economic Education, Irvington-on-Hudson, New York 1969).

¹⁰Psalms 146:3.

¹¹Adam Smith, *An Inquiry Into The Nature and Causes of the Wealth of Nations*, (Heirloom Edition, Arlington House, New Rochelle, New York), Book I, pp. 149-150.



Why Not Private Charity?

FOR some period of time there has been considerable evidence that private charity is superior to government welfare as a means of overcoming poverty in America. Empirical data suggests that private charity indeed would do more for the poverty-level families of this nation than is being achieved under the present welfare system.

However, we must not conclude that this seemingly radical plan is anything new in the annals of mankind. In the nineteenth century one of England's most powerful voices for social reform, Charles Dickens, professed a belief in private charity as opposed to public charity. He opposed government charity because of its ineffectiveness. He was convinced that the polestar of charity

was the human being's innate concern for another creature. He felt that the aid and assistance extended by private persons was more powerful, useful, and kind than the charity of government. Just to cite his views is to affirm the favored position of private charity, as in the following statement:

Dickens was a man of great kindness and sympathy with weakness and suffering, and these characteristics led him not merely to engage in practical philanthropies, but also to use his art for the purpose of social reform. The maladministration of the poor laws . . . the hypocrisy of insincere ministers of religion—these and many other wrongs and abuses were exposed and satirized in his novels.¹

Following the Napoleonic Wars much discontent and unrest prevailed in England, but instead of

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revolution the Victorian Age brought relative peace, manifested by great reforms such as the Reform Acts of 1832, the Factory Reform of 1833, and the Poor Laws of 1834. With these reforms passed, the general bent of the programs was to treat the symptoms of poverty, not the causes. As a result, there was a great alienation of the working masses and only partial satisfaction within the commercial and industrial strata of society. That is the very same complaint we hear today concerning our welfare laws: alienation of welfare clients and complaint of the taxpayers who are shouldering the burden of the necessary taxation to support the system.

Today in the United States the bulk of the donating public make their contributions to philanthropy by taxes through their government or privately to organized charities. There is negligible warmth of heart between the public donors (taxpayers) and the recipients—albeit, there is slight concern by those giving funds as to direct knowledge of the state of affairs or indigency of the beneficiaries. There is undoubtedly more concern in this regard in the case of private charities. Also, there is some little suspicion on the part of many contributors that a considerable number of those who ask for charity are undeserving. This same attitude was true during

Dickens' time when, beginning about 1818, the upper classes made attempts to protect themselves by forming a Mendicity Society, where subscribers contributed funds to the Society rather than give directly to beggars. The Society investigated each case to see if each had merit.

Organized Charities

Much of the configuration concerning charity during the Victorian Age was greatly like charity as it is today. Then, for example, out of a total of 640 institutions in 1862, 279 were founded in the first fifty years of the century and 144 between 1850 and 1862, covering a wide array of activities: orphanages, almshouses, dispensaries, hospitals, societies to provide coal, blankets, potatoes, shoes, religious literature, surgical appliances, linen for women in childbirth, etc.² Today, just our United Fund drives in the large cities disburse funds in a similar array of organized charities.

After all the billions spent on charity in the United States in the last forty-eight years by the federal government, we find a welfare culture that goes from one generation to another. This is caused by the fact that for the poor in most of the country the wages of common labor are far below the benefits of the Federal dole—i.e., AFDC, Medicare, food stamps, public housing, public welfare, and public defenders.³

Several years ago it was calculated how much would be required to lift every man, woman, and child in America out of poverty by simply giving them money. The figure came to one-third of what was spent on poverty programs.⁴ The Comprehensive Employment and Training Act (CETA) has been defended as a means of reducing the huge unemployment rate of black teenagers. However, Michael Novak has calculated that every black teenager in America could be employed forty hours a week, year-round, for less than one-fourth the cost of CETA.⁵ The poverty programs and CETA noted above would indicate that much of the money appropriated by Congress has ended up in the pocket of someone other than the poor. One might say, on this basis, that at least two-thirds of every dollar appropriated for poverty went to the bureaucracy and one-third "trickled down" to the poor. This two-thirds was spent on overhead—administrators, statisticians, consultants, economists, sociologists, think tanks, universities, and social agencies.

It should be noted that there is one sure cure for the welfare problem—a solution that would eliminate the problem in one fell swoop: by the radical but connative measure of having every church and synagogue in the land become responsible for just one family receiv-

ing welfare. Just think what such a plan would accomplish! Daresay, it would reduce the welfare rolls by a third, remove the undeserving, concentrate aid on the deserving, and save billions of taxpayer funds. However, it would be naive to expect such a simple solution to be employed. It would, however, make an interesting pilot program in the future, applied on a local scale, and the results charted.

There are a multitude of reasons and factors that tend to mitigate against public welfare curing the causes of poverty and to demonstrate the ameliorative effect of private charity.

Let Freedom Reign

Government-directed programs to produce a healthy economy provide the best use of government initiative, because this method does more fundamentally for the poor. A government that succeeds in stifling inflation accomplishes the best possible benefit for its poor citizens, since they are the helpless victims of inflation. In the United States a reduction of inflation from the ten percent level of 1980 to three percent in 1984 provides the poor with a cost savings in the billions of dollars. A government that by its policies encourages the capital that produces six hundred thousand new businesses in one year and sees these new firms hiring hundreds of

thousands of persons in the private sector, will witness hundreds of thousands of folks on the Federal dole transferring to jobs in industry; this alone is the best possible future for the poor of the nation.

The adoption of welfare state procedures and plans tends to encourage the destructive activity of the modern state in the mass liquidation and redistribution of wealth. The normal and hitherto accepted role of government has been to maintain law, justice, and order, defend the nation abroad, and to permit every man the ownership of his property. In general, the government's business in the past was to protect the common welfare of its citizens.

The destructive effect of the welfare state is manifested in its expropriation, taxation, or arbitrary creation of money and credit—all done in the name of the poor. The effect of this damaging tendency is to abolish the independent citizen and foster the idea that all the people should look to Washington for subsistence—i.e., to become parasites, wholly dependent on government for all their needs and wants. With this tendency, the politicians follow a short-term expediency of approving sophisticated theft (in redistributing the wealth) without regard to ultimately damaging long-term results.

The very people who have done so

much and will do so much in aiding private charity—the great middle class—are economically squeezed by the welfare state and find its capacity to support private charity greatly diminished.

Welfare Measures Promote Rather than Prevent Poverty

Welfare tends to impede progress against poverty. Since welfare offers incentives counter to self-sufficiency and production, relatively few of those on welfare will have the heart or sufficient will or resolution to become self-sufficient and pay their own way in the world. Thus, welfare tends toward diminished productivity and production and it encourages those on the welfare rolls to accept unemployment. This insidious Federal dole induces idleness among its beneficiaries, subsidizes this very indolence, and results, for example, in the loss of hope of the poor owning their homes, accumulating any savings, or to educate their children for a better future than their parents realized.

The economic future of this nation depends on production of more and more material wealth, but the welfare state presents us with a paradox: namely, welfare benefits go to people who—for various reasons—are relatively unproductive; but money for welfare comes from persons who are relatively productive. Thus we have a Federal dole system

that sustains—and increases—poverty.

Welfare itself is a problem. The sheer cost and inconclusiveness of government charity is of itself a telling argument in support of private charity. In general, government is grossly inefficient, and coupled to this is the cupidity of the vested bureaucracy that feeds on the money flowing from the Federal treasury.

Our concern is to aid and assist the people in the nation by a method that does the most for them, and to shun measures that do not treat the causes of poverty. In general, we all are our brothers' keepers and we should undertake that responsibility, but along avenues that truly raise the poor to a productive place in our society.

The history of man's climb from savagery to a civilized status would indicate that the truest, surest, and most efficient method of aiding a poor man is along the lines of free-choice inducements. When a poor man sees that work will provide more material reward than idleness on a government dole, he will choose work. With private charity dispen-

sing funds to the poor, the nation would avoid the stultifying vice of idleness providing more gain than derived from common labor. Thus, private charity would accomplish more for the poor than government charity. And with private charity directing the dispersing of funds, there is a far greater likelihood of these monies treating the causes of poverty than simply treating the symptoms.

Therefore, the writer believes there is an estimable case for the general adoption of private charity in place of public charity. ☉

—FOOTNOTES—

¹*Harvard Classics, Shelf of Fiction* (New York: P. F. Collier & Son, Co., 1917) Vol. 7, p. v.

²Gillian Avery, *Victorian People (In Life and Literature)* (New York: Holt, Rinehart & Winston, Inc., 1970) p. 223.

³George Gilder, *Wealth and Poverty* (New York: Basic Books, Inc., 1981) p. 200.

⁴*Tulsa World*, Dec. 11, 1981.

⁵*Ibid.*, quoting Michael Novak, author of the *American Vision: An Essay on the Future of Democratic Capitalism* (Washington, D.C., American Enterprise Institute for Public Policy Research, 1978).

The Helping Hand

IDEAS ON



LIBERTY

THE most helpful man in any community is not the man who dispenses the most charity. On the contrary, he is the one who makes any kind of charity or aid unnecessary. He is, if I may say so, the man who gives the most people self-respecting gainful employment.

VOLLIE TRIPP

Of Obligation and Transfer Taxation

IN today's redistributionist society, government promises a more equitable distribution of wealth than the market's actual allocation. It does so by transfer taxation: taxing everyone and subsidizing some. Of the several arguments for this transfer taxation, one of the most common runs as follows: *those who are well-off have an obligation to care for those who are not well-off; therefore the government may justly tax the former to support the latter.*

This argument is false: its premise is a partial truth from which the conclusion does not follow in any case. A well-off individual may or may not have a moral obligation to care for those who are not well-off. But even where he does, it is not the government's business, because this positive kind of obligation derives

from the values and standards of that individual, not from others' rights. It is the government's business to defend rights, nothing more. Where rights are not involved, it is solely the individual's business to make use of his own property in accordance with his own values and standards. Indeed, as far as *rights* are concerned, the individual even has a right to act at odds with his values and standards, to be mean and selfish, so long as he respects others' rights. The proponents of liberty must understand and affirm this if they are to answer fully this argument for transfer taxation.

The Conclusion

"The government may justly tax the former to support the latter." Consider this conclusion to see where the argument is leading. What is logically implied in the notion that the government may take the property of the well-off to sup-

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port the worse-off? One implication is that the worse-off have a right to the property of the well-off, a right which justifies the transfer. Some make this point explicitly, speaking of "welfare rights," or contending that the right to life itself includes the right to such property of others as is needed to support life. But if property is owned by A in the first place, then B can have no right to it—to own something is precisely to have a right to it. Another implication is that the majority in power has just authority to threaten A with force to make him give up his property, which they then turn over to B—taxation, remember, is ultimately backed up by the policeman's gun. But this authority negates both the rights of minorities against tyrannical majorities, and the right to pursue happiness—to use one's talents and property in pursuit of one's own ends.

This argument's conclusion that some may justly be taxed to support others thus collapses before fundamental principles. One is tempted to let the argument rest there: with a conclusion so far out of line with basic rights, the reasoning to it simply must be invalid. But this rebuttal is not enough. The reasoning is so persuasive that we must deal with it, too. Many who are troubled by transfer taxation believe also that people *should* give to those in need, that it is wrong for them not to. Gov-

ernment responds to other wrongs, they reason; surely it should respond to this one. Let us now see where this reasoning breaks down.

The Confusion

The crucial error in the argument is a confusion of two meanings of *obligation*—meanings which are evident in the ways we use the word *should*. One usage pertains to fundamental obligations deriving from other people's rights; in this sense it is synonymous with "must." A man should pay his debts—because the people from whom he has borrowed have a right to their property. He should allow others to assemble, worship, work and trade as they please—because others have a fundamental right to act free of restraint (so long as they act peacefully). He should not murder—because others have a right to life. When we say a person "should" do this sort of thing, we refer to obligations that derive from basic rights. Notice that in each example here, what is immediately at stake pertains not to the individual obliged, but to the others: *others'* property, *others'* liberty, *others'* lives. The individual is obliged because he is dealing with things to which others have a right.

A second usage of *should* pertains to what is desirable or preferable. In this sense it is synonymous with "would do better to." One "should"

eat healthful food—because that is preferable to eating tainted food. One should change the oil in his car periodically—because that will help preserve the car. One should be pleasant in dealings with others—because such treatment will make life more agreeable. When we say a person “should” do this sort of thing, we refer to “obligations” that derive from what is best. Notice that in each of these cases, what is immediately at stake pertains to him, not others: *his* health, *his* car, *his* behavior. He is “obliged” not because of anybody’s rights, but because of what is sensible, what is best under the circumstances.

The critical factor determining which kind of obligation exists in any situation is ownership of whatever is involved. If it belongs to someone else, be it some material thing or life or liberty, then the individual has a “must” obligation, a basic duty to respect the owner’s rights. Consider the case of a thousand dollar debt, for example. The money belongs to the lender; hence there is a “must” obligation for the borrower to return the money as per agreement. Likewise consider the case of some person’s physically injuring another. The person injured “owns” his own body; therefore the person who injured him must make restitution.

But if what is involved is the individual’s own, then he has only the

“obligation” to do what is preferable. Consider the case at issue in this argument for transfer taxation, for example: care for those who are worse off than some well-off individual. What precisely is “care,” in this context? It is not the psychological feeling of wishing others well, but the physical realization of that feeling: the money, food, clothing or shelter provided: it is whatever the well-off individual gives or might give to help the worse-off person. And whose is it? Ah, yes—here is the question. Until it actually has been given (if the notion of property rights is to have meaning), it is the property of the giver. He alone has a right to these things that might, if he decides to give them, become “care” for someone else. The individual is thus “obliged” to do with these things whatever is preferable, whatever is best among the many uses to which he might put them.

The Premise

With this distinction between kinds of obligation in mind, let us consider again the premise of the present argument. Does one who is well-off have an obligation to care for those who are not well-off? When one does, clearly, the obligation is of the second kind—a matter of what is preferable among available choices. But this idea raises additional questions: Preferable to whom? According to what standard?

The answer to these questions is inherent in each individual's inescapable responsibility for his own actions: each individual is bound to make his decisions according to his own values, his own sense of right and wrong, good and bad, better and best. About situations involving others' rights, this decision is relatively simple: the primary value of respecting rights is inherent in man's nature, and anyone thinking clearly will recognize this. But where one's own property is concerned, one does not have the primary value of rights as a guide, and he must therefore weigh the importance of lesser values. Would it be more valuable, in his honest judgment, to devote a certain amount of his time and property to caring for a certain group of people less well-off than he? Or would it be preferable to devote that time and property to the future security of his family, or to recreation, or to increasing his job skills, or to cancer research, or to a struggling symphony orchestra? He must choose; he cannot do all. What should he do? No one can answer this but the individual himself. With his property, it is his responsibility to decide. Where he is responsible, his proper basis for decision is his own standards, his own values. If he acts contrary to these, he betrays himself. What he is obliged to do is what is preferable according to his own values.

Personal Values Depend on Many Variables

We must note in passing that a person's values are not arbitrary. They result from our common human nature, the nature of the world, and from each person's individual attributes and situation. These values are not chosen by whim; they must be discovered and understood by long effort (this process is the core of education). Of course people are prone both to misapprehend their actual values and to rationalize away their knowledge of them when prompted by fear, shortsightedness or other human failings. But this does not make their actual values any less actual. It merely demonstrates the difficulty of understanding and acting on them.

One does not really do what is preferable to himself in the complete sense if he gives in to temptation and injures another or lets petty selfishness stifle a more fundamental generosity. This is to sacrifice more important to less important values. On the contrary, one serves himself best when he suits his highest values, when he is *selfish* in the sense of following the dictates of his best self.

Well, then, does a well-off person have an obligation to support those who are not well-off? That depends on his own (honest, actual) pattern of values. If, in a given situation, he sees others' need and believes he

should do something to relieve it, then he has a moral obligation to do so. But this obligation derives from his own standards. It does not derive from the standards of the government, or "society," or any other individual. If, on the other hand, he sees that need but believes he should devote his time and money elsewhere, then he has a moral obligation to do that instead.

Any obligation for an individual to care for the less well-off is secondary. It exists to the extent that the individual values such care above all the other purposes to which he might devote his time and attention. Anyone who values more highly some other purpose (such as, for example, securing the future well-being of one's family) does not have any such obligation.

The Logic

The premise of this transfer-taxation argument is thus a partial truth, an over-generalization. *Some* of those who are well-off have an obligation to care for some of those who are not well-off, but some do not; obligations vary from individual to individual and situation to situation. No sound argument can be based on a partial truth, of course, but also the logic here is invalid: even where the premised conditions are true, the conclusion does not follow. Even where one does have an obligation to care for cer-

tain others, the government may not justly enforce this obligation by taxation.

In the first place, of course, no one but the individual himself can know his actual standards and values for the use of his own property, and hence what sort of obligation he has to care for others, if any. And how could the government enforce obligations that it could not identify? In the second place, since government has no power over the individual will, mind and spirit, transfer taxation does not really make an individual *give* to, or *care for* others. In transfer taxation the *government* gives . . . what it has taken by force. Caring has nothing to do with the matter. Thus the alleged obligation to care or give, is unenforceable by its nature.

But these considerations are irrelevant anyway, since, in the third place, *only obligations based on rights may rightly be enforced at all*. Obligations apart from rights, to do what one believes best with one's own resources, are a matter for individual conscience, not for extraneous busybodies. The use of force on behalf of a certain individual or group can be justified only where the rights of that individual or group are threatened. Government exists not to take the place of individual conscience and good judgment; on the contrary, inverting Jefferson's phrasing, "governments

are instituted among men . . . to secure . . . rights." Government should and must make people pay their debts and refrain from restraining or murdering others. But it should not and must not force people to eat sensibly, to maintain their cars, to be polite—or to "care for" others.¹

It is well for others to try to *persuade* someone when they think he is selfishly rationalizing away an obligation he actually does feel towards others. But no group, whether the majority, the "society," the ruling junta or the government, may rightly force someone to act against his wishes in what is fundamentally his affair.

In passing, let us affirm the implication of this: that individuals have a right to *ignore* their personal, moral obligations to those who are worse off. Indeed, they have a right

¹If this idea seems strange, consider that even such a clear moral obligation as telling the truth is not enforceable in our legal system except where rights are at stake, nor should it be. A lie must be punishable when it constitutes fraud or perjury, but not when it wounds a lover or deceives a voter. These latter wrongs are injuries, but not injuries of rights (fortunately for many politicians!).

Paternal Care

IDEAS ON FEDERAL AID in such cases encourages the expectation of paternal care on the part of the Government and weakens the sturdiness of our national character, while it prevents the indulgence among our people of that kindly sentiment and conduct which strengthens the bonds of a common brotherhood.



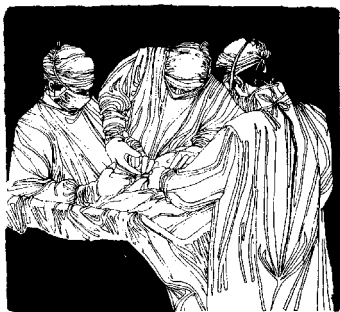
LIBERTY

even to be selfish, mean-spirited, ungenerous and miserly, as long as they do not intrude on others' rights. They *should* not behave this way, of course—they and everyone else will lose by their doing so—but they have that right. And the rest of us, in private and through government, are obliged to respect that right.

In the final analysis, what can be said for the contention that "*those who are well-off have an obligation to care for those who are not well-off; therefore the government may justly tax the former to support the latter*"? Nothing. It is fallacious throughout. The well-off may or may not have such an obligation, but even where they do, it is a personal obligation entirely beyond the proper scope of government. The premise is a partial truth, unrelated to the conclusion, which in any case proposes a bald violation of fundamental rights. There is no ethical justification for transfer taxation. On the contrary, transfer taxation itself is at odds with ethical principles. Care for those who need care is a matter of individual values and individual responsibility. ©

GROVER CLEVELAND

Demand Side Economics in Medicine



SUPPOSE that a pot is boiling over on the stove. What should you do? a) put a heavy lid on it; or b) turn down the fire.

What is it that fuels rising prices? A seller can ask whatever price he wants—but if it's too high, he won't get it. If customers throng to him, he can ask more. If only a few straggle by, he'd better think about asking less. High demand (relative to supply) raises prices.

If sellers are doing a brisk business, chances are that more people will see an opportunity to get into the act. More booths spring up in the marketplace. As competition increases, prices tend to go down. Supply and demand come to

equilibrium. At an efficient farmers' market, most trucks go back to the farm nearly empty, and most customers go home with something to eat for dinner. If any money or produce changes hands without consent of both parties, the thief is hauled off to jail.

To stimulate the economy, Keynesian economists suggest "pump priming." Pour in some money, and increase demand. This has certainly worked in medicine; demand seems to be unlimited. The founders of Britain's National Health Service had the naive hope that as soon as the backlog of medical problems was taken care of and everybody became healthy, demand for services would be saturated. This just didn't happen. For one thing, prolonging life increases the toll of the expensive and chronic illnesses of old age.

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Once the undertaker carries a patient off, he doesn't call again, whether or not his care is prepaid. In a fee-for-service system, doctors have even more incentive to try to keep patients alive.

As demand for medical services has increased, so has supply. When doctors started to make a good living, more people wanted to join the profession. Subsidies to education stimulated supply even more. Grants for building hospitals increased the number of beds, and with insurance and government reimbursement, hospitals were able to afford more and more sophisticated equipment. "Scarcity of resources" is a term that despite its frequent use doesn't really fit this situation. Excess demand resulted in excess supply. Like the sorcerer's apprentice, we seem to have conjured up a flood without knowing how to stop it.

The problem is that we have disconnected the natural regulator, and tried to substitute an artificial one.

Natural regulators for biological systems, industrial processes, and familiar home devices often work on the principle of negative feedback. If the blood sugar rises, the pancreas secretes insulin, which lowers the blood sugar, turning off the insulin. When a person takes a shower, the temperature of the water in the hot water tank falls, and the gas is

turned on; as the temperature rises again, the flow of gas is turned off. The body needs some cells that respond to the glucose level. The water heater needs a thermostat. The economy also needs a sensor to balance supply and demand.

Could we, by conscious effort, improve on automatic negative feedback? Suppose that in a large apartment complex supplied by central hot water, the owner disconnected the thermostat and installed an engineer to regulate the flow of natural gas. Every time a tenant wanted to use the dishwasher or the washing machine or the shower, he would telephone the engineer with information about the type of appliance or the expected duration of the shower. A person caught with shampoo in his hair when the water got cold would provide the engineer with feedback.

One of the tenants who enjoyed a hot tub, and one who took in laundry, would want the engineer to consider their special needs. His friends at the gas company might be interested in increasing the sale of gas to the complex. However, the engineer would be responsible to the landlord for explaining the gas bill.

To document the use of resources, a sophisticated computer could be acquired. To share responsibility for hard decisions, a committee could be appointed. Only two things would be forbidden: 1) sending the tenants in-


dividual bills that discriminated on the basis of metered flow of hot water, and 2) measuring the temperature of the water.

In a free enterprise economy, prices correspond to a thermostat. The price mechanism works automatically, integrating vast amounts of information related to the supply of and demand for a huge variety of resources and services. Large local variations may occur. Based on this computation, millions of buyers and sellers come to voluntary agreements.

Would it not be more humane to substitute a central planning board for this inhuman and automatic price mechanism? Unfortunately, life is so complicated that the planning board cannot obtain better information than that contained in the prices. However smart our engineer, he cannot be as good as a thermometer. Furthermore, though we may *hope* to obtain a totally disinterested and incorruptible engineer or planning board, positions of political power are seldom held by such individuals for long. And power is indeed required, if we intend to override the voluntary decisions that

would have been reached by individuals in the marketplace.

In medicine, the price mechanism has largely been disconnected, by government programs such as Medicare and by first dollar insurance coverage. Seldom do people have to ask whether a test or procedure is worth it from an economic point of view. Insurance company fee schedules also insulate the providers of services from changes in supply and demand. Prices may generally be perceived as low by the (insured) consumers, and high by the providers, thus increasing both supply and demand. Looking at prices from the standpoint of the percentage of the gross national product is a crude and late indicator of trouble. It's like deciding that the water is too hot because steam is pouring out of the cracks.

Using the logic of most of our health care planners, with their "cost containment" regulations, we know what to do in such an emergency. Call the ready-mix truck to pour a concrete containment shell around the water heater, before it explodes. 

W. Allen Wallis

IDEAS ON



LIBERTY

THIS freedom of others to compete for advantages is effective in checking individual self-aggrandizement because economic information is effectively disseminated by prices. Prices represent one of the most efficient communication devices ever invented.

Herbert Spencer: Freedom's Philosopher

EVERY broad social movement must have a philosophy behind it, something to give coherence, to explain, to justify, and to encourage. The freedom movement is no different. So in England, over a century and a quarter ago, driven by ideas of progressive liberty, Herbert Spencer published *Social Statics: The conditions essential to human happiness specified, and the first of them developed*. The book did not attract much attention, and Spencer sustained a loss on its publication. Nevertheless, the book worked its way into the public consciousness in both England and the United States, so much so, that in one famous statement, Justice Holmes protested that his fellow Supreme Court Judges were trying to write *Social Statics* into the Constitution.

Though plagued by chronic ill health, Spencer continued to turn out major works such as *The Principles of Ethics* and *The Man Versus*

the State until his death in 1903. The success that finally came his way never turned his head, and the honors offered him were often declined: for example, when it was proposed to award him an honorary university degree (he was mostly self-taught), he turned it down, on the grounds that he did not want his ideas accepted because of the authority behind them, but because they appealed to the reason of the reader.

His beliefs in liberty and progressive development were very controversial during most of his lifetime, and since then his ideas have fallen into decline in public estimation and interest because of the attack of his enemies. He has been identified as the premier "social Darwinist," which has come to refer to a set of racist, Fascist notions of throwing little old ladies out into the street to starve, on grounds that "survival of the fittest" must be ruthlessly enforced on everyone. In short, the term "social Darwinist" has come to be a term of abuse, with no serious meaning behind it, and no attempt made to discover what "survival of the fittest" might really mean. Generally, the attack on Spencer has been of the personal variety, with one author, for example, even suggesting that Spencer's philosophy is traceable to his not having access to modern methods of dentistry for treating his bad teeth!

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Rediscovering Spencer

Probably this is not the place to sort out the many differences (and similarities) between Spencer and Darwin, nor to make the case for abandoning the "social Darwinist" label: nevertheless, in the past few years, the tide has begun to turn back toward freedom once again, as Spencer recognized it would, so it may be time to rediscover Spencer, to make use of his stalwart defense of civilization, progress, and liberty.

Indeed, his quality as a prophet can be mentioned first of all: writing in his *Autobiography*, Spencer saw in 1889 the demolishing of much of the freedom of the industrial revolution and the "... immense development of public administrations and the corresponding subordination of citizens—a system of industries carried on under universal State-regulation—a new tyranny eventually leading to new resistances and emancipations."¹ With the new movements toward deregulation, lids on taxes, and even tax cuts, we seem now to be at a time when our generation's "resistances and emancipations" are developing. If we are to achieve substantial gains in human freedom, we must have some idea of where we come from philosophically and where we are going practically, which means we must understand ourselves and our fellow beings better, in order to convince them of the rightness of

liberty. Spencer's analysis can help us do these things.

To begin: human society is a changing thing. We live under far different circumstances, with different requirements than we did in hunting tribes, 10,000 years ago. Back then, a constant state of militancy, a stage of continual struggle, tribe against tribe, tribe against nature, was necessary for survival. That is no longer true today. We can no longer live successfully as barbarians, prepared to wage war against one and all for the benefit of our tribe. And if this seemed clear to Spencer as early as the 1850s, how evident it must be to us today, with the threat of nuclear war looming over us! Today, we need a far more peaceful way of life if we are to survive.

But if our way of life must be far different, one thing is constant: however organized, society is necessary—we are social beings. And, Spencer points out:

... social life must be carried on by either voluntary co-operation or compulsory co-operation: or, to use Sir Henry Maine's words, the system must be that of contract or that of status; that in which the individual is left to do the best he can by his spontaneous efforts and get success or failure according to his efficiency, and that in which he has his appointed place, works under coercive rule, and has his apportioned share of food, clothing, and shelter.²

The organization by contract, in-

dustrialism, free enterprise, that is, the peaceful social state, is the new social condition to which human beings must adapt themselves if they are to survive (and this, by the way, is all the "survival of the fittest" means): yet the character of these beings still retains elements from the preceding, barbaric, state. Thus a conflict is inevitable between the requirement of peace, with its voluntary cooperation which characterizes the new social state toward which we are heading, and the still existing set of ideas and beliefs with their tendencies toward violence and militancy, the marks of barbarism.

The Peaceful Society

How do we identify the peaceful society of the future? It is a society in which people are happy, because they are fulfilling their desires, and their desires do not involve the physical harming of the liberty of others. This is a society in which the *law of equal freedom* is recognized and followed. This is "... the general proposition that every man may claim the fullest liberty to exercise his faculties compatible with the possession of like liberty by every other man."³ And when we have reached the point where people generally obey this law, we will have reached genuine civilization: few, if any, barbarous traits will remain in the species.

The particular instances in which people act—creating or trading goods or services, speaking, writing, and the like—are cases of rights, a right being just a particular example of the general principle of equal freedom, and Spencer gives a number of these examples in *Social Statics*. If this law of equal freedom is correct, it can help us define what these specific instances of rights are, and we need not go and look up every reference in Spencer on the subject.

For example, I am a teacher: do I have a right to teach? In a sense, yes. I certainly have a right to stand on my property, and say what I choose, and if I choose to discuss elementary arithmetic, I may do so, as this is clearly part of my right of free speech, as it interferes with no one's equal freedom. But this does not mean that I have a right to compel someone to set up a school for me to teach in—that would be an interference with his use of his property, nor does it mean that I can force students to attend my classes, for that would be an interference with their rights. All the parties to the arrangement, the owner of the prospective school, the teacher, the students, must come together willingly, under terms acceptable to all.

Turn the proposition around a bit: it is sometimes said that there is a "right to education." But refer this presumed right back to the law of

equal freedom and it can be seen as no right at all. If Joe and Sally wish to be educated, say, in the doctrines of Plato, and I know a good deal about Plato, if they have a right to education, they may compel me to teach them, which would be clearly damaging to my freedom to do as I wish with my time and energy. If Joe and Sally are to become knowledgeable in the doctrines of Plato, they must come to me and together we must compromise and cooperate voluntarily if no one's rights are to be violated.

This also serves to make the point about government schools and taxes for education. Says Spencer:

Inasmuch as the taking away, by government, of more of a man's property than is needful for maintaining his rights is an infringement of his rights and therefore a reversal of the government's function toward him, and inasmuch as the taking away of his property to educate his own or other people's children is not needful for the maintaining of his rights, the taking away of his property for such a purpose is wrong.⁴

Yes, of course it is good for parents to educate their children, but for a parent not to do so is no breach of the law of equal freedom. Moreover, what we generally find, when this is called into question, is not that parents refuse to educate their children, but that they do so in ways the majority do not approve. To allow the State the power to control

education, to force people to accept State schools for their children, and to force people to pay for these schools, is to give the State the power to force dissident schools to close down, a not uncommon happening even in this country in this time. The number of fundamentalist Protestant schools harassed by government functionaries seems to be growing, and the trouble can even extend to the university level, as seen in the difficulties faced by Grove City College recently.

To say that the government should educate our children is to say that government must decide what the goal of education is, and government commonly decides that the goal is to turn out good (that is, obedient) citizens, who believe everything that government tells them. Moreover, with government schools, every question of ethics, common sense, science and religion becomes a political question, to be settled by majority vote, with the consequent damage to the opinions of the minority. Should there be prayer in the schools? In government schools it becomes a political question, rather than being left to the parents, teachers, administrators, owners and children of particular schools, to decide on the basis of their beliefs and interests. Should evolution be taught? The same problems develop, and certainly neither evolution nor scientific creationism are political

questions, yet they are handled in political ways.

Finally, it is sometimes said that parents don't know what good education is, and therefore someone wiser, some government administrator, must force the matter upon them. The foolishness of this can be immediately seen if one notes that these government administrators cannot decide on prayer or non-prayer, evolution or creationism, and therefore, the whole community is likely drawn into the dispute, and a political settlement is, after much bitter argument, forced upon everyone. How much better results under the law of equal freedom, where a wide variety of schools and education institutions and processes of all varieties can be set up to accommodate all the needs of all the different interests of the community, and no one interferes with anyone else's beliefs!

Of course this is just one example of Spencer's philosophy that can be put into practical application. But the warning must be given that the law of equal freedom does not mean that we will all enter some utopia and that everyone will always choose what is best for themselves. People, being fallible, will make mistakes.

What equal freedom means is that: (a) people will have the responsibility for their own lives, rather than surrendering this responsibil-

ity to others (or pretending that they have given up responsibility, which is every bit as destructive), (b) since that will be true, fewer mistakes will be made, as people will be able to see directly the consequences of their mistakes, and be able to quickly correct them. How many people, for example, have ruined their lives by taking dangerous drugs, under the false belief that they are not responsible, that someone else must take care of them?

Freedom, it must be emphasized, will not make everything and everyone perfect: but if followed, it will allow us to make ourselves better. The injury caused by government interference to the person who has not completely developed socially is evident, for since this person should become self-sufficient and develop his self-control so that his desires, when acted upon, do not involve the destruction of the equal freedom of another, the objective of society rightly constituted must be to encourage, not discourage, the government of the self by the self. That is, society must encourage self-control, and the only way a person can develop self-control is by practice.

Thus the individual, in order to develop, must not be shielded by the artificial agency of government from the consequences of his or her actions, but must be required to develop strengths and self-reliance under necessity's discipline, stern

though it may be. Says Spencer in this regard:

But to guard ignorant men against the evils of their ignorance, to divorce a cause and consequence which God has joined together, to render needless the intellect put into us for our guidance—to unhinge what is, in fact, the very mechanism of existence—must necessarily entail nothing but disasters.⁵

Yes, private helps and aids are useful, as they provide us with the chance to develop our beneficence, and they involve a close check on whether we are really doing good. But this does not mean that a government agency, impersonal, loaded with regulations and restrictions which never really meet individual needs and problems, has any merit.

This is also to say that the only business and duty of government is to protect the life, liberty, and property—the facilities for action—of the citizen. The State's sole job is comprehended by the administration of justice, the protection of the individual from physical damage from criminals at home and criminal regimes abroad. Under no circumstance should the State venture beyond this. If it does, it defeats the end for which it is permitted to function.

So the crucial question about government is what it does, not what form it takes. Certainly government ought to be democratic, because since all people are properly equally

free, it must therefore follow that all should properly have equal political power. And since democracy is based upon the idea (however diluted in actual practice) that we are equally free, it is a relatively high form of organization, suitable for people who have made some progress toward civilized behavior. But always the basic question about government must be to what extent it is restricted to protection, the secondary question being what kind of machinery it uses.

If we are indeed in a time when personal liberty is just beginning to experience a renaissance, then we are also entering an era of sustained moral and material progress: if we follow Spencer's advice and accept our responsibility for our own lives, we may see ahead of us one of the great ages in humanity's long march toward the unfolding of a truly humane civilization. If this happens, a small part of the credit will be due to that extraordinary English philosopher, Herbert Spencer. ☉

—FOOTNOTES—

¹Herbert Spencer, *An Autobiography*, 2 Vols. (New York: D. Appleton and Co., 1904), Vol. 2, pp. 435–6.

²Herbert Spencer, *The Man Versus the State* (Caldwell, Idaho: Caxton Printers, 1960), p. 59.

³Herbert Spencer, *Social Statics* (New York: Robert Schalkenbach Foundation, 1970), chapter IV, paragraph 3.

⁴*Ibid.*, chapter XXVI, paragraph 1.

⁵*Ibid.*, chapter XXVIII, paragraph 4.

Opportunity or Privilege?

IN his *Opportunity or Privilege: Labor Legislation in America* (Bowling Green State University, Bowling Green, Ohio, 43403: Social Philosophy and Policy Center, 97 pp., \$6.95), Charles W. Baird states his theme in an uncompromising first sentence. American unionism, he says, took a wrong turn with the passage of the National Labor Relations Act (the Wagner Act) in 1935.

The Wagner Act, though it has been amended throughout the years to mitigate its compulsory features, put government coercion behind union majorities. It did this by granting exclusive bargaining rights to whatever labor group could collect a majority of authorization cards. Minorities of dissenting workers were thus bound by decisions which, conceivably, they might disapprove either wholly or in part.

In Baird's opinion this violates the basic axiom of natural rights theory, the axiom of self-ownership. Full ownership, he says, implies that a worker is entitled to choose his own agent, or even to employ no agent at all.

Baird's command of natural law theory is comprehensive. Natural law begins with the right to life. John Locke, the philosopher behind the English Glorious Revolution of 1688, considered it self-evident that there could be no enduring human society if the right to life of individuals were not respected. Such a right must be unalienable. It followed from this that the individual, to support his life, must have a liberty that includes the right to acquire property. Hence the Lockean triad: life, liberty and property. Jefferson, for his own reasons, substituted "pursuit of happiness" for the

word property, but he and the other Founding Fathers who wrote the American Constitution and the Bill of Rights considered the right and opportunity to acquire property a most important part of the happiness chase.

A right, in Baird's analysis, must be the same for all people. Each person has his natural human rights "simply by virtue of the fact of being human." If such rights are inalienable, they can never be justly denied by government, even one set up by majority rule.

Entitlements for Some at the Expense of Others

What used to be clear about the nature of rights became confused when politicians began to talk about such things as freedom from want and fear. In their attempts to abolish such wants, they began to pass laws that have more recently become known as "entitlements." To feed or house citizen X in case he couldn't provide for himself, it became necessary to seize some of citizen Y's substance, either by taxation or inflationary manipulation of the money supply. This was an invasion of Y's right to equal treatment. It was a denial of his property right, of his right to use his substance to pursue happiness in his own way, and as such it curtailed his liberty. In extreme cases, as in Soviet Russia and Red China, it

could infringe his right to life itself.

The pattern followed in our labor legislation, as Baird shows, is part of a larger picture of denial of what made us distinctive as a nation. Our labor legislation is only one type of government favoritism toward one group of people over other groups and individuals.

This particular labor favoritism began with the Clayton Act, which exempted labor unions from the antitrust provisions of the Sherman Act. But, since the Clayton Act had no effect on the courts, Senator George Norris and Congressman Fiorello LaGuardia came up with a law in 1932 that specifically made so-called yellow dog contracts unenforceable in the courts. Under the terms of a yellow dog contract a worker would promise his employer never to join a union. Baird insists that outlawing the yellow dog contract is an infringement of freedom of contract. As a point of logic, if the right to sign a yellow dog contract is to be denied, the right of an employer to agree to a closed shop contract with a union should be denied too. What's fair for the goose should be fair for the gander.

The Union Shop

The Wagner Act, coming after the Norris-LaGuardia Act, permitted the closed shop. It did it by denying to employers the right to make their own deals with specific workers.

Senator Taft—and Reed Larson of the Right-to-Work Committee after him—tried to tone this situation down. So we now have “union shop” arrangements to permit freedom of hiring with the provision that the newly hired employee will join the union after a short lapse of time. And we have the “agency shop,” which lets the union collect dues from incalcitrants who refuse to join. In twenty states there are local right to work laws. They would not be necessary if our basic labor legislation were to be repealed.

In the thirties our new labor laws were justified as “answers” to what employers had been doing to deny the workers the elementary right of freedom of association. But Baird insists that most of our history of the “wrongs” visited upon the workingman is pure mythology. He cites in support of his own viewpoint the sort of history of the industrial revolution that was popular before Hayek’s *Capitalism and the Historians* appeared.

Baird can hardly deny there was violence on both sides of the picket line in the nineteenth and early twentieth centuries. Louis Adamic’s *Dynamite* was not made up of whole cloth. But Baird’s general point, which is that unionism is not what has accounted for the rise in the American standard of living (and the British, too), is well taken. It was capitalism’s superior productiv-

ity that brought us our high wages, not striking associations of workers.

Baird is correct, too, when he says it is a root mistake to apply majority rule thinking to labor unions. Majority rule is a political device that permits democracy to work when it comes to electing officials and passing laws. But unions are not governments. If workers want them, they are free to support them. But the unions have no legitimate right to impose decisions on anybody. They have no power to tax.

When unions start spending a portion of their collected dues to support candidates for political office, it is a patent infringement of the First Amendment, which guarantees all individuals the right to use their substance in support of political parties as they see fit. Fortunately the courts are coming to see it that way.

Whether the Supreme Court will, in the foreseeable future, get around to invalidating the New and Fair Deal labor laws is doubtful. But the “right to work” compromise that is now the law in twenty states will spread. And there is a good chance that strikes by public service unions to get out-of-line wages will meet with growing resistance from enraged taxpayers.

In time the Lockean triad will be revalidated across the board. Charles Baird’s book is a valiant blow in a great cause. ☉

THE PHILOSOPHIC THOUGHT OF AYN RAND

edited by Douglas J. Den Uyl and Douglas
B. Rasmussen

(University of Illinois Press, 54 East
Gregory Drive, Champaign, IL 61820),
1984

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Reviewed by Howard Baetjer Jr.

AYN RAND has inspired thousands of young people to further study of economic and political liberty—and to professional careers in philosophy and other disciplines. Her novels gave readers examples of real heroes in a time when the heroic in man was being disparaged, and set up standards of truth and right in an age of relativism. Her philosophic thought, as expressed in both her novels and her essays, provided her readers with intellectual tools for analyzing social problems and for understanding the individual's place in the world.

Partly because of Rand's extremely forceful, often polemical style, and partly because in her time she stood so much alone, many who have admired Rand have absorbed too little of the substance, and too much of the form of her work. They have concentrated on Rand herself and on her defiant manner, rather than on the principles and ideas she championed. For similar reasons,

other serious philosophers have paid very little—often studiously little—attention to her work. But as one of the contributors to the present volume says, "Rand is too interesting a thinker to be left to herself. The mainstream of thought needs her contribution." *The Philosophic Thought of Ayn Rand* deals with the substance of Rand's thought. It is a valuable beginning by serious philosophers at the important task of evaluating, describing, and developing Rand's philosophy, in a dispassionate, objective manner.

The book is divided into three sections, on Rand's metaphysics and epistemology, her ethics, and her politics. Each section begins with an introductory essay by the editors, which gives a brief overview of Rand's thought and significant contributions in that area. Then follow two or three essays in which the other contributors take up some particular aspect of Randian philosophy in that area.

The different contributors vary significantly in the treatment they give their subjects. Some provide straightforward analysis, explicating and developing Rand's thought. Others make more or less direct criticism, pointing out what they believe to be errors and suggesting ways in which these errors might be rectified (usually quite easily). Others relate Rand's work to the philosophical tradition, especially the

thought of Aristotle, to which Rand's thought is explicitly indebted (and indeed, according to one contributor, more similar than Rand realized or acknowledged). Still others relate Rand's thought to other disciplines, such as the economics of Adam Smith, or show the potential for Rand's thought to provide a rational morality and individualist moral vision that is spiritually uplifting.

While all the contributors admire Rand and believe she has made a valuable contribution to philosophy, the book is not without criticism of Rand's ideas. Most of these criticisms are thoughtful and well-sup-

ported, but a few are rather glib and poorly documented. On the whole, however, the criticisms should be welcomed by students of Rand's work, allowing them to refine and enlarge their understanding, and to consider some potential improvements in Randian philosophy.

In discussing epistemology, Rand always emphasized the importance of context. One of the very welcome aspects of this book is that it provides a broader, richer context for Rand's ideas, allowing the reader to look at and understand many aspects of Rand's philosophic thought in a fresh and more complete way. ®

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Who Is to Blame?

A Page on Freedom, No. 14

Dean Russell 707

We ask government for security instead of freedom.

Education: State Coercion or Free Choice?

Dennis L. Peterson 708

Are we expecting too much of the government?

To Help the Poor

Kenneth McDonald 715

How the creation of wealth is hampered.

A Second Face of Justice

Ridgway K. Foley, Jr. 717

Reconciling individual and universal aspects of justice.

What the Government Takes

Daniel Klein 725

Up 50 per cent in the past thirty-seven years.

A Year That Will Live in Infamy

Miller Upton 727

Will we lose our constitutional liberty in our drive for psychological freedom?

Legal Plunder:

Origin and Consequences

Dean Russell 737

How welfare programs harm those they are supposed to help.

The Freeman: The Early Years

Charles H. Hamilton 744

The *Freeman* of the early 1950s, a journal of conservative political opinion.

Book Reviews:

754

"Losing Ground: American Social Policy 1950-1980" by Charles Murray

"The Evolution of Cooperation" by Robert Axelrod

"Free Market Energy: The Way to Benefit Consumers" edited by S. Fred Singer

"The Resourceful Earth" edited by Julian L. Simon and Herman Kahn

Index for 1984

761

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Who Is to Blame?

FREEDOM is seldom lost by a direct vote on the subject. In our case, it just seems to be *seeping* away. The Bill of Rights still exists on paper, but the *spirit* that caused it to be written is disappearing. When that spirit is completely gone, the written words will mean nothing.

Thus it behooves us to inquire why that spirit is now weak, and how it can be revived. No one person is responsible for sapping that spirit of individualism. No one political party is to blame. The people are as responsible as the elected and appointed leaders. It is we the people who seem to have forgotten that freedom and responsibility are inseparable. It is we the people who are discarding the concept of government that brought forth the Declaration of Independence, the Constitution, and the Bill of Rights.

In short, few of us seem to want to keep government out of our personal affairs and responsibilities. Many of us seem to favor various types of government-guaranteed and compul-

sory "security." We say that we want personal freedom, but we *demand* government housing, government price controls, government-guaranteed jobs and wages. We *boast* that we are responsible persons, but we *vote* for candidates who promise us special privileges, government pensions, government subsidies, and government electricity.

Such schemes are directly contrary to the spirit of the Bill of Rights. Our heritage is being lost more through weakness than through deliberate design. The Bill of Rights still shines in all its splendor, but many of us are looking in another direction. Many of us are drifting back to that old concept of government that our forefathers feared and rejected. Many of us are now looking to government for security. Many of us are no longer willing to accept individual responsibility for our own welfare. Yet personal freedom cannot exist without individual responsibility. ☸

—Dean Russell, 1948

Education: State Coercion or Free Choice

A FRIEND and I were discussing the pros and cons of the recently-defeated school prayer amendment when our conversation shifted to problems in the American educational system. I suggested that the root of the problems lay in the system's public nature and that education should be strictly private.

This prospect visibly shocked my friend, so I suggested he sit down before he heard my next proposition. "Education in America," I postulated, "should be not only a private, nonpublic function but also strictly voluntary."

My friend sat down abruptly, mouth agape. "What!?" he cried out in protest. "You *are* crazy!"

As radical as this view seems to the average American, there are some compelling arguments in its favor which warrant consideration.

Those who oppose public, compulsory schooling are not against education. They agree that education is

one of the most important ingredients in any successful family, corporate, or national order. All wise people down through history have recognized this fact.

Aristotle: "All who have meditated on the art of governing mankind have been convinced that the fate of empires depends on the education of youth."

Martin Luther: "The prosperity of a country depends, not on the abundance of its revenues, nor on the strength of its fortifications, nor on the beauty of its public buildings; but it consists in the number of its cultivated citizens, in its men of education, enlightenment, and character."

Abraham Lincoln: "Upon the subject of education . . . I can only say that I view it as the most important subject which we, as a people, can be engaged in."

John Kennedy: "Education is the keystone in the arch of freedom and progress."

The importance of education, especially in today's world of rapid

Mr. Peterson is a free-lance writer in East Greenville, Pennsylvania, anxious to share some of the lessons he's learned concerning the freedom philosophy.

technological advancement, is undeniable. Proponents of strictly private education are against not education as such but rather the *forced* education of everyone by *government*.

All of the educational debates, studies, and task forces notwithstanding, Americans have largely ignored the real needs of education. It has become a game of sorts. The "experts" have been more concerned with methods than with students' minds, more enthusiastic about tools than about teaching, and more interested in social change than in student achievement.

A few people, such as Luther Burbank, realized early what was happening to American education. He remarked, "If we had paid no more attention to our plants than we have to our children, we would now be living in a jungle of weeds."

The education of individuals is neither a toy to be played with nor a laboratory rat for scientific experimentation. It is a tool designed to achieve specific objectives. The most important things in education, therefore, are not necessarily the methods, although those are essential, but rather the objectives and those who establish them.

Different people have different educational objectives, depending on their philosophy of life. Joseph Stalin, for example, openly admitted that he viewed education as "a

weapon, whose effect depends on who holds it in his hands and to whom it is aimed."

The content, teachers, and pupils are all correlative to the objectives and the objective-maker. All of these aspects of education work together to accomplish the objectives established from an educational philosophy.

Seeds of Socialism

For years now, the public school system has gone through the process of sowing the seeds of progressivism and socialism, during which time the basics were de-emphasized in favor of more "relevant" subjects. The nation is now reaping the fruit of those seeds: functional illiterates who cannot think for themselves, draw conclusions, or express themselves in a logical, coherent manner.

In the past the individual families, religious groups, and private schools dominated education, but today it is state and national governments that dominate the field. The willingness of those governments to assume the responsibility of educating young people has been in direct proportion to the unwillingness of parents and private enterprise to shoulder their educational duties.

Once in the driver's seat, providing the financial backing for the system, the government began to change the goals and objectives of American education to conform to

the interventionist goals of the socialist State. Dramatic changes were made in curricula. Methods were "improved," ostensibly to help the individual while in reality serving the ends of collectivism. Attrition took its toll. Teachers and administrators who still believed in individual liberty and freedom of choice were replaced, when they retired or resigned, by those who shared the government view. The product of these changes is a generation of gullible non-thinkers, blind followers of the State.

Compulsory, statist education has reigned supreme in our nation for most of the twentieth century. It has forged full-steam ahead over the principles of freedom and individualism, leaving in its wake countless problems for society.

Compulsory Attendance

First, compulsory attendance policies have brought into the classroom young people who do not want to be there. It is assumed that all students need and desire the education provided. Some students, however, have neither the desire to learn nor the intention of allowing others to do so. They are in school to "have a good time." As a result, they create increasingly more disruptive discipline problems.

Second, compulsory attendance has lowered the overall quality of education for everyone. The present

system is supposedly trying to be fair and equal with every student. It cannot discriminate, therefore, by providing a different quality education for different students or by having high admission standards that disqualify certain students.

"Let the revolting distinction of rich and poor disappear," François Babeuf declared in his *Manifesto of the Equals*. "Let there be no other difference between human beings than those of age and sex. Since all have the same needs and the same faculties, let there be one education for all, one food for all."

In order to achieve this absolute equality within the system, all standards must be reduced to the lowest common denominator. Equality never raises standards; it always lowers them by restricting the high achievers. If admissions and work quality standards are so lowered, as has been the case in much of American public education, the result or product can only be low in quality.

Third, by reinforcing the idea that government is providing a "free" education for everyone, compulsory public schooling has decreased the value of education in the minds of the students and of society in general. That which one gains without effort is seldom appreciated. If quality, competitive education must be earned by the individual, he will value it much more highly than if a mediocre education is forced upon

him without his desiring it. For proof of this fact, consider the attitude of the Japanese toward education. Education in Japan is a privilege, not a "right." It is something that must be worked for. The result: higher quality graduates and, in the long run, a more productive and successful economy.

Fourth, compulsory education has led to the promotion of students solely on the basis of age or other purely social considerations. It does not matter what the student has accomplished, if he is a certain age he must be advanced with his own age group. Similarly, it discourages the promotion of exceptional students for the same reason: they must remain with their peers.

On this point, it is very enlightening to read the accounts of Jesse Stuart and to compare his philosophy of education with that of modern, statist educators. In his book *The Thread That Runs So True*, Stuart recounts his early experiences as a teacher in a one-room schoolhouse with students who were sincerely interested in learning. He taught them to advance from where they were (even if it meant a strapping teenager having to learn to read with first graders) to where they were achieving to their potential. None of this social promotion to remain with their peers. It was promotion based strictly on achievement.

Finally, the current system has invited trouble and conflict from opposing moral views. Public education, in order to avoid any semblance of catering to any particular moral, religious, or political creed or philosophy, ostensibly avoids teaching any moral standard at all. In the place of a specific morality, however, the system teaches amorality or situational ethics. In reality, it is substituting its own religion—statism—in the place of traditional religious values.

The Next Stage

H. G. Wells, one of the foremost proponents of a one-world, collectivist government, realized the importance of State control over education in order to bring about his Utopia. "Men's thoughts and motives will be turned by education, example, and the circle of ideas about them . . ." he predicted in "The Next Stage of History." The people who will run this centralized government will be those who control the educational systems of the nations of the world. Their goals and desires, rather than the interests of the individual, will be sought and achieved in this utopian society.

The State can force students to attend school, but it can never force them to learn. Only those who truly have a desire to learn will do so. Even then, they will only retain and apply a fraction of all that is pre-

sented to them. And in the public, compulsory system, the fraction retained is further reduced by the negative influence of students who have no desire to be in school.

And what if that which is learned is not true? Josh Billings must have had this in mind when he said, "It is better to know less than to know so much that ain't so."

Moral Guidance

As to moral virtue, that is distinctly what education is to provide. As early as the passage of the Northwest Ordinance of 1787, morality was considered to be the domain not only of religion but also of education. The Ordinance read in part, "Religion, morality, and knowledge being necessary to good government and the happiness of mankind, schools and the means of education shall forever be encouraged."

The Ordinance did not say that government was to *operate* schools; it said that government was to *encourage* the operation of schools. It did not say government was to *avoid* religion and moral instruction; it said government was to *encourage* it through education. And it certainly did not say government was to encourage one particular brand of religion, even statism; it said, "religion," pure and simple.

John Ruskin wrote in 1853, "Education does not mean teaching peo-

ple what they do not know. It means teaching them to behave as they do not behave. It is not teaching the shapes of letters and the tricks of numbers, and leaving them to turn their arithmetic to roguery and their literature to lust. It means, on the contrary, training them into the perfect exercise and kingly continence of their bodies and souls. It is a painful, continual, and difficult work to be done by kindness, by watching, by warning, by precept, and by praise, but above all—by example."

What is the alternative to the public, compulsory educational system? It is the exact opposite: private, non-compulsory education.

Who would determine which schools survived, and who would insure quality education? The free market: consumer demand and consumer choice.

Wouldn't such a system be awfully haphazard, inconsistent, and unstable? It would at first glance appear that way. But to anyone familiar with it, the entire free market system seems haphazard. There is, however, a method to the madness. The schools which best meet the needs and desires of the greatest number of consumers would survive, make a profit, and educate the students of the nation.

This system would operate in the same way as business in the free market. Those businesses which

best meet the demands of the consumers, make profits and stay in business; those which do not, suffer losses and eventually fail. The consumers, by their expressions of choice, would determine and insure high quality.

A private, non-compulsory school system would be able to provide for the diverse religious needs and preferences of the people as well as for the diverse social, physical, and intellectual needs of their students. And they would do this without offending any single sect or denomination—except, of course, the statist. Each group could have, if it so chose and if it had enough demand within its own constituency, its own school.

This is really not so extreme as it may at first sound. In fact, it is the very system upon which our country was founded.

Early Private Schools

The first schools in the New World were private and were usually operated by religious groups. Since most of the early settlements were composed of only one or two distinct religious groups, education tended to be sectarian and community-supported. The "Old Deluder Satan Act," which was passed in 1647, provided that every township in the Massachusetts Bay Colony having a population of fifty householders would appoint and support a teacher

for their children. Although the entire population of each township so affected paid for the education, this was not "public" education in the sense in which it exists today.

There were no state colleges or universities in the early colonial period. All institutions of higher learning were private and, like the lower schools, were usually run by religious groups. The first college in the New World, for example, was Harvard. It was founded by the Puritans of Massachusetts in 1636. Similarly, the Anglicans started William and Mary; the Presbyterians, Princeton; the Episcopalians, Columbia; the Baptists, Brown; and the Dutch Reformed, Rutgers.

Although most students in the United States today attend schools in the public system, there is an ever-increasing number who are attending private schools. One out of ten students now attends such a school. And these schools are increasing in number at the rate of three or four every 24 hours.

This trend alarms statist and supporters of government education. They have begun fighting it with every weapon in their arsenal. They are determined, like most unions, to eliminate this undesirable competition and to retain their monopoly on education. The key to the success of statism and collectivism is the monopoly they hold on the education of young people.

Several weapons are being used to offset the surge of private schools, especially that of religious private schools. The employees of most of the religious-oriented schools have, until recently, been exempt from unemployment taxes. Operating as non-profit, educational arms of the various founding religious groups, they have also been (until recently) exempt from Social Security taxes.

The most recently-acquired and perhaps the most fearsome weapon now in the hands of the State is the argument of public policy. The U. S. Supreme Court ruled in 1983 (*Bob Jones University v. United States*) that in order to qualify for tax exemption, educational institutions "must serve a public purpose and not be contrary to established public policy."

A wide variety of religious groups expressed their concern about this ruling. The Mennonites, who are pacifists, predicted, "When it becomes the established public policy for this nation to have a war . . . , that could result in the Internal Revenue Service coming in and taking away our tax-exempt status." Jews, who provide separate programs for men and women in their religious educational system, also fear that if stated public policy becomes strict equal rights regardless of sex, they might lose their tax exemption.

Even one of the justices voting with the majority, Lewis Powell, expressed concern that the ruling could be interpreted to mean that "the primary function of a tax-exempt organization is to act on behalf of the government in carrying out governmentally approved policies." Carried to its extreme, this ruling could effectively take away the freedoms of hundreds of private schools and insure the control of our children by a government educational monopoly.

Left to themselves and unhampered by government intervention, however, private schools will prosper or fail according to consumer choice. The best interests of the individual will be fulfilled, and the entire nation will profit.

Is it likely that we will ever see our nation adopt a policy of strictly private, non-compulsory education? Unfortunately, probably not. The idea is too radical to most people today.

The closest thing we can work for and hope to achieve is to keep government interference and regulation to a minimum, to maintain an atmosphere that is supportive of, rather than detrimental to, private, free-choice education for all who desire it. Only in this way will proponents of the freedom philosophy and all other views have the opportunity to share in the marketplace of ideas.

To Help the Poor

CANADA's commitment to the redistribution of income is well established. In 1970, Prime Minister Pierre Trudeau said: "We believe the Government of Canada must have the power to redistribute income, between persons and between provinces, if it is to equalize opportunity across the country."

Budget figures for 1984-85 confirm it: 40 per cent is allocated to social affairs. Most of the money goes to income support and the financing of health services and education.

Results of the process between 1951 and 1981 were published recently by *Statistics Canada*. The population was divided into five

equal groups from lowest to highest income. Each income group represented one-fifth of all families and unattached individuals.

The results showed that "the share of income for each group is the same in 1981 as in 1951 when income (including social benefit payments) is considered. This means that although each group's income has increased substantially, there's been no movement toward greater equality between groups."

Since the Fabian Socialists adopted it in the 1940s, the redistribution of income has been one of the tenets of democratic socialism. Yet the stubbornness with which inequalities of income persist has been known for almost a century.

In *Natural Inheritance* (1889), Francis Galton described the nature of variation: "Whenever a large sample of chaotic elements are taken in hand and marshalled in the order of their magnitudes, an unsuspected and most beautiful form of regularity proves to have been latent all along."

It can be demonstrated mathematically that many human activities, including the distribution of wealth and income, fall into a predictable pattern of distribution represented by the bell-shaped curve and variations of it. The mass is in the bell. Few are at the rim.

What is not predictable is the degree of success or failure that at-

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tends the separate efforts of individuals as they make their way from one income group to another.

But the natural urge of politicians to keep office drives them to cater to the mass. The coercive power of the state is recruited to redistribute the effects of a natural phenomenon.

The state does not see the individuals, only the mass that they constitute. Trying to reduce the disparities between sections of the mass becomes a major occupation of government. The process causes government to grow. It is government's share that changes.

In the industrialized West, big governments are out of fashion. The emphasis now is on creating wealth, rather than trying to redistribute it.

But creating wealth is a matter for the individual, the entrepreneur and risk-taker, for the citizens the state does not see as they make their way from one income group to another.

Their efforts are hampered by the actions of government. Progressive taxation, regulation, form-filling, all the machinery of government is a brake upon initiative and the creation of wealth.

The accumulation of debts and deficits, and the resulting rise in government's obligations to pay interest on its borrowings, adds to the tax burden. Much of the accumulation stems from political reluctance to reform the universal

programs that accompany the redistribution of income.

It appears that cutting the size of government is much more than a political slogan. If the poor are to be helped, their best hope is in a chance to join the wealth-creating process.

A job gives them a chance. In a dynamic economy, one job leads to another. New ventures are undertaken.

Canada's economy is not dynamic. Unemployment is rising. Capital investment is sluggish. Individuals, who watch their spending carefully, see perhaps half their incomes transferred to governments that seem not to watch it at all.

It is in the lack of control over their own affairs that entrepreneurs and risk-takers suffer the most. Government intervention saps that control. Yet much of government's intervention is inspired by endeavors to improve the lot of the poor. Government's actions are contradictory.

Admitting the contradiction, and explaining its effects to the electorate, is a task for politicians. If they tackle that contradiction, they will be faced with another: that in courting voters they will risk antagonizing the majority that is found in the lower income groups.

What they do not know is the extent to which members of that majority would understand and respond to the truth.



A Second Face of Justice



LONG AGO and far away, flushed with the certainty of youth, I postulated respect for free non-aggressive choice as the Rosetta stone of justice. ("In Quest of Justice," *The Freeman*, May 1974) Today, refreshed with the enforced humility of later years of reflection, I recognize that my earlier cognitive meanderings suffered from the myopia often attendant upon self-assuredness. I remain committed to the belief that justice, in the milieu of proper conduct between individuals (singly or in groups), does indeed require untrammelled respect for free and uncoercive choice by every other actor. Thus, the inane propositions of those who glibly justify restraints on liberty by the phrase "social justice" fall mortally wounded in the conceptual fray on the sword of true justice defined in the terms of human respect for another's freedom.

However, the definition of justice limited to the "social" or individual sense suffers from unduly restrictive borders: It does not look beyond the individual to perceive the universal. Philosophers and theologians of centuries past have searched for a talisman dedicated to understanding justice in the relationship of man to his universe. The inquiry becomes pertinent even for those consumed by a passion for social justice, since the latter employ an exceedingly large amount of their time in attempts to right perceived wrongs suffered by individuals seemingly impaled upon the tines of an anonymous, cold, and sometimes cruel inexorable natural order, merely as an unintended result of well-intentioned and most seemingly human conduct.

Since the days of Job, cognitive man has inquired why evils befall some persons and skirt about the lives of others. Rumination about rejection by the perfect girl, denial of privilege or advancement, death

by senseless mass murder, crippling by disease, destruction of property by fire, flood, and pestilence, and a whole host of other affronts tends to occasion self-pity but precious little real comprehension of the rationale undergirding this eternal dilemma. The fortunate prate about the best of all possible worlds, while the afflicted receive a modicum of succor from Voltaire's *Candide*. Properly considered, both views possess merit; they simply address discrete but related questions.

Defining Justice

The two seminal interrogatories concerning justice may be propounded as follows: First, define justice in the context of individual human beings acting in society with other human beings; second, define justice in the context of an individual human being in relation to the universe about him.

I propose the following working definitions. First, justice among men consists of respect for the non-coercive free choice of all other human beings. Second, justice in the natural order consists of the consistent application of truth. In this light, Alexander Pope correctly viewed the world as judgmentally fit; Voltaire just as aptly noted the myriad flaws in application of that tenet to human endeavor and interaction which, in that century as today, suffered from incursions into

personal liberty too numerous to count.

One may posit the world as value free, yet he must still face the inquiry and differentiation of justice of and in the natural order. Calamity occurring without effective human causation does not merit either appellation, just or unjust. Natural events take place in the regular and orderly sequence demonstrative of inexorable causality. Unless one subsumes an organic free will attribute in impersonal organisms, objects and events, judgmental applause or opprobrium appears clearly misplaced.

Justice necessarily involves the choosing process indigenous and unique to a being possessed of free will, the ability to affect results meaningfully and to alter causality. Man must take nature as he finds it; to this extent, individuals act in a closed system—man must play the game according to a set of rules imposed from without his person and *sans* human contribution or concurrence. The inherent justice and propriety of the universal order and its Creator poses yet a third line of inquiry beyond the limits of this essay; for the purposes of this fragment, I presuppose the existence of a value-free natural order.

In assessing justice in the sense of the relationship of individual man to his universe, one must focus upon the quintessence of that outward

empire. The inestimable Albert Jay Nock urged that the scholar should attempt "to see things as they are." At the risk of superfluity, I propose that truth (as employed in my second definition of justice) consists of just that attribute: Recognition of the essence of our world. I have employed "universe" and "world," among other terms, in this tract as easy labels for the vast natural phenomena in which we find ourselves.

New Horizons

Mankind's increasing ability to look inward and outward has revealed a greater sense of immensity and complexity than pondering searchers once realized. For example, scarcely a month passes without a yet more wondrous revelation in one of the hard sciences concerning discoveries of more minute and regular sub-atomic particles which perform essential functions in the development of matter, or the discerning of still more intricate orderings of distant and hitherto unforeseen nebulae, black holes, dwarf stars, or the like. What once passed for science fiction pales before the commonplace perceptive and analytical achievements of the age.

The enormous size of the natural environment should serve to underscore both the essential complexity and purpose of the human being and

his rather modest and downright indifferent accomplishments in this vast scheme. Sixty centuries or so of recorded reflective human history reveal but halting feints at knowledge—at discernment of things as they truly are—given the panoply of tools and the panorama of evidence available in this necessary pilgrimage. In place of study, reflection and analysis, the human creature has expended the great bulk of his energy and enterprise in the warring quest for power and enslavement.

Even today, gifted with the discoveries of countless forebears over myriad years, the thrust for grasping reality all too often is relegated to the laboratory ash can unless a military purpose glimmers on the horizon. Increased knowledge has not yielded objective betterment in human relations: By and large, men and women exhibit the identical unlovely traits today as they did in ancient Sumer, Mesopotamia, or Carthage. The sole observable distinction lies in the ability of modern mass man to deceive, enslave, and destroy his fellows with ever greater efficiency and rationalization.

Furthermore, human knowledge has not penetrated much below the superficial layer of extrinsic evidence. Insightful minds over the years have only dimly observed the elemental foundations of living beings, of inanimate matter, and of the laws of causality; indeed, all too

often that which has been accepted as common lore has been proven demonstrably false (although recognition of fallacy ordinarily occurs grudgingly and indolently at best). And yet, pitiful men herald each new discovery as the lodestar to the ultimate unveiling of the deepest secrets of the universe, only to supplant that particular bit of wisdom next fortnight with an ever-more-current encyclic solution. Each outward or inward step yields a subsequent insight into an ever-more-complex substrata, casting doubt upon the likelihood that human beings will ever scratch the essential surface of reality.

In light of the patent intricacy of the universe, one would anticipate that mere mortals would stand in awe of creation and act with due humility in its presence. Observation reveals quite the opposite: Most individuals exist in a pre-reflective state and direct most of their poorly conceived actions toward mastery of others and satisfaction of base desires, secure in the abysmal assumption that they stand in the center of the universe and possess the capacity and moral understanding to counter and conquer eternal truth. Refusal to view things as they really are leads inevitably to the dictocratic state of mind, to a belief (in the pithy words of Arthur Shenfield) that we can, indeed, turn iron into gold and men into women.

Appropriate testing of the second facet of justice mandates an overview of the concepts of "truth" and "consistency," as well as the interrelationship between these two polestars of justice.

Mr. Nock's simple definition of truth (or reality or nature)—things as they really are—cannot bear improvement. The universe, including mankind, exists. Truth or reality merely refers to the essence of matter, space, time and force, the combinations of those phenomena, and inexorable rules governing the system and relationships within the order.

Simple statement masks complex epistemological quandaries. Mankind lives in the center of reality, yet individuals encounter immense problems in discerning that very reality. The seminal inquiry, simply, is "Why do men find it so difficult, nay impossible, to learn the truth?" The explanation lies in the nature of the human being: Flawed, imperfect, becoming, subject to improvement but never capable of perfection.

An Orderly Universe, Individual Deviations

The universe exhibits precision and order; to that extent, it may be considered "perfect," in that it operates exactly as constructed, without lapse or deviation. Mankind possesses quite a different nature: By

virtue of his choice-making commission—his “free will”—he may direct his development and choose his destiny in a sense, and within the finity of his being, he may vary the natural order and alter the course of events. No other creature (and certainly no inanimate object or essence) enjoys this fearsome trait.

Moreover, this very characteristic of human fallibility which blemishes the perfect order demonstrates the reason for a substandard perception of truth. Because men are not perfect, they necessarily observe, evaluate, and relate universal and particular bits of knowledge with imperfection. Because men are capable of improvement, they may experience the faculty to approach the stars, to act more closely in harmony with the essence and rules of the universe. Perfect knowledge and, hence, perfect justice defies attainment; it remains an able quest for the human crusader.

The veil shrouding truth becomes more dense than necessary not only by virtue of our finite nature but also by reason of man's dubious predilection to malevolence and smugness. Indeed, in a day of nearly instantaneous transmission of information and opinion about the globe, who among us has not decried the very vastness of the problem of knowing who and what to believe? Intentional falsehoods certainly appear throughout history, but the to-

talitarian in us all employs double talk and dissimulation at a pace and effect far beyond the giddy imaginings of tyrants past. Confusion of ends and means, misinterpretation of real data, blatant self-serving falsehood, and an utter disrespect for individual free choice coalesce in the widespread dissemination of consummate dogmatic error.

Negligent and intentional misinformation proves equally disconcerting. The identical source—mankind's essential disfigurement—produces negligent, unvarnished nonsense as well as volitional misstatement. Few individuals recognize, accept and act upon the fundamental postulate of their own flawed nature—the essential propensity to err and fall short. Instead, men posture like bantam roosters, smug and self-assured that they alone occupy the center of creation, possessed of inherent ability to do right in all things. This universal tendency—itself a reflection of inconsistent application and incorrect perception of truth—obviates the humility necessary, first, to ascertain the real nature of the universe, and second, to accord to other men and women the right to live their peaceful lives in their search for truth and justice.

The errors of perception and analysis which cloud human eyes flow from undiscerning belief in personal infallibility as well as blind accep-

tance of scientific and historical analyses by other mortals, all of whom speak or report from ingrained (and sometimes unrecognized) bias and presupposition. Precise attention to truth proves impossible because ulterior motive and inadequate comprehension and assessment intervene.

Proceed to the concept of consistency. The doctrine essentially compels the employment of identical rules to identical situations, and similar rules to similar situations. The true equality appears not in human-decreed regulations of dissimilar matters, but in the inexorable natural laws of order prevailing in the universe. The law of gravity exacts its price from a fall from the observation deck of the Empire State building, quite oblivious of the label attached to the descending body: Commoner and king, gentleman and knave, all receive similar treatment.

The Consequences of Choice

The existence of free men in a closed system creates an apparent dichotomy which dissolves upon reflection. A value-free universe exists, governed by exact laws which apply sanctions to given choices of action. Man must cope with this closed system, yet he possesses the ability to choose meaningfully between alternatives and to vary the outcome of events; his individual se-

lection from an array of choice not only affects his own destiny but also the course of events and available choices for other individuals living and acting within the same system.

The natural rules of order and causality merely define the perimeters of the universe, prescribing the results from a concatenation of chosen actions superimposed upon existent matter, space, time and force. Man's conduct within these boundaries fashions these results by choosing from the permitted array of activities; man possesses the ultimate ability to affect his own destiny (and that of others) even to the extent of choosing to disbelieve truth or to act malevolently, foolishly or irrationally. The exaction of a sanction in the nature of an unpleasant result flowing from an unwise action does not alter the power of the human being to make such ultimate choices; the sanction follows as an unchangeable result decreed by the natural order of things.

Consistency precludes the application of the double standards so prevalent today. Unfortunately, all of us suffer (at least at times) from the ravages of inconsistency. Several reasons occasion this deviation. First, individuals perceive truth with varying degrees of acumen; inaccurate assessment of reality easily leads to disparate handling of related problems. Second, mankind understands the rules of causality

erratically at best; the law of cause-and-consequence represents one aspect of truth that is misperceived, overlooked or ignored; it also operates independently by thwarting actors perceiving an essence of reality but miscomprehending the causal nexus to the inexorable (but humanly unexpected) result. Third, people are perverse; mankind delights in judging similar things in a dissimilar fashion, all in the good name of "social justice." Fourth, individuals ordinarily misconceive their role and their power to alter natural rules of causality and order; most men and women perform in the apparent belief that they can outwit the laws of nature.

Inconsistencies Abound

The absence of consistency mars all political movements. The liberal holds the tenet of free speech dear, yet demands the privilege of stating the agenda, setting the boundaries, and compelling the dissenting minority to fund the majority hyperbole. Coercively-acquired tax monies support not only public broadcasting editorials and purported documentaries, but also a vast range of spokesmen for political, legal, social, economic, historical and policy creeds or points of view. Valid dissenting opinions are shut out of the mainstream discussion and are often subjected to government-sponsored ridicule if not

punishment: A contrary view on the political situation in South Africa or Israel, on the racially-related aspects of criminal behavior, or the immorality of public education, must not be countenanced by the liberal defender of the First Amendment.

The conservative earns almost as many demerits. Many employing this description urge "free enterprise economics" while securing special favors from the government in the form of subsidies, contractual incentives, barriers to market entry by competitors and the like. Those donning the conservative hat tend also to favor foreign military intervention, conscription, excessive defense expenditures and the like, overlooking the propriety of minding one's own business in a peaceable fashion.

Even the grandiloquent "Libertarian Party" founders upon such shoals as the abortion mania and general gradualism; for example, the 1980 presidential campaign of the Libertarian Party witnessed a call for federal income tax "reform" which would modify but retain the graduated tax concept; apparently it is wrong to steal a silver tea service, but a knife and fork will do nicely!

Again, the same afflictions hampering the discovery of truth likewise do impede the consistent application of reality once known. Problems of perception and applica-

tion render the goal unattainable; they ought not deflect us from the trek. The belief in accountability or responsibility requires each of us to act most harmoniously with the real nature of things as they truly are in all contexts.

It remains to note the interrelationship between these two faces of justice. If I have correctly posited the rules and the underpinnings, it would seem that an inapt recognition of both situations bears responsibility for much of the grief in the world. Accountable man in a value-free universe should order his actions, as nearly as possible, in harmony with the state of the natural environment. He will forecast erroneously on occasion, causing unexpected and often unhappy results. He will achieve propitious results in direct proportion to the relationship between his choices and the natural order.

Sadly, this scene occurs rarely. Generally, men refrain and refuse to live with the untoward results of their silly choices; instead, employing the plunder state to its fullest extent, they shunt the consequences of their individual or collective blundering onto the shoulders of an unwilling but less powerful citizenry.

Thus, when social entitlement programs transfer looted property from producers to takers to such an extent that even the revenue au-

thorities blush, fiscal and monetary card tricks and shell games create a chimera of inflation caused by evil-doers as a readily-accepted explanation for travail; the takers and the users deflect criticism for economic misallocation and erosion of savings away from the real culprits by pointing the accusing finger at "greedy businessmen," "unrealistic wage claims," "hoarders," "foreign cartels" or whatever target appears handy and agreeable; all the while, the same victims—the creative few—receive yet another mulcting by camouflaged taxation.

The problem with justice lies in the fact that every person believes that he knows what is true and what is just when, actually, no one possesses that precise knowledge. Yet, this self-assured and smug state of mind impels most of us to be so certain that we know the proper exit from the maze that we feel compelled to obligate all our fellows to follow our prod. Thus, a rare individual indeed grants complete respect for the non-coercive free choice of all other human beings in society.

American folklore once canonized the free thinker like Henry David Thoreau; today the vast majority pay mere lip service to this tradition; a plunder state cannot tolerate those who hear distant drums—they might, just might, possess some insight into the consistent application of things as they truly are.



What the Government Takes

THIRTY-SEVEN years ago F. A. Harper addressed the following question: Of the average dollar's worth of goods and services produced in the United States, what portion is taken by the government? He studied the year 1946 and his findings were published by the Foundation for Economic Education as a pamphlet appropriately titled "31¢."

An investigation of the same question for the year 1983 reveals that the government now consumes 44.2¢ of the average dollar's worth of goods and services produced, up by 13.2¢ since Harper's study. (I derived the figure by dividing National Income by total government spending. Harper used Personal Income where I used National Income. The two are very close; my method makes the government appear slightly more villainous.)

This result is most distressing: After approximately 160 years the government take of our income

climbed, with some fluctuation, to 31 per cent. Yet in the following thirty-seven years it grew by nearly fifty per cent to 44.2 per cent. If government consumption jumps as much in the next thirty-seven years as in the past, we will be losing 63 per cent of our income to the government in the year 2020. This extrapolation does not take into account the acceleration of the bite.

In 1983, what the government cost us was 128.6 per cent of what food, housing, clothing and shoes combined cost us. Not only did the government extract this enormous amount of wealth from us, but also, unlike our food or clothing expenses, we had almost no control over how the government funds were used. If we could pay for the private provision of many of the goods and services the government ostensibly provides, such as education, transportation, security, energy, and garbage removal, surely we would pay much less and receive much more.

To think that nearly fifty per cent of our wealth is consumed by the

government is disconcerting, to say the least, but that figure fails to reflect the full burden on government. The national accounting of the government's consumption is based on what actually happens in the economy. It does not account for what would have happened if the government had not intervened. It is impossible to judge how much more American business and industry could have achieved if not for thousands and thousands of government regulations, but the magnitude is tremendous. A. W. Clausen, president of the World Bank, said that Americans have to pay \$2 to \$4 billion more a year for clothing because of import quotas on textiles. According to C. William Verity, Jr., chairman of the executive committee of Armco, Inc., American companies are losing at least \$10 billion a year in sales to the Soviet Union because of U. S. government restrictions. Robert Crandall, a Brookings Institution economist, says that government negotiated quotas on Japanese auto imports to the United States probably cost American consumers at least \$4.3 billion in higher car prices in 1983. These are just three cases in the myriad of ways in which government regulation impoverishes us. None of these shows up in the charts of national accounting.

National accounting also fails to include certain government activity

which is kept off the books. This activity is problematic because most of it takes the form of loans. Funds go to various government lending agencies which in turn lend them out to the private sector. The government clearly controls the allocation of these funds, but it does not directly consume them. The ultimate receiver of the funds gets a loan that the unhampered market would not have provided. In effect it is like a government subsidy on interest payments. What part of the government controlled and subsidized off-budget loans should be counted in government take? Because the funds are displaced from the proper competitive recipients, economists James T. Bennett and Thomas J. DiLorenzo suggest counting most of those loans. They feel that we can add approximately \$200 billion on the annual government take due to off-budget enterprises. This would shift the current measure of the average take of the dollar earned to 52¢.

It is impossible to keep track of all the ways government costs us. All told, perhaps the government lessens what we otherwise would produce by seventy, eighty, or ninety per cent. One thing is certain: F. A. Harper was wise to warn us of this trend back in 1947, though many of us have yet to heed his caution. ☉

In our futile attempts to provide psychological freedom (freedom from fear, want, hunger, poverty, etc.) we have sacrificed our constitutional liberty (freedom from government). Because of the nature of the human condition, we will end up with neither psychological freedom nor constitutional liberty.

A Year That Will Live in Infamy

AT A TIME when the economy of the United States is being strangled internally by excessive governmental expenditures and undermined internationally by comparatively low labor productivity, it is well to reflect upon the past to consider what, if anything, went wrong along the way.

While it might seem rash to suggest that any single event or point of time can be isolated as being causal in this regard, certainly objective review inevitably leads back to the Spring of 1937 when revolutionary¹ decisions were made by the Supreme Court of the United States. The principal decisions were those which established as constitutional on a 5-4 vote the Wagner Na-

tional Labor Relations Act and the Social Security Act. Both had been passed by Congress and signed into law in 1935.

It is not the purpose of this article to re-argue the constitutional merits of these cases. While substantial opportunity exists for such, nothing would be gained other than intellectual calisthenics. The need is to be reflective, not argumentative; to focus prospectively rather than retrospectively. If indeed we are suffering deep wounds in our body politic as a result of these decisions, then rational behavior requires that we acknowledge the fact in order to save the patient rather than blindly defend the past and let the patient bleed to death.

A brief review of the events of that time is in order. Through 1936 the Court, usually by a 6-3

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vote, was consistent in its opposition to President Roosevelt's New Deal legislation on strict constitutional grounds. The parts of the Constitution involved were invariably the 5th, 10th and 14th amendments and the commerce clause. In the fall of 1936 Roosevelt was elected to a second term of office by the overwhelming vote of 523-8 electoral votes. Backed by this almost unprecedented popular support, he immediately turned his attention to dealing with that segment of government which was aborting his legislative efforts for reform—the Supreme Court. And on February 5, 1937, without prior divulgence to anyone other than his closest advisers, he presented his plan for legislation increasing the size of the Court. Based upon the terms of the bill proposed he could have appointed 6 new Justices.

The bill was never passed but its intent was achieved just the same. Within months Chief Justice Hughes and Justice Roberts revised their interpretation of the Constitution as it applied to the social and economic legislation coming forth from Congress. Reasoning on which bills were found unconstitutional only one year earlier was ignored or revised by these two Justices. Now instead of a 6-3 majority of a strict constructionist bias there was a 5-4 majority of a flexible accommodation bias. In a series of decisions be-

ginning on April 12, 1937, the Wagner Act was upheld as constitutional. Likewise, in two separate decisions made on May 24, 1937, the Social Security Act was declared constitutional on the same 5-4 vote. Major reliance in the reasoning on this latter judgment was placed on the general welfare clause of the Constitution.²

Strict Construction vs. Liberal Accommodation

Just as it is not the intent here to reargue the cases from a legal or philosophical standpoint, so it is not the desire to get caught in the quagmire of dispute between the strict constructionist and liberal accommodation approaches to constitutional law. As Justice Cardozo says in rendering the opinion of the Court at the time:

Congress may spend money in aid of the "general welfare." Constitution, Art. I, section 8; *United States v. Butler*, 297 U.S. 1, 65; *Stewart Machine Co. v. Davis*, *supra*. [3] There have been great statesmen in our history who have stood for other views. We will not resurrect the contest. *It is now settled by decision.* [Italics supplied.] *United States v. Butler*, *supra*. The conception of the spending power advocated by Hamilton and strongly reinforced by Story has prevailed over that of Madison, which has not been lacking in adherents. . . . Nor is the concept of the general welfare static. Needs that were narrow or parochial a century ago may be interwoven in our

day with the welfare of the nation. What is critical or urgent changes with the times.⁴

In short, if Congress in sensing the social and political needs of the time decides certain legislation is called for as advancing the general welfare, it becomes, *pari passu*, constitutional.

The matter now is not whether such a liberal approach to constitutional law is right or wrong. "It is now settled by decision"! The concern at hand is to consider the consequences of such an approach. We have the benefit of 47 years of history to help us in our consideration.

In this connection, reference to a section of Justice McReynolds' dissent to one of the Social Security cases is in order. He quotes at length from a veto message sent by President Franklin Pierce to the Senate on May 3, 1854. The bill he vetoed was entitled "An act making a grant of public lands to the several states for the benefit of indigent insane persons." The relevant section follows:

In my judgment you can not by tribute to humanity make any adequate compensation for the wrong you would inflict by removing the sources of power and political action from those who are to be thereby affected. If the time shall ever arrive when, for an abject appealing, however strongly, to our sympathies, the dignity of the States shall bow to the dictation of Congress by conforming their legislation thereto, when the power and

majesty and honor of those who created shall become subordinate to the thing of their creation, I but feebly utter my apprehensions when I express my firm conviction that we shall see "*the beginning of the end.*"⁵ (Italics supplied.)

Prophetic or merely ideologic? Was the decision rendering the Social Security Act constitutional "the beginning of the end," or is this an inappropriate reference to an overly dramatic phrase used by a President in the distant past?

Pandora's Box

It needs to be noted here that the issue is not the need and validity of compulsory pension and unemployment insurance programs but rather the appropriateness of Congress assuming unto itself responsibility for such. If "the beginning of the end" seems somewhat too extreme, maybe a better metaphor would be the proverbial opening of Pandora's box.

Who is prepared to deny at this point of time that there seems to be no limit to the legislation that can emanate from Congress under the general welfare pretext? We have direct federal aid to education. We have Medicare and Medicaid. We have food stamps. We have control over agricultural production. We have subsidies for not producing. There is a continuing threat to regulate baseball and other professional sports. And so it goes *ad*

infinitum. Thousands of such bills are introduced into Congress each term.

A consequence of such runaway legislation at the national level has been uncontrolled expenditures and financial commitments leading to technical bankruptcy. Actual bankruptcy has been avoided only by debasing the currency through continual expansion of the money supply. When the power to create money is combined with unrestrained power to spend and political incentive to do so, the inevitable result is fiscal irresponsibility and fiscal disaster. Such is our current state.

In point of fact the federal system of government envisioned by our forefathers and incorporated into the Constitution has been left behind. We now operate on the basis of a strong, highly centralized national government. National legislation is passed constantly without reference to constitutional authority and without fear of being challenged on constitutional grounds. Members of Congress compete with one another for legislative credits; they are under continuing pressure to initiate legislation that will redound to their political benefit. State governments are for the most part merely historic vestiges of the original federal structure. The extent of their authority is hostage to the national government, not the Constitution.

The 10th amendment is no longer invoked. The states even suckle unashamedly at the national teat, ignoring the fact that both of these governments secure their resources from the same individual citizen. Ask any citizen which is the higher level of government and the answer 99 per cent of the time will be, "The national government, of course."⁶ In recent years the national government alone has consumed up to 24 per cent of the gross national product.⁷

Impact of the Wagner Act

The specific impact of the decisions establishing the Wagner Act as constitutional was also pervasive. The guiding principle of equality under the law was set aside; a political and social end was again given precedence over the law. The national government took sides in a domestic struggle, and serious consequences have resulted.

The industrial unions soon became the prime example of an unregulated monopoly. An industrial trade association is deemed subject to the Sherman Anti-Trust law but an industrial labor union is not. There is no justification in law or economics for such favored treatment. Collective bargaining by labor on a company-wide basis can be defended on the grounds of economic theory and practice, but industry-wide domination by a union organi-

zation cannot be. The economic base of labor within such union-dominated industries has been eroded over time by union monopoly power. This fact has been shielded from view because of the secular inflation produced by the policy of ongoing deficit financing practiced by the national government over the last 50 years.⁸

Management has been prone to grant demands for higher and higher wages and benefits knowing that it could pass these increased costs on in ever higher prices. Real profits gave way to monetary profits. We began living in a world of accounting make-believe. The result has been wage and benefit increases without reference to productivity increases. The day of reckoning came when international competition within the heavily unionized industries became real and domestic inflation was suddenly brought under control. Now members of the labor forces of these industries have come to realize, as did the railroads and other temporal monopolies before them, the limited benefit over time of any monopoly privilege.

But these direct results of the Supreme Court decisions in the Spring of 1937, important as they may be, are probably less significant than the indirect impact over time on our overall governmental structure. That established by our forebears was a federal system held in balance

by strict provisions of a Constitution. Their objective was to create a federal government out of the 13 independent and sovereign states in order to provide for a common defense, a common citizenship, a common currency and a common commerce among the several states unrestrained by interstate barriers. At the same time, having experienced firsthand the threat to individual liberty of a highly centralized, overarching, authoritarian national government and being acquainted with the historical record to this effect, they limited the authority of the newly-created federal government and provided in the first ten amendments to the Constitution specific safeguards to individual freedom.

Undermining the Constitution

Regardless of the professed merits of the liberal accommodation approach to the interpretation of the Constitution, it seems clear that the full acceptance of this doctrine by the ruling majority of the Court in 1937 has resulted in greatly, if not totally, undermining the original governmental structure of the United States. As Mason states:

After 1937 the Justices were somewhat less concerned than formerly to avoid any action that might remove the protective coloration disguising their power. President Taft feared, as we have seen, that reversal of the income tax de-

cision by an ordinary act of Congress might impair the Court's prestige and jeopardize judicial magic. Taft successfully advocated the amending process as the appropriate way out, thus delaying the income tax for nearly twenty years. In 1937, however, without resort to the formal amending process, without a single change in judicial personnel, the Justices had suddenly amended the Constitution. "In politics," Jackson commented, "the blackrobed reactionary Justices had won over the master liberal politician of our day. In law the President defeated the recalcitrant Justices in their own Court." Thus Roosevelt's major premise, that the judicial function in the constitutional field is inevitably political, was confirmed by the Court itself.⁹

Looked at coldly and not sentimentally the truth is that we have a written Constitution but not constitutional law. We have gone so far in giving it flexibility in interpretation consistent with the political, social and economic pressures of the time that it no longer retains any temper of its own. Constitutionality is based upon the dominant ideology of the sitting Court as well as the prevailing orthodoxy. It is well-established that lawyers cannot with any degree of confidence counsel their clients as to what the law is as it relates to the Constitution. One who is able to sense and prognosticate the general political climate is more successful in this regard. The Court has reversed itself so often and over such short time spans that legal prece-

dent provides little reliable support. Cardozo himself states in the opinion of the Court establishing the Social Security Act constitutional: "*Florida v. Mellon*, 273 U.S. 12 supplies us with a precedent, *if precedent be needed*."¹⁰ (Italics supplied.)

Respect for Prior Rulings

It is being neither cynical nor facetious to state that the oath of office should be to the decisions of the Court and not to the Constitution itself. The fact is that the Supreme Court is supreme in determining the political course of our country and not merely an impartial interpreter of the Constitution. If prior decisions serve the reasoning of a simple majority of the Court at any one time, well and good; if not, then recourse will be found elsewhere, including something so vague as the general welfare clause. If this general reference in the preamble of the Constitution and Article I, Section 8 can be given precedence over all other provisions, then the amendments and other specific declarations in the final test come to nothing. Legislation is deemed constitutional or not according to the dominant bias of each sitting Justice and the social and political pressures that exist at the time. Ours is thus in unvarnished truth a government of men and not of law. That is why control over appointments to the Supreme Court is so crucial.

It probably was always highly unrealistic to assume that a document created at one instant of time and adopted by individuals living in that era could ever serve as an external discipline to subsequent generations. Constitutional government in the strictest sense of the word can never exist, for popular demand, if strong enough politically, will always find justification and means for circumventing the existing constitutional restraints. In a government of the people, by the people and for the people there can never be any restraint to concerted popular will. That is why we are governed at the present time by organized groups, albeit minority groups, for only through organization can our pressure be felt.

Under such circumstances we can only hope that, in the main, political statemanship will somehow win out over political demagoguery. But human history offers no encouragement in this regard. Even within democracies naked political power has too often won out over individual rights and social justice. Concern is focused not on what is best for the nation as a whole but on what is best for one's own special interest. The Constitution under the equal protection clause could have been relied upon to protect us all from such favored treatment of some, but its application has been spotty. The Justices are subjected to

the same political pressures as the legislating politicians themselves. And their own biases may or may not offer protection against such pressure.

Basic Freedoms Denied

The preferred freedom doctrine might take exception to this dire analysis. Granted great license may have been taken in the interpretation of the 5th, 10th and 14th Amendments and the commerce clause, so long as we protect the 1st Amendment and our political freedom we have no cause for concern. Such a sanguine attitude, however, flies in the face of experience, both recent and past. The Supreme Court has at times ruled as constitutional legislation which violated freedom of speech, freedom of assembly, freedom of conscience and banned citizens with a particular ethnic heritage to concentration camps without due process of law. Granted these cases were usually considered during emotionally charged times when the national security was deemed threatened and were later reversed, still they serve to support the thesis that the decisions of the Supreme Court are less an objective interpretation of the Constitution and more a subjective reaction to prevailing social and political pressure. The point also remains that the crucial decisions so made in the Spring of 1937 have not been re-

versed, and because of the permanently changed nature of our governmental structure since then there is little chance of such ever happening.

A case can also be made that without any threat to national security the religious liberty promised by the 1st amendment has been impinged upon and continues to be impinged upon. One has to be very loose in the interpretation of this part of the 1st amendment to find support for any vague separation of Church and State. It provides clearly that "Congress shall make no law respecting an establishment of religion, or prohibiting the free exercise thereof." There can be little doubt when one studies the history leading up to the writing of the Constitution that the whole intent was to make sure the federal government did not get involved in any way with religious matters and to leave such concerns entirely to individual conscience and action.

But by trying to develop from this clear statement some ambiguous doctrine of separation of Church and State, the Supreme Court has violated the intent rather than furthered it. If the Amish want to live their religion in a given way, including educating their children the way they want, the 1st amendment is intended to allow them do so so. Any state compulsory education law that conflicts with this point of view

is in clear conflict with religious freedom. Compulsory education (or preferably, schooling) is given a higher priority than religious freedom. Similarly, local citizens acting democratically on the basis of majority rule should be free to have their schools include religious instruction and prayer.

We already teach Nietzsche, Adam Smith, Goethe, Marx, Shakespeare, Newton, Einstein and a whole host of major and minor thinkers; why not Jesus, Mohammed and Moses? There are atheistic proponents as well as theistic proponents, and to side with one is clearly to side against the other. The national government and Supreme Court must remain neutral in such theological conflicts if religious freedom is to be preserved.

Monopoly Privilege

The unavoidable fact of the matter is that compulsory state education with a prescribed curriculum and proscribed instruction is not only anathema to religious freedom but exists as a constant threat to individual freedom in general. How is a central government better able to control the culture, thinking and attitudes of the populace? So long as the individual states engage in such compulsion there is no threat to the Constitution, only to individual freedom. But when the national government aids or abets such gov-

ernment education it then violates constitutional authority. Monopoly privilege, however established and maintained, is antithetical to individual freedom.

One is led inevitably to the conclusion that the doctrine of preferred freedoms is false. Its logic suggests a hierarchy of separate and distinct freedoms. But if this is so then which prevails supreme—political freedom, press freedom, economic freedom, freedom of speech, freedom of assembly? If press freedom be subordinate to political freedom, how long would the political freedom last? Or if political freedom be subordinate to press freedom, how long would a free press survive? If the doctrine suggests that the 1st amendment is the only one that must be held inviolable, then why have we in effect rewritten the section dealing with religion? And where does this leave political freedom? And where in history has it ever been shown that political freedom can survive over time without economic freedom?

The record for those who would be intellectually open is clear: individual freedom is indivisible. When lost in one area—political, economic, press, speech, assembly, religion—it eventually is lost in all areas. It may take time, possibly a matter of generations and even centuries, but it will occur. The willingness to deny freedom anywhere for cause other

than criminal behavior represents an attitude which, if not reversed, becomes pervasive.

This is what the creators of our Constitution knew from personal experience and the lessons of history. That is why the Bill of Rights was included as the first ten amendments—supposedly our living civil liberties. A highly centralized national government has always been the greatest threat to liberty, thus a decentralized federal system was created and reinforced by the 10th amendment. But, as we have been told, those who refuse to learn from history are doomed to repeat it.

The Fatal Thrust

Evidence of such return to the divine right of government concept in place of the sovereignty of the people was beginning to show prior to the Spring of 1937, but the action of the President and the Supreme Court at that time provided the final fatal thrust. Maybe the human psyche by nature requires dependence upon an authority figure. Maybe there is just no way for the people to protect themselves against the abuse of political power even when institutional restraints are available for their use in this regard. Or maybe the populace at large can never be educated fully and deeply enough to govern themselves impartially and with equal justice to all.

The evidence in our own history

for state governments themselves to strike at individual freedom is fearful evidence of this latter condition. The role of the national government in such cases in its true role as a federal government is to discourage such state legislation—to the point of amending the Constitution when necessary. The 14th amendment is a prime example of such. The federal government must never arrogate such power unto itself, however, for then the evil of centralized authority is compounded in the cause of doing good. A federal government thus becomes a national government with supreme authority in all matters. President Pierce's veto message quoted earlier is well recalled.

On December 7, 1941, a day that will live in infamy, the United States as a sovereign power was brutally (but not mortally!) attacked by an external sovereign power. Four and a half years earlier, in the Spring of 1937, a year that will live in infamy, the constitutional, federal system of government of the United States was mortally wounded by its own institutions of government. It has been gradually bleeding to death ever since. National bankruptcy, born of fiscal profligacy conceived in political promiscuity and avoided only by debasing the currency through continuing monetary inflation; declining labor productivity and economic de-

terioration in world competition; gradual erosion of our constitutional liberty—these are our legacies of the time. Impartial analysis and reason admits no other conclusion. ☉

—FOOTNOTES—

¹No less an authority than Mason makes frequent reference to the "revolutionary" aspect of the 1937 decisions. *The Supreme Court from Taft to Warren*, Alpheus Thomas Mason, Louisiana University Press, 1958. See in particular; pp. 134 & 135.

²It is worth noting that President Roosevelt is quoted as saying: "It would be a little naive to refuse to recognize some connections between these 1937 decisions and the Supreme Court fight." (Mason, *ibid*, p. 102)

³It is important to recognize for the thrust of this paper the full nature of the cases which Cardozo cites as precedent here. *United States v. Butler* was decided only the preceding year in finding on a 6-3 vote that the Agricultural Adjustment Act was unconstitutional. *Stewart Machine Co. v. Davis* was the other case challenging the Social Security Act and though arguments were heard one month earlier than *Helvering*, both were decided on the same date.

⁴*Helvering, Commissioner of Internal Revenue, et al. v. Davis*, 301 U.S. 640-1. (1936)

⁵*Stewart Machine Co. v. Davis*, 301 U.S. 606. et. al. (1936)

⁶In a true federal system of government, which the United States was intended to be, there is no hierarchy of governments but rather different governments to which separate responsibility and authority is assigned by the people.

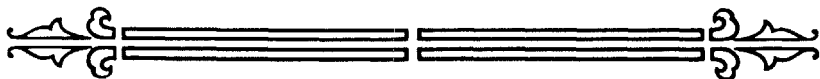
⁷1982 Economic Report of the President.

⁸The national government has balanced its budget only 8 times since 1932 and only once in the past 25 years.

⁹Mason, *op. cit.*; pp. 113 & 114.

¹⁰*Stewart Machine Co. v. Davis*, 301 U.S. 591. (1936)

Legal Plunder:



Origin and Consequences

A CYNIC once claimed that the first labor-saving device was robbery. Perhaps so, but I'm convinced that the overwhelming majority of us would still rather work for a living than to steal (illegal plunder) or to demand handouts from government (legal plunder). The minority of us who wouldn't, however, is large enough to warrant our serious attention, especially since that minority is growing.

Frederic Bastiat believed, as set forth in *The Law*, that there is a "tendency that is common among

people. When they can, they wish to live and prosper at the expense of others. This is no rash accusation. Nor does it come from a gloomy and uncharitable spirit. The annals of history bear witness to the truth of it: the incessant wars, mass migrations, religious persecutions, universal slavery, dishonesty in commerce, and monopolies. This fatal desire has its origin in the very nature of man—in that primitive, universal, and insuppressible instinct that impels him to satisfy his desires with the least possible pain.

"Man 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

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This is one of a series of articles examining current interventions of the welfare state in the light of warnings from the French economist and statesman, Frederic Bastiat (1801–1850).

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. And under these conditions, neither religion nor morality can stop it.

"When, then, does plunder stop? It stops when it becomes more painful and more dangerous than labor.

"It is evident, then, that the proper purpose of law is to use the power of its collective force to stop this fatal tendency to plunder instead of to work."

Pain vs. Pleasure

Bastiat's "pain-pleasure" explanation of economic activity was also favored by several of the early English economists. And it's still popular today as a basic explanation for using machines to replace human labor. In that connection, it shows up in several of Bastiat's stories and explanations.

Whether or not Bastiat was justified in including all of us (mankind) in his identification of a "fatal tendency to plunder instead of to work," it's impossible to deny that it applies to a large (and growing) minority of us. And from time to time, it may well indeed apply to all of us. Increasingly we American people are

turning to our government to solve our social and economic problems. Examples of this "fatal tendency" are programs to support farm prices, minimum wage laws, protective tariffs and other restrictions against international trade, subsidies to start businesses and more subsidies to stay in business, government-supported medical care, compulsory unionism, and a thousand other programs whereby our government takes money from those who have earned it and gives it to those who haven't, i.e., legal plunder.

At one time or another, it's almost certain that all of us did (and probably still do) support a few of these government programs whereby we profit at the expense of others, perhaps without even realizing it. As merely one example of the cause—and the terrible consequences—of this philosophy in action, I'll here concentrate on the familiar social welfare programs of our state and federal governments. And since our most precious resource is our children, I'll pay special attention to the various government programs designed to help young people.

I'm convinced that these social welfare programs are doing far more harm than good to our children. They are destroying far more young people (along with us parents) than they are helping.

I'm well aware of the seriousness of that accusation, but the proof is

painfully obvious. Just look around you at what's going on among the "disadvantaged" teen-agers in our crime-ridden cities. Murder, mutilation, rape (so casually that one is reminded of rabbits), drugs, arson, grand theft. You name it and observe that it has doubled, trebled, and quadrupled as our various government welfare agencies have begun to double, treble, and quadruple their spending programs to improve the situation.

I find a positive correlation between the two. For every additional billion dollars spent by government to help disadvantaged children, the number of children joining street gangs—or turning alone to violence—goes up in proportion. The positive relationship between increased social programs by government to help disadvantaged children and a corresponding increase in juvenile crime isn't even open to serious debate; it's clearly there for everyone to see. Try as you will, you can't avoid seeing it. It's "staple diet" for newspapers, magazines, movies, documentaries, and the evening news on TV.

And always where you find the most government welfare workers and programs and money, you also find the largest number of corrupted (destroyed) young people. Always. And I'm not greatly impressed by the statistician who argues, "Look, dummy, the reason the most welfare

workers and dollars are there is because the high crime rate brought them there." Not so; the welfare programs themselves are the cause of the increased crime rate.

Plunder Sanctioned

As Bastiat warned us, once legal plunder becomes socially acceptable, the fatal tendency is for all to join in. The result is disaster. In due course, the distinction between legal plunder and illegal plunder tends to blur. The justification offered by the recipients of *legal* plunder is that, in one way or another, they're "disadvantaged" and really need the money. The rationalization offered by the *illegal* plunderers is markedly similar. Just ask them. They're never guilty, not really. It's not their fault they were born poor—and you rich. Also, it's not fair.

I remember well when our best people—our ministers and teachers, as well as the sociologists—promised a decrease in criminal activities among our youth if disadvantaged children were only given better educational facilities (most especially integrated government schools to make everybody equal), better medical care (which would be free, of course), a better diet (which could best be realized in a dignified fashion through the use of food stamps and similar allotments), public housing (with subsidized rents or no rents at all), and so on and so on.

Since most of us really do want to help—and since the promised results were so desirable and enticing—we initiated every social program asked for. The situation deteriorated. We doubled the number of welfare programs and quadrupled the amount of tax-money to support them. The situation got worse; there was more poverty and crime, not less. We passed new laws and voted even more money; much of it to build more prisons to house the criminals created by the social programs.

Now I'm well aware that some people *were* helped, but the net result has been disaster—most especially for the disadvantaged children who must suffer the fearful consequences of these misguided programs that tend to keep them confined permanently to their crime-ridden slums. Some dispensers of government aid actually noticed that result, and suggested razing the slum buildings and replacing them with large apartment complexes. It was done, on a massive scale—not really *for* the disadvantaged people, but *to* them.

I really can't condemn the teenagers unduly for burning down the houses, destroying the elevators, and swapping the food stamps for drugs. At least that action brings temporary excitement and good feeling to hopeless lives. I understand because, I too, was a disad-

vantaged kid; after several years of poverty and stealing, I finally ended up in an orphanage at age 12. And had I been located in one of those "neighborhoods of the lost"—instead of in a village in the mountains—I've no doubt I'd have been a gang member, and probably a gang leader.

And do remember, please, that this situation is totally unrelated to color; I'm white, as are most of the young (and adult) criminals I've known. In fact, I'm not personally acquainted with even one black criminal. Even so, I doubt you'd have too much trouble finding black and brown and oriental criminals, and doubtless a few native American criminals also—especially if they're on government welfare rolls.

If I sound bitter, it's because I am—not at the disadvantaged children who are sinking ever deeper into the growing quagmire of violence and crime, but at us "good people" who turned to government (the police force) for a solution to social problems that must be solved voluntarily or not at all. As Bastiat said, there is a fatal tendency in all of us to turn to legal plunder (when it's readily available) to do for us (and others) what we should properly do for ourselves (and others).

There's a clear reason for the degrading results of these programs. They appeal to our worst emotions instead of our best. All human

beings are a combination of both good and evil impulses and desires. (Feel free to define the terms "good and evil" any way you like; whatever definition pleases you, that's the one I'm here using.) The current welfare programs are designed to appeal to our greed, to our desire to avoid personal responsibility and to use our money and efforts exclusively for our own material wants. They appeal to our acquisitive instincts, to our natural impulse to camouflage our actions by rationalizing them, to our desire to live at the expense of others (legal plunder) by claiming a "human right" to do so. They cater to our willingness to "conceal" in order to increase physical well-being and gratification. They are designed to exploit our propensity to see all issues in terms of immediate and personal needs and wants. Those programs encourage our desire to justify selfish actions by claiming we're doing it for the good of others—especially for children and old people. These welfare laws con us into dreaming of how we think life ought to be instead of facing life as it really is. We tend to become planners instead of producers.

And when the number of planner-recipients approaches the number of exploited producers, the programs fail—e.g., the ratio of producers to receivers in our Social Security program (all forms) has dropped from

15 to 1, down to less than 3 to 1, and is still going down steadily. If it weren't so desperately tragic for so many millions of gullible people, one might laugh at our frantic efforts to prop up an obvious diasaster for a "few more years."

A Selfish Approach

In short, our government welfare programs are designed to appeal to our selfish and nonproductive instincts, and in no way to our generous and productive instincts. The end result of that approach necessarily must be disaster—most especially for the increasing number of disadvantaged children who are being created and victimized by it.

This result is guaranteed by a universal principle of human action we all understand and follow, i.e., if you want more of anything (including children) you can increase the production of it by paying more. You and I live and work and produce according to that principle every day. So does everyone else, in all nations and under every form of government. It determines how many cars are produced, as well as how much cocaine is made available. Here are a few examples of how this principle works in the area of welfare programs and children (birth rates), an area of increasing importance all over the world.

In Sweden, the low birth rate is of great concern to the government; it

wishes to increase it. And the allocation of scarce housing is one of several welfare programs the Swedish government uses to encourage the production of more Swedish babies. (This objective and procedure isn't some evil idea they're concealing; the program is discussed quite openly.)

During my two visits to Stockholm in the 1960s, I found that the waiting time for an apartment was from four to ten years. But a woman could move to the top of the waiting list for scarce and low-rent housing if she became pregnant. That's a most persuasive production bonus in a society where there's a housing shortage.

Here in the United States, we don't discuss this same issue and procedure at all openly. In fact, we usually deny it. But the result here is the same as in Sweden, whatever our intentions; welfare mothers with four children necessarily get "more housing" than do welfare mothers with only one child. That's quite understandable, and I don't know any other logical way the government could administer its welfare programs. I do know, however, what the results are likely to be.

Here's a personal incident that happened in Bastiat's own country; it's a story he'd have enjoyed, and would certainly have used in one of his speeches to his fellow-legislators in the Chamber of Deputies. In

France with its declining birth rate, a friend of mine in Paris is paid far more (directly and indirectly) by government for his five young children than he's paid (take home) by his employer. He once joked to me that his family is a two-job, two-income family; his wife is paid for producing children while he's paid for producing lectures. And since her product is more in demand than his, understandably she's paid more. He laughed (a bit wryly, I thought) as he concluded, "If I can persuade her to produce just one more, I can retire."

Subsidized Babies

We never point out that same connection between income and children in the United States. We merely list (without explaining why) the increasing number of households without a working male parent. In our metropolitan areas, the payment of various direct and indirect subsidies to families with dependent children usually adds up to considerably more than the parent could earn at any available job. And so on, in every nation of the western world, with the government using various welfare programs to encourage the production of more human beings, sometimes admitted and sometimes denied. (In China, this same principle is followed, but in reverse; the more children you have, the *less* government aid you

get. The *principle*, of course, works negatively as well as positively.)

In college sociology texts, the authors sometimes demonstrate their deductive ability by explaining why families on farms used to be so large, while city families were usually smaller. "Children on farms were an economic asset to their parents," they explain, "while city kids were an economic cost." So far, so good; I understand the principle and how it works. But then they frequently spoil it by adding, "Of course, that's not true today, either on farms or in cities." You want to bet?

In fairness to the governments of Sweden and France, however, I must add that those subsidized children are not thereby "disadvantaged" any more than are the citizens in general. After all, the nation needs those children, for one purpose or another. Thus the subsidies don't lock them into a situation that's likely to turn them toward crime in an effort to get out. But that's not the situation at all here in the United States where the high birthrate among welfare families (of *all* colors) tends to insure that most of those disadvantaged and subsidized children are likely to remain in their deadening locations with little hope of ever moving up. There just doesn't seem to be many ways

for them to escape from it—except by the always-present and seemingly-attractive route offered by crime.

When I try to discuss this problem with some of my more "socially conscious" colleagues, they tend to become somewhat incoherent and begin sputtering inane remarks like, "What would you do, let them starve?"

No, I wouldn't. And neither would you. It's just that in our sincere desire to help, we've collectively chosen the wrong direction. I agree with Bastiat who claimed that the primary cause of our increasingly destructive social problems is a drift away from independence and responsibility and into a subservience to government that comes automatically when we engage in legal plunder. The central theme of his book, *The Law*, is that if government devoted itself solely to protecting equally the lives, liberty, and property of everyone, then peace and prosperity would soon be the natural state of affairs.

As Bastiat summarized it: "If everyone enjoyed the unrestricted use of his faculties [liberty] and the free disposition of the fruits of his labor [i.e., private property in a free market economy], social progress would be ceaseless, uninterrupted, and un-failing." ☉

Charles H. Hamilton

THE *Freeman* :

The Early Years

WHEN the *Freeman* first appeared on October 2, 1950, it was carrying on a distinguished history of political journalism. The original *Freeman* under the tutelage of Albert Jay Nock, had begun publication in 1920, a wonderfully successful venture lasting four years. In 1930, Suzanne La Follette, who had been Nock's assistant at the older *Freeman*, began the *New Freeman*, which lasted for fourteen months. Thus it was that the lead editorial

in October, 1950, lamented: "For at least two decades there has been an urgent need in America for a journal of opinion devoted to the cause of traditional liberalism and individual freedom. The *Freeman* is designed to fill that need."¹

In post-World War II America there were published a few small conservative magazines like *Human Events*, *analysis*, and *Plain Talk*, but there were none like the liberal *New Republic* or *Nation* that could influence and focus national attention on conservative issues and answers. Within that milieu, it would be difficult to overestimate the importance of the *Freeman* to the development of modern-day conservative and libertarian sensibilities. All the internal controversies and

This article is adapted from a chapter prepared for an extensive review of *The American Conservative Press*. This collection, edited by Ronald Lora and William Longton, is to be published by Greenwood Press.

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tensions that characterize a fledgling political faith were contained in its pages. With great verve, it leveled criticisms at liberal domestic and foreign policies and tried to present viable alternatives.

By the end of 1955, when new owners changed the nature of the magazine, a self-conscious and relatively coherent movement had evolved. If "creeping conservatism" was "the grand trend of the 1950s" as Clinton Rossiter believed,² then the *Freeman* had been its professional and articulate journal of opinion.

The *Freeman* developed out of the perceived need to get beyond the militantly, and unrelievedly, anti-Communist journalism of *Plain Talk*. Within two years of its founding in October, 1948, *Plain Talk* editor Isaac Don Levine, journalists John Chamberlain and Henry Hazlitt, and financial backers Alfred Kohlberg and Jasper Crane wanted, in the words of Chamberlain, to: "go on to something more positive. . . . The fight [against Communists] has been won domestically . . . We want to revive the John Stuart Mill concept of liberalism."³ Plans were begun for a new magazine, and in short order \$200,000 was raised with the active help of Kohlberg, Crane, Sun Oil magnate J. H. Pew, and ex-President Herbert Hoover. The first issue of the *Freeman* went to 6,000 subscribers (5,000 from

Plain Talk). Thirty-one thousand promotional copies were also distributed.

The editors were to be Isaac Don Levine, John Chamberlain, and Henry Hazlitt. When Levine dropped out of the plan, Suzanne La Follette was added. These three well-known journalists, who had been perceived as radicals in the 1930s, would now edit a conservative fortnightly.

Chamberlain had been variously an editor or book editor for the *New York Times*, *Harper's*, and *Fortune*. He had written an important critique of progressivism, *Farewell to Reform*. In addition to general editorial responsibilities, he would contribute "A Reviewer's Notebook," a valuable column which he continues to write today. Hazlitt had succeeded H. L. Mencken at the *American Mercury* and for many years had served on the editorial staff of the *New York Times*. He was the author of the popular introduction to free market economics, *Economics in One Lesson*. Hazlitt would work part-time so that he could continue as a columnist for *Newsweek*. La Follette, who had been a contributing editor for *Plain Talk*, became the managing editor.

The *Freeman's* board of directors represented heavyweight individualism. Academic representation including Ludwig von Mises, Leo Wolman, and later Roscoe Pound.

From "The Faith of the *Freeman*"

It will be one of the foremost aims of the *Freeman* to clarify the concept of individual freedom and apply it to the problems of our time. Its basic principles and broader applications have long been embodied in the classic liberal tradition. That tradition has always emphasized the moral autonomy of the individual. Real morality cannot exist where there is no real freedom of choice. The individual must be free to act as his own conscience directs, so long as he does not infringe upon the equal rights of others.

The true liberal tradition has always placed great emphasis on economic liberty. It is particularly of economic liberty that communists, socialists, government planners and other collectivists have been most openly contemptuous. Yet it is not too much to say that economic freedom, as embodied in the free market, is the basic institution of a liberal society. . . .

The *Freeman* is launched in the faith that there is a substantial body of readers in America who share these ideals, and who will rally to a periodical dedicated to their reaffirmation.

Donald Cowling (Carleton College), Leonard E. Read (Foundation for Economic Education), and H. C. Cornuelle (Volker Fund) were also on the board. Businessmen were represented by Henning W. Prentis (President of Armstrong Cork), Alfred Kohlberg (wealthy importer), W. F. Peter (Vice President of the Chicago, Rock Island and Pacific Railroad), and Lawrence Fertig (Fertig Advertising). Successful publisher Alex Hillman and Claude Robinson of Opinion Research were later added to the board.

The *Freeman* rested its perspective firmly on the principles of the classical liberal tradition.⁴ These were succinctly set forth in the first

issue in Henry Hazlitt's editorial, "The Faith of the *Freeman*."⁵ Of primary importance, he wrote, was a belief in the moral autonomy of the individual, without which there could be no freedom. Second, individual liberty necessitated a free market, "the basic institution of a liberal society."⁶ It was this that set the true liberal or libertarian society apart from all forms of collectivism. Finally, the editorial gave more moderate expression to Dorothy Thompson's short poem, "I hate, the State."⁷ The rule of law, decentralization of power, and local autonomy stood as barriers against the natural self-aggrandizing tendencies of government. A year later, Hazlitt wrote

another important editorial in defense of "the existence and power of ideas" against those "friends of free enterprise" who "can only fume and sputter."⁸ The editorial went on to point out that intellectuals set economic and social fashions and that it was absolutely necessary to "make converts. . . . It is the aim of the *Freeman* to address itself specifically to the leaders and moulders of public opinion and to thinking people everywhere, in order to help create a healthier climate for the preservation of free enterprise and the liberty and moral autonomy of the individual."⁹

Concern About the Threat of Soviet Communism

The sentiments expressed in "The Faith of the *Freeman*" and in "The Function of the *Freeman*" were never fully realized. Until 1956 the major topic of discussion in the pages of the *Freeman* was how America should respond to the threat of communism—specifically Soviet communism. The principles of classical liberalism seemed to offer little guidance in such a struggle. The fear of communism and the pressing need to defeat it challenged deep-seated anti-statist and free market convictions: "We are being forced to spend billions and to arm and to tax and to interfere with the freedom of the market for one reason alone, and that reason is Krem-

lin Joe's overriding purpose to subvert the world."¹⁰

A strongly interventionist foreign policy position developed from the articles of Suzanne La Follette and John Chamberlain, and from contributors like Bonner Fellers, William Henry Chamberlin, William Schlamm and Alice Widener. They hoped that the resultant powerful American State would only be temporary. When, for instance, John Chamberlain supported a temporary draft in late 1950, he appended this fearful caveat: "But don't let us make the mistake of thinking that the values of Athens can be maintained by changing our society into a Sparta for all time."¹¹

Other writers feared that the ultimate value of freedom was being corrupted, perhaps permanently, by fear. Contributors like John T. Flynn, Garet Garrett, Louis Bromfield, and Frank Chodorov stood up for the Old Right position of nonintervention and warned that freedom would be lost in a wrongheaded attempt to protect it. A massive and continuing military presence throughout the world would lead, Garrett predicted, to "the institution of perpetual war" at home.¹²

In the case of Korea, the *Freeman* voiced extreme displeasure at Truman for his militarily "untenable" dispatch of Americans to the Asian continent.¹³ Its contributors debated whether withdrawal from Korea

was prudent, but the editors hinted at preventive war elsewhere in that case: "we should obviously strike elsewhere to keep the military and moral consequences of this defeat from being too great."¹⁴ It was imperative that the western Pacific not be lost to communism as eastern Europe had been lost. Rearming Japan, supporting Chiang Kai-shek and liberating mainland China were seen as appropriate goals. Indeed, as one editorial commented, "The Pacific Ocean is an American lake."¹⁵

At the same time, contributors wrote about the limitations on American foreign policy. It was pointed out that 140 million Americans could not save the world. Articles called for the nations of the world to assume their full share of the fight against communism. It became imperative, the *Freeman* advanced, for America to disentangle itself from uncertain allies and inappropriate and limiting alliances: "One of our fundamental mistakes was our well-meant effort to 'assume world leadership.'"¹⁶

This was not the traditional right wing isolationist position, however. Nor was it a call for a containment policy, which was often criticized in editorials and by James Burnham, author of *The Struggle for the World* and *The Coming Defeat of Communism*, both of which argued the case for the liberation of enslaved coun-

tries.¹⁷ It was a call for the use of autonomous American strength. Unilateral and interventionist actions were necessary, conservatives believed, to protect the United States and save the world from communism, and the *Freeman* became a spokesman for such views.

Political Affairs

The *Freeman* regularly commented on political affairs. It severely criticized the Truman administration for many of its economic policies, ranging from price controls to the takeover of the steel industry. With respect to Korea, an editorial in early 1951 caused quite a furor when it called for Truman's resignation because of his "clear usurpation of the constitutional prerogative of Congress."¹⁸

In late 1951 and in 1952, editorials and articles debated the pros and cons of Taft, Eisenhower and MacArthur for the Republican Presidential nomination. While the *Freeman* never officially endorsed a candidate, its criterion was clear: "a good candidate must grasp the Communist nettle firmly."¹⁹ And it acknowledged that it followed Taft "as a benchmark" when it came to foreign and military policy.²⁰

Compared to foreign affairs, however, domestic economic and social issues received limited attention: from Henry Hazlitt, economists Ludwig von Mises, Leo Wolman,

and F. A. Hayek, and a few others like businessman Edward F. Hutton and lawyer C. Dickerman Williams. As important as domestic problems were, a late 1952 editorial pointed out that they "must play second fiddle to the overriding considerations of foreign policy. If we can take care of Joe [Stalin], we can take care of everything else. There is nothing that an effective foreign policy can not cure."²¹

The *Freeman* rarely published the exposés of Communist terror that were common in *Plain Talk*. The consensus seemed to be that, as evil as communism was, the danger did not come from "any exceptional cunning of our enemies. The Communist design of world conquest is one of the most open conspiracies in history."²² Rather, the *Freeman's* authors believed the danger lay with America's liberal leaders. Liberalism was, in conservative eyes, essentially a form, albeit more benign, of the same collectivist and economic ideology that made up the Communist doctrine. The beginnings of a critique of "social communism" and of liberal ideology developed out of this analysis. The problems facing America were less ones of agents and treason and more ones of the ideological weaknesses and susceptibilities of liberalism.

This discussion of ideas seemed too theoretical to editors La Follette and Forrest Davis (who became the

fourth editor in May 1952) and many of the contributors. As they discussed day-to-day politics and personalities, the lines between liberal and "pink" and agent often became blurred. Widespread treason in many areas of American society was alleged. Numerous articles came to question at least the intelligence and often the loyalty of Owen Lattimore, Dean Acheson, Alger Hiss, and General Marshall.

The McCarthy Era

It was within this context that Senator Joseph McCarthy became a *cause celebre* for the *Freeman*. While rarely conservative in his economic and social views, McCarthy nonetheless struck a responsive chord among many conservatives in his attempt to eliminate alleged Communist agents and influence in government. He was successful in gathering attention and support from the American people—whatever his methods—and that was the important point, as young writer William F. Buckley made clear in his first article for the *Freeman*: "if we want to help forge national policy, we must not allow our predispositions for clean and objective political techniques to influence too heavily our judgments of candidates and their aims. . . . we must search out today only the general aims we find congenial and the men who seek to realize them."²³

By late 1952, the *Freeman* had 22,000 subscribers, was edging toward self-sufficiency, and was firmly established "at the gates of our liberty like a heroic watchman, unafraid and dedicated."²⁴ At this same time, however, a series of internal conflicts developed and then it went through a number of ownership changes. By the end of 1955, it had been replaced as *the* conservative journal of opinion.

There were no clearly drawn camps in the initial controversies. Hazlitt and many of the board members felt the other editors had become too intemperate and had too intensely embraced McCarthyism. The editors also clashed with board members over who controlled editorial policy. And finally, the strong pro-Taft sentiment expressed by Chamberlain and Davis did not sit well with many of the board members who supported Eisenhower or wanted the *Freeman* to remain neutral until after the Republican convention.

These difficulties made it impossible for the magazine to run smoothly or to raise funds. In late October 1952, Henry Hazlitt resigned. The struggles between the board and the remaining editors continued, however. Four months later, Chamberlain, La Follette, and Davis resigned, and with the issue of February 23, 1953, Hazlitt came back as the sole editor.

A Return to Classic Liberal and Free Market Principles

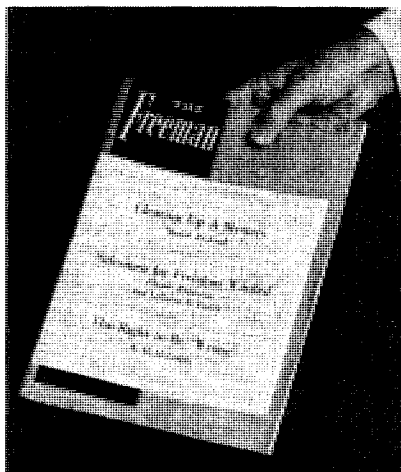
Hazlitt tried to direct the *Freeman* back toward classical liberal and free market principles. He tried to steer away from personalities, and in "Let's Defend Capitalism" wrote a powerful critique of "those who think 'anti-Communism' is itself a sufficient ground for unity. Communism, they say, is not a doctrine that needs to be dissected, but a conspiracy that needs to be suppressed . . . The true opposite of Communism is Capitalism. The Communists know it, but most of the rest of us don't. This is the real reason for the ideological weakness of the opposition to Communism."²⁵

Despite his ascendancy, Hazlitt left the *Freeman* at the beginning of 1954 to pursue other interests. For the next six months, the day-to-day work fell to Florence Norton as Managing Editor (she had previously been Managing Editor of the *American Mercury* and was a protégé of Max Eastman who published frequently in the *Freeman* during this time). By June, it looked as if the *Freeman* might have to cease publication. After three and a half years, it had lost \$400,000. Board member Leonard E. Read offered to buy it for the Irvington Press, owned by The Foundation for Economic Education. A number of board members were against the sale, but it finally was accepted.

The new publisher of the *Freeman* (now a monthly) was quick to emphasize that the magazine would be independent of The Foundation for Economic Education. It would "be a 'house organ' for the libertarian faith."²⁶ The new editor was Frank Chodorov, who from 1944 to 1951 had published the libertarian monthly, *analysis*. At 68, he was well-known in conservative circles for his uncompromising individualism, his emphasis on free market solutions to problems, and his strong anti-statist and anti-war views.

The number of articles on domestic and economic affairs increased, but the major articles remained centered on foreign affairs and the Communist threat. With Chodorov speaking clearly for the non-interventionist side, "The Dilemma of Conservatives," as William F. Buckley called it, became quite explicit. "It is a pity," he wrote in August 1954, "that yet one more difference will divide the waning conservative movement in the United States. But the issue is there, and ultimately it will separate us."²⁷

A major debate on the subject occurred in the September and November 1954 issues between Chodorov and William S. Schlamm (formerly assistant to Henry Luce and a *Freeman* contributor). In two articles, Chodorov spoke for the Old Right, emphasizing that the threat of communism was largely ideologi-



A *Freeman* cover dating from 1955.

cal and that it needed to be opposed by better ideas. To turn away from the free market and individualism, and to increase state power and prepare for war, would, he warned, be "certain to communize our country" no matter what the military outcome.²⁸ Schlamm, after asserting that Chodorov ignored the problem of communism in favor of easy and high-sounding words, reiterated a common theme when he wrote: "we had better try, as responsible men, to defeat the implacable foe before, by our own default, he has become invincible . . . [I am willing] to pay with the recoverable loss of some of my liberties for a chance to avoid, for centuries, the total loss of freedom."²⁹

The last word from the Old Right

on this subject—in the *Freeman*—came from Chodorov. He commented on the large percentage of all manuscripts he received that treated the subject of communism: “We are, of course, opposed to communism, but no more so than we are opposed to fascism, or socialism or any other form of authoritarianism. But we are also *for* something—a thing called freedom. Sometimes as I read these anti-communist manuscripts, an unkind suspicion comes upon me; are these writers *for freedom* or only *against communism*?”³⁰

Those advocating intervention nevertheless won the day. Both Murray N. Rothbard and William F. Buckley (on opposite sides of the debate) have commented on how quickly and completely the interventionist position became the conservative position.³¹ What had been the continuing thrust of most conservative opinion, as expressed in the *Freeman*, was solidly ensconced by late 1955.

Financial problems continued to plague the *Freeman* during this period. Losses reached nearly \$90,000 since it was taken over by The Foundation for Economic Education in May, 1954. And since the *Freeman* had always been somewhat outside FEE’s thrust of promoting economic and moral principles, it was decided to integrate it more fully into their educational pro-

gram. Beginning with the January, 1956 issue, the *Freeman* became “the major carrier of FEE releases.”³² A smaller size was adopted, and it became a controlled circulation publication with a circulation of about 44,000. Dr. Paul Poirot, who came to FEE in 1949 and had previously been a Cornell University economist, has been the Managing Editor ever since.

The *Freeman* had been the journalistic vehicle “of the libertarian reconstruction after World War II.”³³ It had formed and reflected the development of a rather inchoate gathering of conservative and libertarian authors into a self-conscious and active intellectual movement. However, the first issue of *National Review* in November, 1955 symbolized the institutionalization of the more traditionalist and anti-communist threads of that resurgence. During Frank Chodorov’s tenure as editor, the *Freeman* had become a rear-guard action for the classical liberal and libertarian strains in the American right-wing. Whether seen as a tragedy or the necessary rejection of an outmoded individualism, a new era had begun for the American conservative movement.

Since 1956, the *Freeman* has played a different kind of crucial role. It has quietly emphasized the free market, private property, and especially the moral and spiritual underpinnings of a free society

when conservatives and libertarians have often preferred to focus on other topics. The conservative and libertarian resurgence might have been stillborn, however, without those early years of the *Freeman*. ☉

—FOOTNOTES—

¹"The Faith of the *Freeman*," *Freeman* 1 (October 2, 1950):5.

²Clinton Rossiter, *Conservatism in America* (New York: Alfred A. Knopf, 1964), p. 4.

³"The New *Freeman*," *Time* 56 (October 16, 1950): 47–48.

⁴In fact, the *Freeman* rarely described itself as conservative, using, for instance, subtitles like "A Fortnightly for Individualists," "A Monthly for Libertarians," and since 1956 simply "Ideas on Liberty."

⁵Editorials were unsigned. Author attributions, when given, are based on notations made by Henry Hazlitt in the office copy of volume one of the *Freeman*, or on discussions with John Chamberlain and Henry Hazlitt.

⁶"The Faith of the *Freeman*," *Freeman* 1 (October 2, 1950):5.

⁷Dorothy Thompson, "Hymn for Today," *Freeman* 1 (July 2, 1951):623.

⁸"The Function of the *Freeman*," *Freeman* 2 (December 31, 1951):198, 197.

⁹*Ibid.*, pp. 197, 198.

¹⁰"Ike's Mission," *Freeman* 3 (December 1, 1952):152.

¹¹"Mania for Compulsion," *Freeman* 1 (November 13, 1950):104.

¹²Garet Garrett, "A New Key to Power," *Freeman* 2 (July 14, 1952):695.

¹³"Our Political Paralysis," *Freeman* 1 (December 25, 1950):198.

¹⁴"For a New Foreign Policy," *Freeman* 1 (January 8, 1951):229. Also see "The Element of Surprise," *Freeman* 1 (February 26, 1951):325–326.

¹⁵"No Substitute for Victory," *Freeman* 4 (May 17, 1954):583.

¹⁶"Time for Disentanglement," *Freeman* 3 (September 7, 1953):874.

¹⁷See, for instance, "George F. Kennan: Policy-Guesser," *Freeman* 2 (February 25, 1952):325–326 [written by Suzanne La Follette and Alice Widener], and James Burnham, "Critique of Containment," *Freeman* 3 (February 9, 1953):331–334.

¹⁸"Why Truman Should Resign," *Freeman* 1 (January 22, 1951):261.

¹⁹"Facing the Convention," *Freeman* 2 (July 14, 1952):693.

²⁰*Ibid.* Also see "Bob Taft's Foreign Policy," *Freeman* 2 (December 17, 1951): 165–166.

²¹"Ike's Mission," *Freeman* 3 (December 1, 1952):152.

²²William Henry Chamberlin, "Can We Escape From Victory?," *Freeman* 1 (April 23, 1951):467.

²³William F. Buckley, "Senator McCarthy's Model?" *Freeman* 1 (May 21, 1951):533.

²⁴Taylor Caldwell, "Birthday Greetings," *Freeman* 3 (October 20, 1952):43.

²⁵"Let's Defend Capitalism," *Freeman* 3 (February 23, 1953):367, 368.

²⁶"From the New Publisher," *Freeman* 5 (July 1954):5.

²⁷William F. Buckley, "The Dilemma of Conservatives," *Freeman* 5 (August 1954):52.

²⁸Frank Chodorov, "A War to Communize America," *Freeman* 5 (November 1954):174. Also see his editorial, "The Return of 1940?," *Freeman* 5 (September 1954):81–82.

²⁹William S. Schlamm, "But It Is Not 1940," *Freeman* 5 (November 1954):171.

³⁰"An Editorial Problem," *Freeman* 5 (September 1955):630.

³¹George H. Nash, *The Conservative Intellectual Movement in America* (New York: Basic Books, 1976), p. 126.

³²"The Growth of An Idea," *Freeman* 6 (February 1956):44.

³³Nash, *The Conservative Intellectual Movement in America*, p. 31.

Losing Ground



A standard approach to Welfare State philosophy is to consider its effect on society as a whole. By removing all the penalties of life, by making the procession from cradle to grave an easy one regardless of one's ability to contribute to the sums available to pay for schools, insurance and three square meals a day, the Welfarist philosophy destroys initiatives on a universal scale. The result is social stagnation, a society without the profit margins required to encourage inventiveness of any kind. With the fall-off of productivity the Welfare State must turn to inflation to finance itself. But that is a blind alley, as we are now discovering all over the Western world.

Charles Murray, the author of

Losing Ground: American Social Policy 1950-1980 (Basic Books, 10 East 53rd Street, New York, NY 10022, 323 pp., \$23.95) is very much alive to what the ascendancy of Welfarist thinking has done to society as a whole. But the unique feature of his book is that he doesn't waste his time crying over the fate of the democratic majorities who have voted for all the Entitlement programs that are now weighing us down. We deserve what we unwittingly invite, which will be next to nothing when all the entitlements cancel out with the inevitable destruction of the currency. Mr. Murray's immediate concerns lie elsewhere—he is worried about the here-and-now effect of the Welfarist philosophy on the poor themselves.

As his title suggests, they have been "losing ground" ever since Michael Harrington discovered "poverty" back in the Nineteen Fifties.

The proof of lost ground lies in the statistics—after thirty years of the Fair Deal, the New Frontier and the Great Society, we have created a whole group at the bottom of the social order who have a vested interest in remaining poor. It is just as Jack Kemp has said: if you subsidize something, you get more of it. Out of a misplaced generosity we have done irreparable harm to thousands of individuals, many of them black, who have been deprived of *reasons* to try to escape from the poverty trap.

The Basic Trouble: "Homogenizing" the Poor

The basic trouble, as Mr. Murray sees it, is that in rejecting the concept that individuals are responsible for their own behavior we have "homogenized" the poor. If Society is to blame for their plight, they are all alike in their victimization. Prior to 1950 our social order made a distinction between the "deserving" and the "undeserving" poor. There was undoubtedly a lot of hypocrisy in the way the rich spoke of the latter category, but at least there was a status distinction that permitted the self-respecting poor family to face the world with a will to do better for its children.

When social payments to the poor became a right, not a charity, status was denied to the struggling family that was doing its best to "make it" without becoming a burden to others. What followed worked a particular hardship on blacks in the new northern ghettos. With as much money available from relief of various sorts—unemployment benefits, food stamps, and whatever—as might be obtained by pressing an ironing board in an overheated laundry, one would have to be a fool to take a job on a permanent basis. Short-run considerations came to dominate the situation. The young in the ghettos got the general idea: work as little as possible, take the hand-out, indulge in crime when it seemed safe to do so, scoff at the homilies of teachers, and try a little heroin as a natural sequel to marijuana.

The new morality, which made light of a man's responsibility toward a family, turned the generous provisions of the Aid to Families with Dependent Children legislation into something that was totally unintended. AFDC made it profitable for a teen-age girl who wanted to escape from an uncongenial home environment to use an illegitimate child or two as her meal-ticket to an independent life. The Supreme Court made it legal for a man to move in and out of an established apartment, but with no compulsion

to contribute to his own children's upbringing.

A Choice

In his search for a solution Mr. Murray asks himself an uncomfortable question. "Let us suppose," he says, "that you, a parent, could know that tomorrow your own child would be made an orphan. You have a choice. You may put your child with an extremely poor family, so poor that your child will be badly clothed and will indeed sometimes be hungry. But you know that the parents have worked hard all their lives, will make sure your child goes to school and studies, and will teach your child that independence is a primary value. Or you may put your child with a family with parents who have never worked, who will be incapable of overseeing your child's education—but have plenty of food and good clothes, provided by others."

Mr. Murray doesn't have to reach very far for his answer. In choosing the poor but respectable family to take care of his hypothetically orphaned child he wonders how anyone can justify the support of a system that indirectly makes the other choice for other children.

When he comes to prophesy for the future, Mr. Murray is careful to distinguish between the probable and the possible. With an eye to the political situation he says "Congress

will not abolish income-maintenance for the working-aged. The public school system is not in jeopardy of replacement by vouchers. The federal government will not abandon legalized racial discrimination when it is thought to help the underdog. More generally, it is hard to imagine any significant reform of social policy in the near future."

But, having said this, Mr. Murray holds out a hope that "when reforms finally do occur, they will happen not because stingy people have won, but because generous people have stopped kidding themselves."

His own proposal is to "repeal every bit of legislation and reverse every court decision that in any way requires, recommends, or awards differential treatment according to race." He wants to get back on the track toward a color-blind society that we left in 1965. "Race," he says, "is not a morally admirable reason for treating one person differently from another. Period." He might have added "no kidding."

Would something terrible happen, he asks, if we could abolish the whole Federal welfare package? Teen-age mothers would have to rely on support from their parents, or the father of the child might have to go to work. Sons and daughters who fail to find work would have to live a bit longer with their parents.

They did it before 1950. Surely it could be done again.

THE EVOLUTION OF COOPERATION

by Robert Axelrod

(Basic Books, 10 East 53rd Street,
New York, New York 10022), 1984
241 pages, index ■ \$17.95

Reviewed by Jane M. Orient

IN THE BELIEF that nice guys always finish last in the marketplace, an arena of harsh Darwinian natural selection, many propose to ration freedom. The Invisible Hand, assuring that the market works to the advantage of all as each pursues his own self-interest, is in such disrepute that Axelrod doesn't seem to recognize that his experiment in game theory has given this "myth" a solid theoretical foundation.

Nature is not always red in tooth and claw. A close study of biology reveals abundant instances of cooperation, even apparent altruism. Human history shows that bitter enemies may practice reciprocity under certain circumstances, as in the trench warfare of World War I, when both sides frequently refrained from shooting. Cooperation among rivals in business may develop all too readily in Axelrod's view; understanding the mechanism may help prevent collusion.

Axelrod's paradigm for the evolution of cooperation is the game of Prisoner's Dilemma, invented about

1950 and the subject of a voluminous literature, particularly in the field of psychology. Though one round of this game evokes dog-eat-dog competition, in the iterated version, straightforward cooperation outcompetes deviousness and treachery, rather to everyone's astonishment.

The classic Prisoner's Dilemma is employed by prosecutors to get accomplices in crime to inform on each other. An easily understood variant is a business transaction. Suppose that a man who possesses a bag of money wishes to obtain a bag of diamonds. He and a diamond dealer are able to work out mutually agreeable terms. However, for some reason, the trade must take place in secret. Each must simultaneously leave his bag at a different spot in the woods. By cooperation, each can obtain something he values, the Reward (R). But there is always the Temptation (T) to get something for nothing, and leave the other fellow with the Sucker's Payoff (S), an empty bag in exchange for a full one. If both parties "defect," both will get an empty bag, the Punishment (P). If they both know that they will never have to deal with each other again, each could arrive, by impeccable logic, at the conclusion that he would be better off leaving an empty bag, regardless of what the other does.

Introducing the prospect of an in-

definitely large number of future encounters between the same individuals changes the situation dramatically. The supposed short term advantage of defection may be outweighed by the long term advantage of cooperation. While an authority would be required to enforce the contract in the first instance, for the iterated Prisoner's Dilemma, honesty becomes the best policy, to a large extent a self-policing one.

Axelrod set up an ingenious computer tournament in which the winner was the program amassing the largest number of points in a round-robin Prisoner's Dilemma of about 200 encounters. Entries were submitted by political scientists, economists, psychologists, biologists, mathematicians, and computer scientists. At each encounter, two programs simultaneously decided to cooperate or defect. Each could remember the history of previous interactions with the other individual. For mutual cooperation, both were awarded three points (R). Mutual defection earned one point each (P). If just one program cooperated, it received no points (S), and its exploiter got five points (T). The winner was the simplest of all the rules: called TIT FOR TAT, it defected if and only if the other program had defected on the last previous encounter. Even more surprisingly, *all* of the eight top-ranking entries were "nice"; that is, they

never defected first, at least not until near the end of the game. The "meanies," which tried to take advantage of the programs that cooperated, often by clever and devious methods, were defeated by a wide margin.

An evolutionary biologist, John Maynard Smith, extended the game to populations. A "community" of individuals using a TIT FOR TAT strategy cannot be successfully "invaded" by a group of "meanies," because the "natives" do so well when dealing with each other. On the other hand, a population of individuals that always behave treacherously *can* be "invaded" or can be "converted" by "nice" strategies, providing only that a large enough cluster of individuals is introduced so that the nice guys have a significant chance of meeting each other.

Axelrod draws some extremely significant conclusions: "Mutual cooperation can emerge in a world of egoists without central control by starting with a cluster of individuals who rely on reciprocity." Furthermore, he notes that our robust hero TIT FOR TAT is not envious. It cannot receive more points than any rival in a series of encounters, and is frequently defeated, though not by much. Its success results from eliciting cooperative behavior from other players using many different strategies. Besides being "nice," TIT FOR TAT is "forgiving"—it retal-

iates only once for each episode of defection, minimizing the chance of an unending "feud." However, its "provocability" is essential for deterring "bullies." Strategies that are too forgiving, or do not retaliate immediately, are unable to survive in a hostile environment.

The possibility of cooperation depends on the rules of the game. The foundation of cooperative relationships is not necessarily trust, but durability; future encounters must be anticipated. Furthermore, the payoff matrix must reward mutual cooperation; that is, unlike chess, Prisoner's Dilemma is not a zero-sum game.

Although Axelrod explores many different applications of his findings, from biological evolution to arms control, one might wish he had speculated on the implications of current trends in society, especially in his own field of political science. The drift toward a planned economy is altering the payoff equations. The shift from individual to collective responsibility tends to diminish the "shadow of the future." The concept of life as a zero-sum game reduces the Reward. Rapid, arbitrary changes dictated by the legislature, the courts, and the bureaucracy can increase the Temptation, while also discounting the reliability of future rewards. All these changes tend to destroy the conditions necessary for spontaneous cooperation. Not sur-

prisingly, they are accompanied by pressures for more regulation. Just as in the single-round version of Prisoner's Dilemma, in a socialist economy it is always advantageous to cheat (if not essential for survival).

Besides being profoundly important for all the social sciences, this work is a delight, and even an inspiration, to read. For scholars, it has nearly 200 references, and for those who remember some algebra, there are proofs in the appendix. Yet all with a high school education should be able to follow the lucid, elegantly simple argument. ☉

FREE MARKET ENERGY: THE WAY TO BENEFIT CONSUMERS

edited by S. Fred Singer

(Universe Books, 381 Park Avenue South, New York, N.Y. 10016), 1984

430 pages • \$19.95 cloth, \$8.95

paperback

THE RESOURCEFUL EARTH

edited by Julian L. Simon and Herman Kahn

(Basil Blackwell, 432 Park Avenue South, Suite 1505, New York, N.Y. 10016), 1984

585 pages • \$19.95 cloth

Reviewed by Brian Summers

THESE two anthologies, sponsored by The Heritage Foundation, are an effective rebuttal to the widely held belief that the world is running out

of scarce resources. Drawing on history, economics, and the natural sciences, the more than two dozen academic authors present compelling arguments that market processes, if unhampered by government intervention, will alleviate any resource shortfall and eventually lead to higher living standards.

Free Market Energy concentrates on our nation's energy needs, and how best to deal with unreliable foreign sources. The authors examine U.S. policy toward coal, natural gas, domestic and imported oil, nuclear power, and alternate energy technologies. If government involvement in energy production were reduced, the authors contend, energy costs could be cut, U.S. dependence on oil imports reduced, national security enhanced, and taxes lowered. By any standard, the

American consumer would benefit from a free and open market.

The Resourceful Earth is more wide-ranging, covering such topics as population trends, agricultural prospects, soil erosion, water supplies, species extinction, deforestation, fish harvests, climatic trends, mineral reserves, as well as energy and environmental issues. By extrapolating current trends, and taking into account how consumers and entrepreneurs adapt to changing market prices, the authors show how the incentives inherent in an unhampered market lead to less pollution, less crowding, greater ecological stability, and reduced vulnerability to resource-supply disruptions. As long as markets are relatively free, the authors conclude, our prospects for future prosperity are virtually unlimited. ☼

Reprints . . .

A Page on Freedom

Each of these brief messages is a handy way to share with friends, teachers, editors, clergymen and others a thought-starter on liberty. It also serves to introduce the reader to our work at FEE.

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Index

THE FREEMAN—Volume 34, January–December 1984

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

- AGRICULTURAL revolution, neolithic
 - Women in economic history (Smith) 9:529–534
- AGUILAR, Victor
 - The religion of statolatry. 9:573
- ALTRUISM vs. self-interest
 - Capitalism versus Comte (Ross) 6:324–330
- ANDERSON, Bill
 - Casualties of the war on poverty. 1:44–55
- ANDERSON, R. G.
 - Private ownership. 6:323
- ANTI-CAPITALISTIC ideology
 - Churchpeople, socialism, and capitalism (Williams) 10:620–634
 - Wisdom of King Canute (Williams) 1:4–19
- AUSTRALIA. *See* Williams
- AWENIUS, Robert
 - Why not private charity? 12:680–684
- AYERS, Ronald M.
 - Two myths of employment protection. 8:465–467

B

- BAETJER, Howard Jr.
 - Does welfare diminish poverty? 4:219–224
 - Of obligation and transfer taxation. 11:685–690
 - See also* Book reviews (Den Uyl & Rasmussen)
- BARGER, Melvin D.
 - What killed Ma Bell? : 4:196–204
- BASTIAT, Frederic—ideas of
 - Legal plunder: origin and consequences (Russell) 12:737–743
 - Socialism is legal plunder (Russell) 9:569–572
 - Source of rights (Russell) 11:661–668
 - Tariffs are legal plunder (Russell) 10:613–619
- BEARCE, Robert
 - Free enterprise—for all. 5:308–316

- BECHARA, Dennis
 - Stability and the free market. 11:658–660
 - Unions and government employment. 3:175–183
- BIG business, monopoly, antitrust
 - Concessions and givebacks (Sennholz) 7:400–410
 - What killed Ma Bell? (Barger) 4:196–204
- BIG lessons for a little boy (D. L. Peterson) 2:68–73
- BOLICK, Clint
 - Regulation of telecommunications. 9:516–525
- BOULWARE, Lemuel R.
 - Government and taxes. 5:259
- BROKEN dream (Fulda) 9:566–568
- BROWNFELD, Allan C. *See* Book reviews (Sowell)
- BUREAUCRACY
 - What killed Ma Bell? (Barger) 4:196–204

C

- CANADA's interventionist economy
 - To help the poor (McDonald) 12:715–716
- CANUTE, King, wisdom of (Williams) 1:4–19
- CAPITAL investment/mobility/technology
 - Concessions and givebacks (Sennholz) 7:400–410
 - Supply of labor (Sennholz) 10:594–612
 - Two myths of employment protection (Ayers) 8:465–467
 - Wisdom of King Canute (Williams) 1:4–19
- CAPITALISM and human nature
 - (Crum) 2:121–125
- CAPITALISM, churchpeople, socialism and (Williams) 10:620–634
- CAPITALISM versus Comte (Ross) 6:324–330
- CARSON, Clarence B.
 - The collectivist fallacy. 7:388–395
 - Evading the issue. 2:84–88
 - The fruits of independence. 9:552–565
 - The need for political theory. 1:27–38
 - Unionism revisited. 4:209–218
 - See also* Book reviews (Hyneman & Lutz)
- CASE of the stock market (Young) 3:159–167
- CASUALTIES of the war on poverty (B. Anderson) 1:44–55

CENSORSHIP

- Freedom of the press (McGath) 10:590-593
- Regulation of telecommunications (Bolick) 9:516-525

CHAMBERLAIN, John. *See* Book reviews

CHARITY, private, why not? (Awenius) 11:680-684

CHEAPEST means of payment (Fulda) 5:295-296

CHILDREN and the welfare state

- Legal plunder: origin and consequences (Russell) 12:737-743

CHMURA, Christine

The effects of airline regulation. 8:498-504

CHURCHPEOPLE, socialism, and capitalism (Williams) 10:620-634

CIVILIZATION, history of

- Experience on the Mount of Olives (Prochnow) 8:488-489

Women in economic history (Smith) 9:529-534

CLITES, Roger M.

Creating future poor. 1:20-21

COLLECTIVIST fallacy (Carson) 7:388-395

COMPETITION

- Public be damned . . . again! (Schaefer & Streicher) 4:205-208

COMTE, Auguste, capitalism versus (Ross) 6:324-330

CONCESSIONS and giveaways (Sennholz) 7:400-410

CONSTITUTIONAL crisis: an historical perspective (Poulson) 7:424-432

CONSUMER sovereignty

- Dime store economics (Ellig) 3:156-158
- Entrepreneur—death and resurrection (W. H. Peterson) 5:276-278

CONSUMMATE role player (Foley) 9:549-551

CREATING future poor (Clites) 1:20-21

CRIME and government welfare

- How to reduce crime (Reynolds) 3:168-174
- Legal plunder: origin and consequences (Russell) 12:737-743

CRUM, Richard H.

Capitalism and human nature. 2:121-125

D

DANGER: a lesson from language (Ravenscroft) 7:396-399

DASKAL, Steven E.

Greed, envy and justice. 7:433-437

DAVIS-BACON Act (Sennholz) 6:345-351

DEBT: catastrophic urgency, little concern (Van Druenen) 10:580-589

DEMAND side economics in medicine (Orient) 11:691-693

DEMOCRACY/majoritarianism

- Freedom and democracy (Hospers) 6:331-344
- Orwell's 1984—and where we stand (Larson) 8:475-477
- Source of rights (Russell) 11:661-668

DEREGULATION

- Effects of airline regulation (Chmura) 8:498-504

DIME store economics (Ellig) 3:156-158

DISCRIMINATION, reverse

Preferential hiring revisited (Noland) 11:651-657

DOES welfare diminish poverty? (Baetjer) 4:219-224

DON'T overdo it (Lao-Tze) 7:387

DOTI, James

Italian lemonade. 7:416-423

DRIFT of modern psychology (Thorn/Kilpatrick) 8:478-487

E

EARLY history of FEE (Hazlitt) 3:143-146

ECONOMIC disaster or development/progress

- Increasing abundance of resources (Osterfeld) 6:360-377

Market and scarce resources (Fulda) 8:497

Secret of Swiss prosperity (Russell) 2:74-83

Wisdom of King Canute (Williams) 1:4-19

ECONOMIC history, women in (Smith) 9:529-534

EDMUNDS, J. Ollie

Self-reliance. 10:579

EDUCATION: state coercion or free choice (D. L. Peterson) 12:708-714

EDUCATION/schooling/instruction

- Entrepreneur—death and resurrection (W. H. Peterson) 5:276-278

Herbert Spencer: freedom's philosopher (Millett) 11:694-699

Secret of Swiss prosperity (Russell) 2:74-83

Supply of labor (Sennholz) 10:594-612

EFFECTS of airline regulation (Chmura) 8:498-504

EGALITARIANISM, pressures for

Equality, justice, & liberty (Williams) 2:89-99

Greed, envy and justice (Daskal) 7:433-437

Our fair share (Foley) 3:147-155

Preferential hiring revisited (Noland) 11:651-657

ELLIG, Jerry

Dime store economics. 3:157-158

ENTREPRENEUR—death and resurrection (W. H. Peterson) 5:276-278

EQUALITY, justice, & liberty (Williams) 2:89-99

EVADING the issue (Carson) 2:84-88

EXPERIENCE on the Mount of Olives (Prochnow) 8:488-489

F

FEDERAL Communications Commission (FCC)

What killed Ma Bell? (Barger) 4:196-204

FOLEY, Ridgway K., Jr.

The consummate role player. 9:549-551

The illusion of certainty. 11:669-679

In the name of protection. 7:411-415

Our fair share. 3:147-155

A second face of justice. 12:717-724

Stewards of the candle, keepers of the flame. 8:455-464

FOUNDATION for Economic Education

Early history of FEE (Hazlitt) 3:143-146

Freeman: the early years (Hamilton) 12:744-753

FREE enterprise—for all (Bearse) 5:308-316

FREE market, stability and (Bechara) 11:658-660

FREE market, wealth, socialism and (Malloy) 5:297-303

FREEDOM, pages on

#1. 1984 (Anderson) January *Notes from FEE* insert

#2. Lesson in socialism (Shelly) 1:3

#3. On minding one's own business (Sumner) 2:67

#4. Unemployment (Sennholz) 3:131

#5. Social responsibility (Summers) 4:195

#6. Government and taxes (Boulware) 5:259

#7. Private ownership (R. G. Anderson) 6:323

#8. Don't overdo it (Lao-Tze) 7:387

#9. Wards of the government (Russell) July *Notes from FEE* insert

#10. Morals and the welfare state (Harper) 8:451

#11. Legalized immorality (Manion) 9:515

#12. Self-reliance (Edmunds) 10:579

#13. Liberty means responsibility (Hunt) 11:643

#14. Who is to blame? (Russell) 12:707

FREEDOM and democracy (Hospers) 6:331-344

FREEDOM, liberty and the free market

George Wythe of Williamsburg (R.A. Peterson) 6:352-359

Herbert Spencer: freedom's philosopher (Millett) 11:694-699

Liberty means responsibility (Hunt) 11:643

Market economy and its life-support system (Opitz) 5:266-275

Meanings of freedom (Hospers) 9:539-548

To save the world (Opitz) 4:239-248

Two freedoms (Turnbull) 9:526-528

FREEDOM of the press (McGath) 10:590-593

FREEMAN: the early years (Hamilton) 12:744-753

FRUITS of independence (Carson) 9:552-565

FULDA, Joseph

The broken dream. 9:566-568

The cheapest means of payment. 5:295-296

The market and scarce resources. 8:497

See also Book reviews (Buckley; Graham)

G

GETTING governments out of debt (McDonald) 9:535-538

GOLD investments

"Unproductive investment" prejudice (Ross) 5:304-307

GOVERNMENT and taxes (Boulware) 5:259

GOVERNMENT employment, unions and (Bechara) 3:175-183

GOVERNMENT intervention/controls/regulation

Capitalism and human nature (Crum) 2:121-125

Case of the stock market (Young) 3:159-167

Effects of airline regulation (Chmura) 8:498-504

In the name of protection (Foley) 7:411-415

Italian lemonade (Doti) 7:416-423

Public be damned . . . again! (Schaefer & Streicher) 4:205-208

Regulation of telecommunications (Bolick) 9:516-525

"Unproductive investment" prejudice (Ross) 5:304-307

What killed Ma Bell? (Barger) 4:196-204

GOVERNMENT, limited—role of

Constitutional crisis (Poulson) 7:424-432

Don't overdo it (Lao-Tze) 7:387

If we want reindustrialization (LaDow) 7:438-444

Illusion of certainty (Foley) 11:669-679

Need for political theory (Carson) 1:27-38

Source of rights (Russell) 11:661-668

GOVERNMENT spending/debt/deficits

Debt: catastrophic urgency, little concern (Van Druenen) 10:580-589

Getting governments out of debt (McDonald) 9:535-538

What the government takes (Klein) 12:725-726

GREAVES, Bettina Bien. See Book reviews (Hazlitt, Holzer, Mises, Mosher)

GRIED, envy and justice (Daskal) 7:433-437

GRESHAM, Perry E.

Natural liberty: a new version. 3:132-142

H

HAMILTON, Charles H.

The *Freeman*: the early years. 12:744-753

HARRIS, James W.

Thoughts on "being our brother's keeper." 1:39-43

HARPER, F. A.

Morals and the welfare state. 8:451

HAZLITT, Henry

The early history of FEE. 3:143-146

HERBERT Spencer: freedom's philosopher (Millett) 11:694-699

HOSPERS, John

Freedom and democracy. 6:331-344

The meanings of freedom. 9:539-548

HOW to reduce crime (Reynolds) 3:168-174

HUNT, Betty Knowles

Liberty means responsibility. 11:643

I

IDEOLOGICAL roots of unionism (Sennholz) 2:107-120

IF we want reindustrialization (LaDow) 7:438-444

ILLUSION of certainty (Foley) 11:669-679

IN the name of protection (Foley) 7:411-415

INCREASING abundance of resources (Osterfeld)
6:360-377

INDIVIDUAL rights/freedom/responsibilities

Of obligation and transfer taxation (Baetjer)
11:685-690

On minding one's own business (Sumner) 2:67

Source of rights (Russell) 11:661-668

Who counts? you do! (Noland) 5:260-265

Who is to blame? (Russell) 12:707

INDUSTRIAL revolution

Supply of labor (Sennholz) 10:594-612

Women in economic history (Smith) 9:529-534

INFLATION

Debt: catastrophic urgency, little concern (Van Drunen) 10:580-589

INHERITANCE, wills/trusts

Stewards of the candle . . . (Foley) 8:455-464

INTERNATIONAL peace/conflict

Broken dream (Fulda) 9:566-568

Stability and the free market (Bechara) 11:658-660

See also Trade

INTERSTATE Commerce Commission (ICC)

Leave the pricing to the market (Shannon)
8:452-454

ITALIAN lemonade (Doti) 7:416-423

J

JUSTICE, second face of (Foley) 12:717-724

JUSTICE and the judiciary

Collectivist fallacy (Carson) 7:388-395

Equality, justice, & liberty (Williams) 2:89-99

George Wythe of Williamsburg (R. A. Peterson)
6:352-359

Greed, envy and justice (Daskal) 7:433-437

How to reduce crime (Reynolds) 3:168-174

Stewards of the candle, keepers of the flame (Foley)
8:455-464

Supreme Court: economically speaking (Watkins)
1:22-26

What killed Ma Bell? (Barger) 4:196-204

K

KEYNES, John Maynard—ideas of

Casualties of the war on poverty (Anderson) 1:44-55

Debt: catastrophic urgency, little concern (Van Drunen) 10:580-589

KILPATRICK, William J.—ideas of

Drift of modern psychology (Thorn) 8:478-487

KLEIN, Daniel

What the government takes. 12:725-726

L

LABOR, unions/wages/work/employment

Big lessons for a little boy (D. L. Peterson) 2:68-73

Concessions and givebacks (Sennholz) 7:400-410

Davis-Bacon Act (Sennholz) 6:345-351

Ideological roots of unionism (Sennholz) 2:107-120

Leave the pricing to the market (Shannon)
8:452-454

"Natural" rate of unemployment (Sennholz)
11:644-650

Socialists argue about labor unions (Sennholz)
5:279-289

Supply of labor (Sennholz) 10:594-612

Two myths of employment protection (Ayers)
8:465-467

Unemployment (Sennholz) 3:131

Unionism revisited (Carson) 4:209-218

Unions and government employment (Bechara)
3:175-183

Women, work and wages (Sennholz) 4:225-238

Year that will live in infamy (Upton) 12:727-736

La DOW, Charles R.

If we want reindustrialization. 7:438-444

LAO-TZE

Don't overdo it. 7:387

LARSON, Ronald

Orwell's 1984—and where we stand. 8:475-477

LEAVE the pricing to the market (Shannon)
8:452-454

LEGAL plunder. See Bastiat, Frederic

LEGALIZED immorality (Manion) 9:515

LESSON in socialism (Shelly) 1:3

LIVE long and prosper (Ross) 2:100-106

LIBERTY, equality, justice & (Williams) 2:89-99

LIBERTY means responsibility (Hunt) 11:643

LIBERTY, natural, new version (Gresham) 3:132-142

M

MALLOY, Helga

Wealth, socialism and the free market. 5:297-303

MANION, Clarence

Legalized immorality. 9:515

MARKET and scarce resources (Fulda) 8:497

MARKET economy and its life-support system (Opitz)
5:266-275

MARXSPEAK—Marxthink (W. H. Peterson)
8:490-496

MCDONALD, Kenneth

Getting governments out of debt. 9:535-538

To help the poor. 12:715-716

McGATH, Gary

Freedom of the press. 10:590-593

MEANINGS of freedom (Hospers) 9:539-548

MEDICAL care/research and longevity

Demand side economics in medicine (Orient)
11:691-693

Live long and prosper (Ross) 2:100-106

MILLETT, Jerry

Herbert Spencer: freedom's philosopher. 11:694-699

MONEY

Cheapest means of payment (Fulda) 5:295-296

Debt: catastrophic urgency, little concern (Van Dru-
nen) 10:580-589

MORALITY/religion

Drift of modern psychology (Thorn & Kilpatrick)
8:478-487

Education: state coercion or free choice (D. L. Peter-
son) 12:708-714

Equality, justice, & liberty (Williams) 2:89-99

Legalized immorality (Manion) 9:515

Our fair share (Foley) 3:147-155

Thoughts on "being our brother's keeper" (Harris)
1:39-43

MORALS and the welfare state (Harper) 8:451

N

NATAF, Philippe. *See* Book reviews (White)

NATURAL liberty: a new version (Gresham)
3:132-142

NATURAL order

Second face of justice (Foley) 12:717-724

To save the world (Opitz) 4:239-248

NATURAL "rate" of unemployment (Sennholz)
11:644-650

NATURAL resources, conservation *See* Economic di-
saster or development & progress

NEED for political theory (Carson) 1:27-38

NOLAND, William

Preferential hiring revisited. 11:651-657

Who counts? you do! 5:260-265

O

OF OBLIGATION and transfer taxation (Baetjer)
11:685-690

ON MINDING one's own business (Sumner) 2:67

OPITZ, Edmund A.

The market economy and its life-support system.
5:266-275

The robber barons and the real gilded age.
8:468-474

To save the world. 4:239-248

See also Book reviews (Schlossberg)

ORIENT, Jane M.

Demand side economics in medicine. 11:691-693

See also Book reviews (Axelrod)

ORWELL, George—ideas of

Regulation of telecommunications (Bolick)
9:516-525

ORWELL'S 1984—and where we stand (Larson)
8:475-477

OSTERFELD, David

The increasing abundance of resources. 6:360-377

Our fair share (Foley) 3:147-155

P

PETERSON, Dennis L.

Big lessons for a little boy. 2:68-73

Education: state coercion or free choice. 12:708-714

PETERSON, Robert A.

George Wythe of Williamsburg. 6:352-359

See also Book reviews (McGuffey)

PETERSON, William H.

The entrepreneur—death and resurrection.
5:276-278

Marxspeak—Marxthink. 8:490-496

POLIN, Raymond

The role of the American political party system.
5:290-295

POLITICAL action/elections/privileges

Freedom and democracy (Hospers) 6:331-344

Italian lemonade (Doti) 7:416-423

Robber barons and the real gilded age (Opitz)
8:468-474

Role of the American political party system (Polin)
5:290-295

POULSON, Barry W.

The constitutional crisis: an historical perspective.
7:424-432

POVERTY, government and

Casualties of the war on poverty (B. Anderson)
1:44-55

Creating future poor (Clites) 1:20-21

Does welfare diminish poverty? (Baetjer) 4:219-224

Of obligation and transfer taxation (Baetjer)
11:685-690

Why not private charity? (Awenius) 11:680-684

See also Welfare, governmental

PREFERENTIAL hiring revisited (Noland)
11:651-657

PRESS/speech, freedom of

Freedom of the press (McGath) 10:590-593

Regulation of telecommunications (Bolick)
9:516-525

PRICES/PRICING

Demand side economics in medicine (Orient)
11:691-693

Dime store economics (Ellig) 3:156-158

Leave the pricing to the market (Shannon)
8:452-454

Market and scarce resources (Fulda) 8:497

PRIVATE ownership (R. G. Anderson) 6:323

PRIVATE property

Constitutional crisis (Poulson) 7:424-432

Freedom of the press (McGath) 10:590-593

Morals and the welfare state (Harper) 8:451

Stewards of the candle, keepers of the flame (Foley)
8:455-464

PROCHNOW, Herbert V.

An experience on the Mount of Olives. 8:488-489

PROFIT and loss system

Concessions and givebacks (Sennholz) 7:400-410

Social responsibility (Summers) 4:195

PROTECTION, in the name of (Foley) 7:411-415

PSYCHOLOGY, drift of (Thorn/Kilpatrick) 8:478-487

PUBLIC be damned . . . again! (Schaefer & Streicher)
4:205-208

R

RACIAL/religious quotas

Preferential hiring revisited (Noland) 11:651-657

RAVENSCROFT, Ian

Danger: a lesson from language. 7:396-399

REASON/logic

Evading the issue (Carson) 2:84-88

READ, Leonard E., memorial conference

Early history of FEE (Hazlitt) 3:143-146

Natural liberty: a new version (Gresham) 3:132-142

REGULATION of telecommunications (Bolick)
9:516-525

REINDUSTRIALIZATION, if we want (LaDow)
7:438-444

RELIGION of statolatry (Aguilar) 9:573

RELIGION. *See* Morality.

REPUBLIC vs. democracy

Freedom and democracy (Hospers) 6:331-344

REYNOLDS, Morgan O.

How to reduce crime. 3:168-174

RIGHTS. *See* Individual rights . . .

ROBBER barons and the real gilded age (Opitz)
8:468-474

ROLE of the American political party (Polin)
5:290-295

ROSS, Ernest G.

Capitalism versus Comte (Ross) 6:324-330

Live long and prosper. 2:100-106

The "unproductive investment" prejudice.

5:304-307

RUSSELL, Dean

Legal plunder: origin and consequences. 12:737-743

The secret of Swiss prosperity. 2:74-83

Socialism is legal plunder. 9:569-572

Source of rights. 11:661-668

Tariffs are legal plunder. 10:613-619

Who is to blame? 12:707

S

SCHAEFER, Thomas E. & Sid Streicher

The public be damned . . . again! 4:205-208

SECOND face of justice (Foley) 12:717-724

SECRET of Swiss prosperity (Russell) 2:74-83

SECURITIES and Exchange Commission (SEC)

Case of the stock market (Young) 3:159-167

SELF-IMPROVEMENT

Consummate role player (Foley) 9:549-551

Herbert Spencer: freedom's philosopher (Millett)
11:694-699

SELF-INTEREST vs. altruism

Capitalism versus Comte (Ross) 6:324-330

SELF-RELIANCE (Edmunds) 10:579

SENNHOLZ, Hans F.

Concessions and givebacks (Sennholz) 7:400-410

The Davis-Bacon Act. 6:345-351

Ideological roots of unionism. 2:107-120

The "natural" rate of unemployment. 11:644-650

Socialists argue about labor unions. 5:279-289

The supply of labor. 10:594-612

Unemployment. 3:131

Women, work and wages. 4:225-238

SHANNON, Russell.

Leave the pricing to the market. 8:452-454

SHELLY, Thomas J.

A lesson in socialism 1:3

SLAVERY

Fruits of independence (Carson) 9:552-565

Two freedoms (Turnbull) 9:526-528

Women in economic history (Smith) 9:529-534

SMITH, Harry Lee

Women in economic history. 9:529-534

SOCIAL responsibility (Summers) 4:195

SOCIAL Security

Live long and prosper (Ross) 2:100-106

Year that will live in infamy (Upton) 12:727-736

SOCIALISM, churchpeople, capitalism and (Williams)
10:620-634

SOCIALISM is legal plunder (Russell) 9:569-572

SOCIALISM, lesson in (Shelly) 1:3

SOCIALISM, wealth and the free market (Malloy)
5:297-303

SOCIALISTS argue about labor unions (Sennholz)
5:279-289

SOURCE of rights (Russell) 11:661-668

SPENCER, Herbert: freedom's philosopher (Millett)
11:694-699

STABILITY and the free market (Bechara)
11:658-660

STATOLATRY, religion of (Aguilar) 9:573

STEWARDS of the candle, keepers of the flame (Foley)
8:455-464

STOCK market, case of (Young) 3:159-167

STREICHER, Sid (co-author). *See* Schaefer

SUMMERS, Brian.

Social responsibility. 4:195

See Book Reviews (Reynolds; Rothbard; Simon &
Kahn; Singer; Stroup & Baden; Vieira)

SUMNER, William Graham

On minding one's own business. 2:67

SUPPLY of labor (Sennholz) 10:594-612

SUPREME Court, economically speaking (Watkins)
1:22-26

SWISS prosperity, secret of (Russell) 2:74-83

T

- TARIFFS are legal plunder (Russell) 10:613-619
- TAXES, government and (Boulware) 5:259
- TELECOMMUNICATIONS, regulation of (Bolick) 9:516-525
- THORN, Ivan
The drift of modern psychology: an interview with William K. Kilpatrick. 8:478-487
- THORNTON, Robert M. See Book reviews (Leuthner)
- THOUGHTS on "being our brother's keeper" (Harris) 1:39-43
- TO HELP the poor (McDonald) 12:715-716
- TO SAVE the world (Opitz) 4:239-248
- TOCQUEVILLE, Alexis de—ideas of
Orwell's 1984—and where we stand (Larson) 8:475-477
- TRADE, free vs. restricted
Tariffs are legal plunder (Russell) 10:613-619
Two myths of employment protection (Ayers) 8:465-467
See also International peace/conflict
- TRANSFER payments, "entitlements"
Casualties of the war on poverty (Anderson) 1:44-55
Debt: catastrophic urgency, little concern (Van Drunen) 10:580-589
Of obligation and transfer taxation (Baetjer) 11:685-690
Our fair share (Foley) 3:147-155
- TRANSPORTATION
Effects of airline regulation (Chmura) 8:498-504
Leave the pricing to the market (Shannon) 8:452-454
- TURNBULL, Charles
Two freedoms. 9:526-528
- TWO freedoms (Turnbull) 9:526-528
- TWO myths of employment protection (Ayers) 8:465-467

U

- UNEMPLOYMENT. See Labor
- UNEMPLOYMENT, "natural" rate of (Sennholz) 11:644-650
- UNIONISM revisited (Carson) 4:209-218
- UNIONS and government employment (Bechara) 3:175-183
- UNITED Nations
Broken dream (Fulda) 9:566-568
- U.S. CONSTITUTION, principles of
Freedom and democracy (Hospers) 6:331-344
Fruits of independence (Carson) 9:552-565
George Wythe of Williamsburg (R.A. Peterson) 6:352-359
Role of the American political party system (Polin) 5:290-295
- U.S. HISTORY (FDR & New Deal)
Constitutional crisis (Poulson) 7:424-432
Davis-Bacon Act (Sennholz) 6:345-351
Year that will live in infamy (Upton) 12:727-736

- U.S. SUPREME Court
Constitutional crisis (Poulson) 7:424-432
Supreme Court, economically speaking (Watkins) 1:22-26
Year that will live in infamy (Upton) 12:727-736
"UNPRODUCTIVE investment" prejudice (Ross) 5:304-307
- UPTON, Miller
A year that will live in infamy. 12:727-736

V

- VAN DRUNEN, Jeff
The debt: catastrophic urgency, little concern. 10:580-589

W

- WATKINS, Hal F.
The Supreme Court, economically speaking. 1:22-26
- WEALTH, socialism and the free market (Malloy) 5:297-303
- WELFARE, governmental
Casualties of the war on poverty (B. Anderson) 1:44-55
Legal plunder: origin and consequences (Russell) 12:737-743
Supreme Court, economically speaking (Watkins) 1:22-26
Thoughts on "being our brother's keeper" (Harris) 1:39-43
To help the poor (McDonald) 12:715-716
- WHAT killed Ma Bell? (Barger) 4:196-204
- WHAT the government takes (Klein) 12:725-726
- WHO counts? you do! (Noland) 5:260-265
- WHO is to blame? (Russell) 12:707
- WHY not private charity? (Awenius) 11:680-684
- WILLIAMS, John K.
Churchpeople, socialism, and capitalism (Williams) 10:620-634
Equality, justice, & liberty. 2:89-99
The wisdom of King Canute. 1:4-19
- WILLS, trusts, bequests
Stewards of the candle, keepers of the flame (Foley) 8:455-464
- WISDOM of King Canute (Williams) 1:4-19
- WOMEN
Supply of labor (Sennholz) 10:594-612
WOMEN in economic history (Smith) 9:529-534
WOMEN, work and wages (Sennholz) 4:225-238
- WYTHE, George, of Williamsburg (R.A. Peterson) 6:352-359

Y

- YEAR that will live in infamy (Upton) 12:727-736
- YOUNG, S. David
The case of the stock market: freedom vs. regulation. 3:159-167

BOOK REVIEWS

(Reviewer's name in parentheses)

- AXELROD, Robert. *The evolution of cooperation* (Orient) 12:757-759
- BADEN, John A. (co-author) See Stroup
- BAIRD, Charles W. *Opportunity or privilege: labor legislation in America* (Chamberlain) 11:700-702
- BROOKS, B. David (collaborator) See Goble
- BUCKLEY, William F., Jr. *Overdrive* (Fulda) 10:640
- EDWARDS, Mickey. *Behind enemy lines* (Chamberlain) 6:378-380
- DEN UYL, Douglas J. & Douglas B. Rasmussen, eds. *The philosophic thought of Ayn Rand* (Baetjer Jr.) 11:703-704
- FRIEDMAN, Milton & Rose. *Tyranny of the status quo* (Chamberlain) 7:445-447
- GOBLE, Frank, in collaboration with B. David Brooks. *The case for character education* (Chamberlain) 3:184-186
- GRAHAM, Daniel O. *We must defend America* (Fulda) 8:511-512
- GRANT, James. *Bernard Baruch: the adventures of a Wall Street legend* (Chamberlain) 2:126-128
- HAZLITT, Henry. *From Bretton Woods to world inflation: a study of causes and consequences* (Greaves) 6:381-384
- HOLZER, Erika. *Double crossing* (Greaves) 4:255-256
- HYNEMAN, Charles S. & Donald S. Lutz. *American political writing during the founding era: 1760-1805* (Carson) 1:59-61
- ISAAC, Rael Jean & Erich. *The coercive utopians: social deception by America's power players* (Chamberlain) 5:317-319
- KAHN, Herman (co-editor) See Simon
- KILPATRICK, William J. *The failure of modern psychology* (Thorn) 8:478-487
- LEUTHNER, Stuart. *The railroaders* (Thornton) 7:447-448
- LUTZ, Donald S. (co-author) See Hyneman
- MAURICE, Charles & Charles W. Smithson. *The doomsday myth: 10,000 years of economic crises* (Chamberlain) 8:505-507
- MCGUFFEY, William Holmes. *The original McGuffey's* (R. A. Peterson) 1:62-64
- MISES, Ludwig von. *Nation, state, economy: contributions to the politics and history of our time* (Greaves) 3:187-190
- MISES, Margit von. *My years with Ludwig von Mises* (Chamberlain) 10:635-637
- MOSHER, Steven W. *Broken earth: the rural Chinese* (Greaves) 8:508-511
- MURRAY, Charles. *Losing ground: American social policy, 1950-1980* (Chamberlain) 12:754-756
- RASMUSSEN, Douglas B. (co-editor) see Den Uyl
- REYNOLDS, Morgan O. *Power and privilege: labor unions in America* (Summers) 5:320
- ROCHE, George C., III. *America by the throat: the stranglehold of federal bureaucracy* (Chamberlain) 4:249-251
- ROTHBARD, Murray N. *The mystery of banking* (Summers) 1:61-62
- ROYSTER, Vermont. *My own, my country's time: a journalist's journey* (Chamberlain) 1:56-58
- RUSHER, William A. *The rise of the right* (Chamberlain) 9:574-576
- SCHLOSSBERG, Herbert. *Idols for destruction: Christian faith and its confrontation with American society* (Opitz) 4:255
- SIMON, Julian L. & Herman Kahn, eds. *The resourceful earth* (Summers) 12:759-760
- SINGER, S. Fred, ed. *Free market energy: the way to benefit consumers* (Summers) 12:759-760
- SMITHSON, Charles W. (co-author) See Maurice
- SOWELL, Thomas. *The economics and politics of race: an international perspective* (Brownfeld) 4:252-255
- STROUP, Richard L. & John A. Baden. *Natural resources: bureaucratic myths and environmental management* (Summers) 3:191
- TWAIN, Mark & Charles Dudley Warner. *The gilded age* (Opitz) 8:468-474
- VIEIRA, Edwin, Jr. *Pieces of eight: the monetary powers and disabilities of the United States Constitution* (Summers) 10:639-640
- WALLACE, Bob and Nancy Better than school (Chamberlain) 3:184-186
- WARNER, Charles Dudley (co-author) See Twain
- WHITE, Lawrence H. *Free banking in Britain: theory, experience, and debate, 1800-1845* (Nataf) 10:638-639